

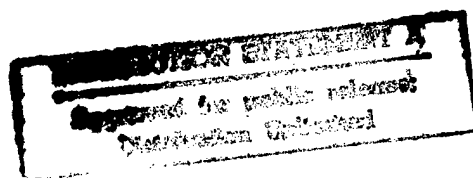
061046

JPRS-CEA-86-124

15 DECEMBER 1986

China Report

ECONOMIC AFFAIRS



DTIC QUALITY INSPECTED 2

19980826 064

FBIS

FOREIGN BROADCAST INFORMATION SERVICE

REPRODUCED BY
U.S. DEPARTMENT OF COMMERCE
NATIONAL TECHNICAL
INFORMATION SERVICE
SPRINGFIELD, VA. 22161

2
124
A06

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

NOTICE

Effective 1 January 1987 the following JPRS serial reports will no longer be published:

CHINA REPORT: AGRICULTURE

CHINA REPORT: PLANT AND INSTALLATION DATA

CHINA REPORT: RED FLAG

Material currently published in the CHINA REPORT: AGRICULTURE will be published in the CHINA REPORT: ECONOMIC AFFAIRS.

Material currently appearing in the CHINA REPORT: PLANT AND INSTALLATION DATA will appear in the CHINA REPORT: ECONOMIC AFFAIRS or in the CHINA REPORT: SCIENCE AND TECHNOLOGY.

The CHINA REPORT: RED FLAG will be published as a subtitled report of the series CHINA REPORT: POLITICAL, SOCIOLOGICAL, AND MILITARY AFFAIRS.

If any subscription changes are desired, U.S. Government subscribers should notify their distribution contact point. Nongovernment subscribers should contact the National Technical Information Service, 5285 Port Royal Road, Springfield, Virginia 22161.

15 DECEMBER 1986

CHINA REPORT

ECONOMIC AFFAIRS

CONTENTS

PEOPLE'S REPUBLIC OF CHINA

NATIONAL POLICY AND ISSUES

- Tong Dalin Discusses Reform, Brain Trusts
(Kung Shuang-Yin, Chang Shao-wei; TA KUNG PAO,
20 Nov 86)..... 1
- Chen Muhua on Monetary System Reforms
(Chen Muhua; RENMIN RIBAO, 10 Nov 86)..... 4

ECONOMIC DEVELOPMENT ZONES

- Cooperative Development of Southern Fujian Delta Initiated
(Chen Binglin; FUJIAN RIBAO, 14 Sep 86)..... 12
- Ningbo Mayor Outlines Development Plans
(Geng Dianhua Interview; RENMIN RIBAO, 25 Apr 86)..... 14
- Development of Hainan Island Reviewed
(Wang Zhenhua; LIAOWANG [OUTLOOK] OVERSEAS EDITION,
No 18, 5 May 86)..... 17

ECONOMIC MANAGEMENT

- Beijing Holds First Auction of State-Owned Shops
(Lawrence MacDonald; AFP, 12 Nov 86)..... 23
- Responsibility System Revives Shanghai Shipyard
(XINHUA, 7 Nov 86)..... 26
- RENMIN RIBAO on Short-Term Behavior of Enterprises
(Zhao Linru; RENMIN RIBAO, 17 Nov 86)..... 28

Sichuan Governor Urges Fulfilling Industrial Plans (Sichuan Provincial Service, 21 Nov 86).....	30
Briefs	
Zhuzhou Plant Management System	31
FINANCE AND BANKING	
Finance System Reform Discussed (Qian Rongkun; JINGJI YU FALU [ECONOMY AND LAW], No 10, 1986).....	32
Bank Introduces 5 New Services (Fu Jikun, Xie Zhenjiang; JINGJI RIBAO, 30 Sep 86).....	39
Wuhan Opens First Fund Market; Others May Follow (Tony Ngan; HONG KONG STANDARD (BUSINESS STANDARD), 27 Oct 86).....	41
MINERAL RESOURCES	
Gold Production Exceeds Plan (Long Jin; HEILONGJIANG RIBAO, 9 Oct 86).....	43
INDUSTRY	
New Stage in Technology Transformation in Northeast (Liu Yuqin, Jiang Min; LIAOWANG [OUTLOOK] OVERSEAS EDITION, No 24, 16 Jun 86).....	44
Briefs	
Tangshan Expansion	47
Xinjiang Industry	47
Xinjiang Light Industry Enterprises	47
SMALL-SCALE ENTERPRISES	
Strengthening of Township, Town Enterprises Advocated (Lu Xueyi; JINGJI RIBAO, 18 Oct 86).....	48
CONSTRUCTION	
System for Evaluating Feasibility of Construction Projects (Ge Daxing; RENMIN RIBAO, 27 May 86).....	52
Results of Construction Industry Reforms (Zhang Zhichu, Yang Shen; LIAOWANG [OUTLOOK], No 22, 2 Jun 86).....	54

DOMESTIC TRADE

Heilongjiang, Shanghai Strengthen Economic Cooperation (Zhang Liming; HEILONGJIANG RIBAO, 7 Sep 86).....	59
Fuzhou Strengthens Economic Cooperation With Chengdu, Lanzhou (Lai Rennan, Lin Rongsheng; FUJIAN RIBAO, 7 Oct 86).....	61

FOREIGN TRADE AND INVESTMENT

Cooperation With U.S. Auto Industry Increases (Guo Zhongshi; CHINA DAILY, 17 Nov 86).....	63
Bulgarian Assessment of Sino-Japanese Trade (Petko Bocharov; OBSHTESTVO I PRAVO, No 8, 1986).....	65
Trade, Cooperation With Thailand Increase (Lu Donghua, Qi Yongqiang; RENMIN RIBAO OVERSEAS EDITION, 24 Oct 86).....	67
Law Amended To Encourage Foreign Joint Ventures (Zhao Lin; JINGJI YU FALU [ECONOMY AND LAW], Apr 86).....	68
Vice Minister Discusses Foreign Trade (Wang Pinqing; LIAOWANG OVERSEAS EDITION, No 43, 27 Oct 86).....	72
Zheng Tuobin Urges Support for Poor Areas (Yang Baogen; GUOJI SHANGBAO, 15 Sep 86).....	79
Jiangsu's Gu Xiulian Wants More Foreign Investment (XINHUA, 6 Nov 86).....	80
Jiangsu Excels in Key Metal Exports (Guo Baocai, Yao Guoguang; XINHUA RIBAO, 19 Sep 86).....	81
CITIC Plans To Become Group of Subsidiaries (Xu Yuanchao; CHINA DAILY (BUSINESS WEEKLY), 29 Oct 86).. <td>83</td>	83
Briefs Xinjiang Clothing Exports to Soviet Union	85

SPECIAL ECONOMIC ZONES

Special Economic Zones on New Threshold (Zong Shuzhi; KAIFANG [OPEN POLICY], No 2, 8 Feb 86).....	86
Strategies for Development of Shantou SEZ Examined (Cai Qian; NANFANG JINGJI [SOUTH CHINA ECONOMY], No 3, 1986).....	92

Xiamen Formulates Plans To Create Free Port (Paul Sham; SOUTH CHINA MORNING POST (BUSINESS POST), 4 Nov 86).....	97
--	----

LABOR AND WAGES

Labor System Reforms Announced (Xiao Yin; CHING-CHI TAO-PAO [ECONOMIC REPORTER], No 38-39, 1 Oct 86).....	99
XINHUA Reports on Women's Progress as Producers (XINHUA, 1 Nov 86).....	103

POPULATION

Country's Population Dependency Ratio Said Down (XINHUA, 6 Nov 86).....	105
--	-----

TRANSPORTATION

Modern Tianjin-Tanggu Harbor Highway Constructed (Wu Jiang; JINGJI RIBAO, 19 May 86).....	106
Shanghai Port Raises Cargo Handling Efficiency (XINHUA, 17 Nov 86).....	107
Upgraded Guangzhou-Shenzhen Railroad To Be Open Soon (ZHONGGUO XINWEN SHE, 10 Nov 86).....	108
RENMIN RIBAO Commentator Stresses Traffic Safety (RENMIN RIBAO, 1 Nov 86).....	109
Briefs	
New Liaoning Railway Line	111
Building of Jiang Bridge	111
Port Project Completion Request	111
Quangxi's Beihai Airport Completed	112
Nei Monggol Highway	112
Nei Monggol Highway Bridge	112
Shenyang Station Construction	112

TAIWAN

Nation Said To Face Two Major Economic Dilemmas (Xiao Luntian; LIAOWANG [OUTLOOK] OVERSEAS EDITION, No 39, 29 Sep 86).....	113
Briefs	
Indonesian Delegation To Attend Economic Talks	117

NATIONAL POLICY AND ISSUES

TONG DALIN DISCUSSES REFORM, BRAIN TRUSTS

HK201246 Hong Kong TA KUNG PAO in Chinese 20 Nov 86 p 3

[A 19 November "Special Dispatch" from Beijing by TA KUNG PAO reporters Kung Shuang-Yin [7255 7175 0603] and Chang Shao-wei (1728 1421 1218): "Economic Reform and Brain Trusts--Tong Dalin Introduces the Work of Three Research Organizations"]

[Text] During a Sino-foreign press conference held on the afternoon of 18 November, Tong Dalin, vice chairman and chief executive member of the Chinese Society for Research on Restructuring the Economic System, briefed Chinese and foreign reporters on the work of the society and on the past few years' work of restructuring the economic system.

The Three Organizations That Are in Charge of Restructuring the Economic System

Tong Dalin said: All departments at all levels have been conducting research on restructuring China's economic system. At present, Beijing has three organizations specially assigned to take charge of restructuring the economic system. One of them is the State Commission for Restructuring the Economic System, which is a government organization performing comprehensive functions. It is responsible for studying plans for restructuring the economic system, and is also responsible for making designs, mapping out plans, and carrying out coordination work in the field of restructuring the economic system. It is the central government's smallest establishment, with the whole staff numbering over 100. Premier Zhao Ziyang is concurrently minister of the State Commission for Restructuring the Economic System. The second organization is the Chinese Institute for Restructuring the Economic System, which is primarily composed of a group of young researchers of economic theories. These researchers have been very active. They have done a large amount of investigative and research work and have also written a large number of investigative reports and research papers. The third organization is the Chinese Society for Research on Restructuring the Economic System. It is a nongovernmental organization which undertakes academic research on restructuring the economic system and offers consulting services under the guidance of the relevant Chinese government departments. In addition to undertaking research on restructuring the economic system, the society has

also organized Chinese specialists, scholars, and field workers to make theoretical explorations and has carried out international exchanges.

Socialist Commodity Economy

Referring to the society's work since its establishment in 1983, Tong Dalin listed some examples concerning the society's research on the concept of socialist commodity economy and the socialist market system.

Tong said, Marx, Engels, Lenin, Stalin, and Mao Zedong did not mention the necessity of developing a commodity economy at the socialist stage. Although some people have mentioned this point, they did not explain it in a systematic way. Therefore, when the restructuring of the economic system was initiated, the Chinese economic circles raised this point. The Chinese Society for Research on Restructuring the Economic System has attached major importance to this point. Over the past few years, the society's articles, investigations, studies, and suggestions have always centered on this point. Later, the CPC Central Committee's resolution on restructuring the economic system formally adopted the concept that a socialist commodity economy is the pattern for the restructuring of China's economic system. The current activities of restructuring the economic system are being carried out on the basis of this concept.

Socialist Market System

It is now clear to all that the socialist market system comprises the consumer goods market, the capital goods market, the technology market, the fund market, and the labor service market.

Regarding issues concerning the technology market, the Chinese Society for Research on Restructuring the Economic System and the State Scientific and Technological Commission have jointly conducted investigations and studies. Later, in its document on restructuring the scientific and technological system, the CPC Central Committee also laid stress on the technology market.

Tong Dalin also gave a briefing on the society's studies and experiments concerning regional economic issues, macromanagement issues, lateral economic cooperation, and the transformation of socialist enterprises into joint-stock companies.

Actively Exchange Information With Foreign Specialists

The Chinese Society for Research on Restructuring the Economic System has also actively established contacts with foreign specialists, scholars, and researchers; exchanged information about economic development in various countries with foreign specialists, scholars, and researchers; and discussed with them issues concerning world economic development and economic reforms in various countries. The society has since its founding cosponsored three international symposiums with international organizations and foreign economic organizations and has also sent quite a few specialists to attend meetings

with world-famous economists. Another task of the society is to organize and coordinate the training of cadres engaged in the restructuring of the economic system. A special training class set up by the society in Beijing has already trained in rotation all the provincial governors, vice governors, and responsible cadres who are in charge of the restructuring of economic system in the provinces and cities.

At today's press conference, Tong Dalin also introduced the society's issues for study in the day to come: 1) The study of the economic conditions and economic development patterns in developed countries as well as developing countries; 2) the study of experiences in running modern enterprises; 3) the study of the establishment of a market system; 4) the study of problems concerning the policy of opening up and international trade; 5) the study of problems concerning the restructuring of economic and political systems.

Tong Dalin said at the press conference that he would like to establish contacts with foreign correspondents stationed in Beijing, that he would like to listen attentively to their briefings on their countries' useful experiences in promoting economic development, and that he would also like to listen attentively to their proposals concerning the restructuring of China's economic system.

/9599

CSO: 4006/119

NATIONAL POLICY AND ISSUES

CHEN MUHUA ON MONETARY SYSTEM REFORMS

HK190631 Beijing RENMIN RIBAO in Chinese 10 Nov 86 p 5

[Article by Chen Muhua (7115 1970 5478): "Speed Up Monetary System Reform"-- passages within slantlines published in boldface]

[Text] The New Situation Facing Monetary System Reform

Certain monetary system reform has been instituted since the 3d Plenary Session of the 11th CPC Central Committee, and marked results have been achieved. Agricultural banks, the Bank of China, the Commercial Bank of China, insurance companies, and trust and investment companies have either been set up or restored. Urban credit cooperatives have been developed and the role of rural credit cooperatives has been brought into play, where more people can participate in a more democratic and flexible manner. All this has led to the gradual formation of a socialist monetary system guided by the central bank and with state banks as the main components, under which various types of monetary organizations coexist and cooperate with each other under the leadership of the central bank. Banking business is expanding; credit business is shifting from circulative funds to loans for fixed assets; great efforts are being made to develop rural financial business; insurance business is rapidly expanding from urban to rural areas and from centralization to decentralization; readjustments of the policies on credit, interest rates, and exchange rates are under way; and initial reforms are being instituted in the credit fund management system, characterized by the practice of "everybody eating from the same big pot," and in the foreign exchange management system. International monetary business has developed, thereby expanding monetary business contacts between China and foreign countries. The establishment of representative offices by foreign banks, and the setting up of joint-venture banks as well as branches of overseas Chinese or foreign capitalized banks, has helped increase monetary contact channels with foreign countries. By issuing bonds and inter-bank loans outside China, we have entered the international fund raising market and expanded our international insurance business, thus catering to the need to expand import and export trade, and to introduce foreign capital and advanced technology and equipment. We have: Improved the work of banks' in-house departments; developed the work concerning the investigation, transmission, and theoretical study of economic and monetary information; exercised profit retention and award systems; reformed the banks' cadre management system; and put into effect a bank cadre

management system characterized by combining "departments with regions," with stress on departmental management. These forms, as well as economic development and the increase in national income, have enabled the credit funds raised and allocated by banks to increase by a large margin. By the end of 1985, the total reserve credit fund amounted to 560 billion yuan, an increase of 340 percent over the end of 1978. The total credit fund in use amounted to 660 billion yuan, an increase of 350 percent over the end of 1978. An animate situation has emerged in monetary undertakings as a whole. However, monetary system reform has not proceeded at a fast enough rate to narrow the gap between itself and the development of the socialist commodity economy and economic structural reform, and banks have not been able to cope with the new situation in terms of their understanding, organizational system, rules and regulations, technical means, and the quality of their employees. Therefore it is necessary to speed up monetary system reform.

Over the past few years, China's socialist commodity economy has developed greatly, the economic system characterized by excessively centralized management has been reformed, the percentage of mandatory plans has been reduced, the scope of guidance plans and regulation by market mechanism has been expanded, and the market system been gradually improved. This necessitates not only the formation of a consumer goods market, a production materials market, a technology market, and a labor service market, but also the gradual exploration and establishment of a capital market. The formation of a capital market will enable units that require money to raise funds, and this will lead to the exercising of management and regulation over the economy by economic means and market mechanisms. Circulatory funds are now under bank unified management, which actually means they are monopolized by banks. This has brought about a supply shortage of circulatory funds. Because credit fund management is under a lateral system with professional banks as its main component, there is separation between "departments," and economic management according to the division of administrative regions, which has restricted the circulation of funds. All this has hampered the lateral accommodation of funds and the formation of a capital market. Only by reforming this fund management system can the formation of a capital market be speeded up.

An important point in the current economic reform, under the prerequisite of adhering to public ownership, is to develop various types of ownership systems and operational methods. This will increase the vitality of enterprises, enabling them to become relatively independent economic bodies and socialist commodity producers and dealers, assuming sole responsibility for their profits or losses; and will also change the practice of enterprises "eating from the same big pot" of the state. Therefore, credit channels and the capital market should be brought into better play for fund raising. The compensatory use of funds system should be put into effect instead of allocating funds through financial channels without repayment. Monetary system reform will allow banks to be run like enterprises. Enterprises should not "eat from the same big pot" as banks. Different banks and higher-level and lower-level banks should no longer "eat from the same big pot" in the use of funds but apply the method of depositing money and providing loans instead. In line with economic growth and the price levels, it is necessary to select

the source of funds before fixing the amount of money to be circulated and the scale of credit. The role of economic levers such as credit, interest rates, and exchange rates should also be brought into better play.

The scale of foreign trade, and of introducing foreign capital and advanced technology and equipment, has expanded over the past few years, and rapid development has been witnessed in tourism, international air and sea transportation, insurance, contracting for projects abroad, and labor service cooperation. This necessitates greater development in China's international monetary business. Guarantee by monetary organizations is necessary in international economic exchanges. In the market economy, industrial capital and monetary capital are closely combined, and even merged into one, and capital and industrial injections require the support and guidance of monetary capital. Due to imperfections in our monetary system, and a serious lack of monetary professionals particularly professionals in the international monetary field, the development of our monetary business exchanges with foreign countries has been hampered. We should draw experience from international economic and monetary circles to reform our international monetary business and develop foreign economic and monetary relations.

The lack of funds will be a long-standing problem in China's four-modernizations drive. Following the rapid growth of the commodity economy and the reform of the financial and economic system, enterprises' financial rights have expanded, the income of urban and rural people has increased, and social funds have tended upward. To gather these scattered funds in society for the four modernizations, the credit method by which repayments with interest are made should be applied, instead of using the gratuitous allocation method. Due to the continuous increase in the sources of bank credit funds and to the expansion of their use, the centralization and distribution of funds by banks has become the state's main channel for distributing production and construction funds. Bank funds account for 60 percent of the circulatory funds and investment in fixed assets arranged annually by financial departments and banks. How to gather funds scattered in society for better management and use is a new problem in bank work. The combination of the responsibilities, rights, and interests of banks has not been properly resolved so far. This is not favorable to bringing into full play the initiative of employees in monetary organizations for raising and using funds more effectively. It is necessary to settle this problem through monetary management system reform.

The CPC Central Committee and the State Council have demanded that monetary system reform be speeded up to cope with the development of the economy and economic structural reform. Separating government administration from enterprise management, delegating power to the lower levels, increasing the vitality of enterprises, invigorating the economy, and opening up to the world, requires an urgent strengthening of macroeconomic control. Banking is an effective means by which the state can shift from direct to indirect economic management. To improve macro-monetary control methods and fully use them for strengthening macroeconomic control and regulation, it is necessary to speed up monetary system reform.

The Main Tasks in Monetary System Reform

The tasks in monetary system reform have been fixed according to the tasks in economic structural reform, in such a manner that they cater to the needs of the latter. The main tasks in monetary system reform during the 7th 5-Year Plan period fall into the following three categories:

1. /Strengthening central bank functions and forming an effective and flexible monetary control and regulatory system./

In exercising bank macroeconomic management, it is first necessary to properly control the amount of money in circulation. If money is issued in excess of economic development, market prices will rise and it will be difficult to maintain sustained, steady, and coordinated development of the national economy. The state credit plan should be based on the source and application of the central bank's credit. The increase rate of money injection should be determined in accordance with the rational growth of the economy, the rate of price rises, and changes in money circulation, for the purpose of fixing the total volume of loans and using supply to control demand. The period for the use of funds should be decided on the basis of how long the source of these funds can supply, to ensure the rational growth of money injection.

Apart from exercising mandatory plans over loans for fixed asset investments, bank macroeconomic management should shift to controlling the generalized circulation of money and the total volume of loans. Flexible readjustments should be made to these two targets according to economic growth. The central bank should exercise quarterly and monthly supervision, according to changes in market prices and the situation in the money market. In this way, not only can we solve the problem of the issuance of money in excess of economic growth, but we can also effectively gather and use the funds in society.

Second, it is necessary to strengthen the central bank's regulatory means.

1) A system for deposit and reserve funds needs to be formed, under which deposits of different proportions are submitted according to the changes in deposits and the different characteristics of monetary organizations, with the aim of ensuring fund withdrawals and the source of funds for accommodation and regulation by the central bank. 2) It is necessary to reform the central bank's loan system, to change the previous practice of providing whatever funds were required for the fulfillment of planned targets, which resulted in rivalry in raising these targets, and to enable specialized banks to organize funds on their own. 3) The interest rate system should be straightened out by applying the principle of "combining readjustment with relaxation, giving priority to readjustment," to gradually form a rational fund price system. In principle, deposit and loan interest rates should be decided according to prices, by taking account of the proportion of the cost and the bank's interest for absorbing funds to the production cost of the enterprise, as well as by considering state policy on economic development and the money market situation. Disparities in interest rates should be practiced among trades, properly readjusted according to state policy on estates, and promptly announced to the public. Loan interest rates should differ with the length of

loans; higher rates for a longer loan period and lower rates for shorter loan periods. Specialized banks should be provided with certain floating rights on condition that the central bank practices unified readjustment of deposit and loan interest rates. With the formation of the commodity and capital markets, control over the larger part of interest rates should be relaxed, while retaining certain control over a smaller part, to allow the central bank to shift to the management system characterized by merely taking charge of the upper limits of deposit interest rates and the lower limits of loan interest rates. 4) It is necessary to strengthen management over foreign exchange and foreign debts. The central bank should formulate an international payments plan, set up a state foreign exchange reserve fund and a central bank foreign exchange credit fund for the sake of making international payments under critical conditions and assisting specialized banks in running foreign exchange business; improving the foreign exchange retention system; adjusting the percentage of foreign exchange retention for different regions; making foreign currency deposit interest rates equate with interest rates in the international inspection market; establishing foreign debt management and a statistical monetary system; and working out national short-term and long-term loan programs.

2. /Operating specialized banks and other monetary organizations like enterprises./ Banks are special enterprises dealing in money. Like all economic organizations, specialized banks and other monetary organizations should be operated like enterprises. On the one hand, in internal management, specialized banks and other monetary organizations should separate their funds; and in the exchange of funds, a deposit and loan system should be established between banks at the higher and lower levels for the purpose of thoroughly putting an end to the practice of "everybody eating from the same big pot," carrying out graded operations and independent accounting, assuming sole responsibility for their profits or losses, and raising, utilizing, and accommodating funds on their own. For banks to assume sole responsibility for their profits or losses is a necessary condition to enable industrial and commercial enterprises to assume sole responsibility for their profits or losses. Necessary conditions should be created so that banks can substitute tax payments for profit delivery, set up after-tax funds, form a credit fund supplementary system, and improve all types of responsibility systems. Only when banks are run like enterprises, can their right of loans be ensured. In this way, the economic results of loans will be guaranteed and loan users will take risks in using loans. On the other hand, the monetary organizational structure should be reformed. The first task is to separate government administration from enterprise management, to streamline administration, to delete power to the lower levels, to expand the functions of urban specialized banks, and to provide these banks with the right to manage the funds "actually loaned to or deposited in" these banks. All this will create conditions for lateral accommodation of funds. The second task is to reform the management system in rural credit cooperatives in such a manner that they can cope with rural economic development and fully display their role in rural banking business. The third task is to actively develop urban credit cooperatives by joining stocks, allowing individual development and free integration, and setting up urban cooperative banks with different scales of stocks to serve

urban collective enterprises and individual undertakings. The fourth task is to gradually form various types of monetary organizations according to economic development and the needs of economic structural reform. The fifth task is to create conditions for setting up account clearing centers to speed up credit turnover. In addition, necessary conditions should be created so that monetary organizations can carry out competition under the guidance of a unified policy, improve their service and work efficiency, utilize all business means, raise more funds, and use their funds more effectively.

3. /Exploring and forming a capital market step by step./ This is a demand by bank work in lateral economic integration as well as a need by banks in the lateral accommodation of funds. An important task at present is to form various types of credit systems with bank credit as their main component, for the purpose of establishing multi-tier monetary centers supported by key cities, and a capital market suited to China's specific conditions. With a capital market, funds in society can be circulated through three channels. That is, financial distribution, bank accommodation, and market measures, which will all help break monopoly fund management, discard the bad practice of "awaiting, relying on, and asking" the state for funds, and change the situation in which banks monopolize the supply of circulatory funds. If conditions permit, we should first form short-term fund markets, such as loans and bills markets, and at the same time exercise more effective management over stock and bonds.

The above three tasks are inseparable from each other and form an organic whole. Strengthening the functions of the central bank and establishing more effective and flexible monetary control and regulatory systems are preconditions for running specialized banks like enterprises and forming a capital market. Running specialized banks like enterprises is the basis for strengthening macroeconomic control and forming a capital market, and forming a capital market is a means to exercise good macroeconomic control and run specialized banks. Reforms of these aspects should be carried out in close coordination with each other and with equal importance attached to them.

Problems to Be Solved

To carry out monetary system reform smoothly, we should succeed in the following aspects:

1. It is necessary to reach unanimity of understanding and discard outmoded ideas and concepts. Under the long-term influence of "leftist" ideas and the mentality of a close-type economy, some of our comrades are infested with conservative ideas and even erroneous concepts, which find expression in the following: 1) They insist that everything must be done according to plans and that once a plan is made, money must be supplied. They are not accustomed to regulating funds in the light of specific conditions or to carrying out various types of monetary activities according to market mechanisms. 2) Sticking fast to the mentality of "everybody eating from the same big pot," they use bank loans as funds allocated by financial departments, giving little thought to repaying them but much thought to borrowing as much as possible.

3) The mentality of relying solely on administrative means has not been eliminated. They are accustomed to resorting to administrative means in solving problems arising in economic and monetary work but are not good at applying economic and legal methods. 4) They lack the mentality concerning fund accommodation. When handling credit funds, they stick to their own sphere of "influence," allowing funds to come into, but forbidding them to be taken out of, their regions. Within specialized banks, they give priority to the in-house departments of these banks for fear that "fertile water" might flow into "others' fields," thereby restricting the use of credit funds. Therefore, these outmoded ideas and concepts must be removed so that monetary system reform can be further carried out. We can reach unanimity of steps only when we reach unanimity of understanding.

2. Monetary system reform should be carried out in close coordination with economic structural reform. As monetary activities involve the national economy as a whole, every measure in monetary system reform will directly affect all national economic branches. Therefore, monetary system reform cannot be divorced from the reform of the planning, financial and taxation, price, foreign trade, domestic commercial, labor, and wage systems, but must be carried out in close coordination with them. Of course, monetary system reform is not passive; we should take the initiative in reforming certain aspects of this system that can be reformed ahead of others.

3. It is necessary to strengthen the formation of the monetary system and the formulation of monetary laws, both of which are lagging far behind the development of monetary business, and this has made it impossible for us to exercise monetary management according to monetary laws. Some of our comrades have a weak understanding of law and therefore frequently fail to abide by the law or even go against the law. This is harmful to smoothly carrying out monetary system reform. Perfecting monetary laws and speeding up monetary system reform are complementary to each other. Monetary laws can be used to resolve problems emerging in monetary system reform, whereas monetary system reform will help enrich and perfect monetary laws. In short, it is necessary to work out and establish monetary laws and bank regulations, to revise those incompatible with specific conditions, and put into force those which are workable.

4. The quality of employees in monetary organizations should be improved. There are now some 1.3 million monetary employees in China, who are, on the whole, good. This should be fully affirmed. However, in the course of the development of monetary business in recent years, the recruitment of new employees who lack the necessary training has posed a problem in terms of political and vocational quality. In particular, various types of professionals are in great demand. Therefore, effective measures should be taken to carry out monetary system reform well, to improve bank work, and to enhance the political and vocational levels of these employees so that they can constitute an excellent rank suited to the new situation.

5. Modernization in operational technology should be introduced in banks. Modern electronic accounting centers should be set up to serve the entire

monetary system. These centers should be set up step by step, by taking into account the fact that China has many monetary organizations but limited financial resources. Efforts should be made to overcome the mentality of having everything run by the government, to put an end to the "small but complete" method which is common among various departments, and to take the road of unified operation and management.

Monetary system reform involves many aspects and should be carried out strictly in line with the relevant policy. It is a very sensitive and very complicated problem. In working out plans, we should be bold and open-minded; but in implementing specific reform measures, we should take a steady and cautious attitude so that every reform measure will produce the expected results, and the entire economic structural reform will proceed smoothly.

/9599

CSO: 4006/118

ECONOMIC DEVELOPMENT ZONES

COOPERATIVE DEVELOPMENT OF SOUTHERN FUJIAN DELTA INITIATED

Fuzhou FUJIAN RIBAO in Chinese 14 Sep 86 p 1

[Article by Chen Binglin [7115 3521 3829]: "Xiamen, Zhangzhou, and Quanzhou Have Initiated Cooperative Development of the Southern Fujian Delta"]

[Text] This reporter has learned from the just-ended southern Fujian delta forum on reform of the policy of opening to the outside world, that Xiamen and the cities of Zhangzhou and Quanzhou have held discussions, tentatively proposed a series of 30 to 40 purposeful, cooperative projects to produce goods, such as loading machines, forklifts, color television sets, beverages, and clothing, and initiated cooperative development of the economy of the southern Fujian delta. Xiamen will cooperate with Zhangzhou in over 20, and with Quanzhou in over 10, of these projects.

Each of the cities of Xiamen, Zhangzhou, and Quanzhou has its respective advantages and disadvantages. Cooperation among them is based on using the advantages of the Xiamen SEZ of preferential policies and advanced S&T to promote development of the natural advantages of Zhangzhou and Quanzhou, so as to achieve a common development. The cooperative projects will focus on enterprises which will be geared to the outside world and transformed, and which will have an increased capacity to export goods and create foreign exchange. Xiamen has held discussions with, and decided to cooperate with Zhangzhou on a project--which will be based in Zhangzhou--to develop fruit and vegetable drinks with a special southern Fujian flavor. Quanzhou has advantages in making clothing and Xiamen has cotton, so they will cooperate on a project, which will be based in Quanzhou. Xiamen, Zhangzhou, and Quanzhou have many production lines for television sets, some of which cannot produce complete sets. Since Xiamen has imported advanced equipment and technology, the three cities have decided to set up a cooperative project, which will be based in Xiamen, to produce color television sets. Forklifts and Shaolin Cola are key products in the development of Xiamen and Zhangzhou, respectively, but the ability to manufacture complete sets of equipment is lacking. Zhangzhou's development is also affected by its inability to process plastic parts for refrigerators and plastic pipes for double-tub washing machines. So the three cities will make up each other's deficiencies and process for each other, with Xiamen producing plastic parts and Shaolin Cola bottles for Zhangzhou, and Zhangzhou and Quanzhou producing diesel engines and steel rings for Xiamen. Each of the cities of Xiamen, Zhangzhou, and Quanzhou has several

textile mills. Some of them have imported quite advanced technical equipment and have regular technicians, while others have exported their products. But each is weak in either its capacity to produce on its own, make complete sets of equipment, or export. In line with the increasingly brisk trends in the current ornament market, seven mills in Xiamen, Zhangzhou, Quanzhou, and Longyan have held discussions and cooperated to fund, organize, and establish the "Cooperative Xiamen Textile and Ornament Co.," so as to centralize their respective advantages and develop export products.

Cooperation between Xiamen and the cities of Zhangzhou and Quanzhou is not limited only to that in production, but also includes cooperation in using the S&T advantages of Xiamen to practice technical management and improve technical standards in Zhangzhou and Quanzhou. The three cities have also held discussions on cooperating to use the preferential policies of the SEZ and develop the advantages of the port, taking certain products from Zhangzhou and Quanzhou to Xiamen to process, package, and increase value, and cooperating well in the conduct of their foreign trade.

12267/5915

CSO: 4006/39

ECONOMIC DEVELOPMENT ZONES

NINGBO MAYOR OUTLINES DEVELOPMENT PLANS

Beijing RENMIN RIBAO in Chinese 25 Apr 86 p 2

[Interview with Geng Dianhua, mayor of Ningbo, by RENMIN RIBAO reporters Yu Youhai [0060 2589 3189] and Chen Min [7115 2404]: "Ningbo Aspires to be the Great Port of the East"; date and place of interview not given"]

[Text] Taking advantage of the third meeting of the Ningbo Economic Development Coordinating Group under the State Council, we interviewed Mayor Geng Dianhua [5105 0368 5478] of Ningbo and asked him to discuss Ningbo's development prospects and projects lined up for the Seventh 5-Year Plan.

Deep-Water Harbor Attracts International Trade

Geng Dianhua, who started out as a telecommunications engineer, is big and tall and speaks elegantly with a Jiangsu accent. He told us, "Ningbo is an ancient port city in the nation. It has five districts and six counties under its jurisdiction and a population of 4.87 million. Ningbo has many advantages when it comes to opening up to the outside and economic development, most notably its fine deep-water harbor, which is rare not only in China but also in the world." Old Geng opened a map and said, pointing to Ningbo, "Look, Ningbo is located at the middle of China's coastline where north-south shipping lines intersect. With the Chang Jiang delta as its hinterland, it is directly linked to 15 fairly prosperous provinces and municipalities on the coast and along Chang Jiang and forms part of a shipping network equidistant from Korea, Japan, and various major ports in Southeast Asia. Ningbo is the hub of two communications networks, one foreign, one domestic."

Economic development, especially opening the country to the outside and the development of international trade, cannot be achieved without good harbors. China's several existing ports, such as Shanghai, Tianjin, and Dalian, all have heavy responsibilities and are busy all year round. Still they fall far short of meeting the ever-growing demand of foreign and domestic trade.

Ningbo's superior conditions have drawn attention at home and abroad from the beginning. Experts and scholars who have been to Beilun harbor all praise it as "a crown of a Chinese harbor" and "Rotterdam of the East," noting that "here is where the real great port of the East will be found." Port development has mightily boosted foreign economic and technical exchange.

Since Ningbo was further opened to the world, over 2,000 businessmen from 49 nations and regions, including Britain, U.S., Japan, Sweden, Hong Kong, and Southeast Asia, have entered into technical and economic exchange with Ningbo through joint and cooperative ventures, compensation trade, processing, and other formats. So far contracts have been signed for 26 Chinese-foreign joint and cooperative ventures worth a total of 249 million yuan, including over \$36 million in foreign capital. Imported projects number 135, with a combined price tag exceeding \$59 million. Of these projects, 74 have gone into production. In 1985, 513 million yuan worth of goods were purchased for export, netting 160 million yuan in foreign exchange, up 85.6 percent over 1980.

As Old Geng went on to describe the port's development prospects, the reporters could not help asking, "How much cargo can Ningbo really handle in the future?" He said, "Along the 13-kilometer deep-water coastline of Beilun harbor, over 30 berths can be built for ships of tens of thousands to hundreds of thousands of tons. The port's annual loading and unloading capacity can top 100 million tons. Some people put it at 300 million tons, if the entire harbor area is included." Mayor Geng Dianhua said excitedly, "If we can handle 300 million tons, we will be on a par with Rotterdam. Then we will really be the great port of the East where businessmen congregate and which trades with the entire world."

Must Take Off In The Seventh 5-Year Plan

Geng Dianhua said, "The Sixth 5-Year Plan laid a good foundation for Ningbo's economic take-off and the building of the great port of the East. During that period its annual economic growth rate was 20.8 percent, higher than the national average of 11 percent. In industry, Ningbo is one of the 16 cities in the nation with an annual output value exceeding 10 billion yuan. The incomes of urban and rural residents increased by more than 100 and 150 percent, respectively, in 5 years. To facilitate growth further, the city has put together a fledgling transportation network radiating from the harbor. All three harbor areas are connected to railroads, highways, and inland water transportation routes. Civil aviation services have also started, linking Ningbo with Shanghai and Hangzhou. In the 1.3-square kilometer Ningbo Economic and Technical Development Zone, infrastructural works are going on round the clock and a 20,000-square meter standard factory is being built. Construction on the factory began in March 1985 and is essentially scheduled for completion by June this year. A 14,000-gate program-controlled telephone system imported from Sweden will also go into service in May." Old Geng said that all this will pave the way for the takeoff in the Seventh 5-Year Plan.

Referring to the Seventh 5-Year Plan, Geng Dianhua told reporters enthusiastically, "The CCP Central Committee, the State Council, and Zhejiang Province take Ningbo's development very seriously. Comrade Deng Xiaoping, for instance, personally got involved in the work here several times. Other leading comrades on the Central Committee, like Hu Yaobang, Zhao Ziyang, Peng Zhen, and Wan Li, have also been here successively to inspect our work. The State Council specifically set up the Ningbo Economic Development Coordinating Group, headed by Gu Mu [6253 3668], with Bao Yugang [0545 3768 0474] and Lu Xuzhang [4151 4872 4545] as advisers and consisting of leading comrades from

the departments concerned. The State Council has also designated Ningbo as one of the localities to receive priority in government investments."

The CCP Central Committee and State Council demand that Ningbo take realities as its point of departure in the pursuit of faster growth. During the Seventh 7-Year Plan, its guiding principles should be these: serve economic development in Zhejiang, east China, and the entire nation; firmly open itself to the outside and reform at the same time; import foreign technology and capital while cooperating economically with interior units simultaneously; make the best use of its position as a coastal open city and as the hub of domestic and foreign transportation networks; and speed up the development of its fine deep-water harbor and the construction of a transportation system for the collection and distribution of goods. The idea is to use the port to expedite industrial development, domestic and foreign trade, and coordinated economic and social development. On the basis of steady gains in economic results, initial projections put the gross value of industrial and agricultural value citywide at 20.4 billion yuan by 1990, for an average annual growth rate of 9.3 percent, while gross output value is expected to reach 11.4 billion yuan, for an average annual growth rate of 10 percent.

At present 15 large and medium-sized projects have been incorporated into the Seventh 5-Year Plan at the provincial and national levels, with a total investment of 6.2 billion yuan, of which 4.6 billion yuan will come from the Seventh 5-Year Plan. When they are completed and go into production, Ningbo's position in the overall national economy will change drastically.

12581

CSO: 4006/1017

ECONOMIC DEVELOPMENT ZONES

DEVELOPMENT OF HAINAN ISLAND REVIEWED

Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 18, 5 May 86 pp 19-20

[Article by Wang Zhenhua [3076 2182 5478]: "All-Round Development Launched on Hainan"]

[Text] Early in March this year, after the famous Hong Kong industrialist, Mr. Huo Yingdong [7202 5391 2639], had visited Hainan for recreation and for an investigation of the island's resources, he said: "First I was thinking that there would be not much of a change in the construction on Hainan, after the 1984 case of speculative purchases and sales of motorcars and the improper importation of materials. However, I was surprised to see all the new houses, thriving markets, and accelerated pace of construction." Today's Hainan has indeed stirred itself and ushered in a new situation.

Important Advances in Transportation, Energy Sources, and Communications

In the last 3 years, Hainan has concentrated its financial and material efforts on building up its infrastructure in such areas as transportation, energy, and communications, as well as on improving living conditions in the cities, and tourist facilities. Major progress has been achieved in the improvement of Hainan's investment environment, specifically in:

--Expansion and new construction of airfields. The state has allocated funds to expand Haikou airfield to make it available for the larger Boeing passenger planes, a project that was completed in February of 1985, when the airfield became operational. Flights of the China Civil Aviation Corporation planes from Guangzhou or Hong Kong to Haikou take less than 1 hour. Regularly scheduled flights were also resumed between Guangzhou and the Lingshui airfield on the southern end of the island. Another large airfield, the Sanya airfield, is now in the planning stage.

Strengthening of harbor facilities. The following harbors have been expanded or renovated: Haikou in the north, Basuo in the west, and Sanya in the south, as well as 11 small local harbors and wharves all around the island. The expansion and renovation of the old Haikou harbor area was completed in 1985. A new 160-meter long passenger and cargo wharf was opened to traffic, initiating a direct passenger and freight shipping line between Haikou and

Hong Kong. A 150-meter wharf for barges and lighters was renovated and converted into a wharf which allows cargo ships to dock directly alongside. At the same time, mechanical loading and unloading equipment has been increased, a cargo storage area of 10,000 square meters has been laid out, and several warehouses were built, increasing the total annual passenger and cargo handling capacity of Haikou harbor to 120,000 person-times and 330,000 tons, respectively, thereby relieving initially the congested sea transport conditions in Haikou harbor. Moreover, two new wharfs along the shoreline in Haikou's new port area have in the main been completed and have partially been opened to traffic.

The first stage of the expansion of Basuo harbor, a new sundry goods wharf for up to 16,000-ton class vessels, was completed and commissioned prior to this year's spring festival. This construction increased Basuo port's annual capacity from 3.1 to more than 4 million tons.

In 1985 the state officially approved the construction of a new deep-water harbor at Yangpu Bay in the northwestern part of the island, for which 180 million yuan were allocated to finance the first stage of harbor construction.

--Great improvements of land transportation and shipping. The newly constructed Lingtou-Basuo railway line, which links the Hainan iron mines on the southwestern coast with Basuo harbor, the Yinggehai salt recovery plants, and the city of Sanya, was completed in 2 years of continuous work and opened to traffic at the end of 1985. The east-west and round-the-island arterials of 1,047-km length and the main central highway from Haikou to Sanya via Tongshen are now being renovated. A part of this work is the construction of a bridge over the Nandu River, reconstruction of the roadbed, raising the load-bearing capacity over the whole length of the roads, reducing excessively steep sectors, straightening curves, widening the road surface, and covering the roads with asphalt. Renovation of the eastern highway, including the construction of a new 700-meter long highway bridge over the Nandu River, has already been completed.

--Blueprint for the development of energy sources begins to unfold. Construction is progressing smoothly on the Haikou thermal power plant, which will be equipped with 200,000-kw power generating equipment. Several medium and small-scale hydropower stations, using the water resources of the island, have already or will soon be built and generate power. The construction of a power distributing and transforming line from the Niululing hydropower station along the east coast to the south, a transmission line for transformers that is 160 km long and carries 1.1 million kilovolts is at present extending as far as Lingshui County in the south and is to that extent already in use. The six on-rail power stations transferred from the interior for emergency assistance are moving about and supplying power in construction areas urgently in need of electric power.

--Communications installations being built up in efforts to catch up with developments. The construction of microwave communication lines and microwave TV lines from Guangzhou to Sanya via Haikou has reached the stage of trials of the equipment, which is already in place, and all lines will be in use sometime this year. At that time it will be possible, going through the

Guangzhou communications network, to link up with Beijing, Shanghai, and other important cities, and indirectly with overseas, also to dial direct calls to Hong Kong and Macao. Communications to various places off the island are already in regular operation over 192 long-distance carrier wave telephone lines and 74 telegraph lines. On the island itself, the cities already have the capacity for 11,800 phone channels and the rural areas, 18,600 channels.

--Initial scale of urban construction and transformation. New construction has taken place in Haikou, Sanya, and other cities as well as in medium and small towns of their roads, restaurants, markets, recreational installations, communication facilities, and guest houses.

Continued Development of Industrial and Agricultural Production

Hainan's industrial and agricultural production as well as its foreign trade are developing continuously.

The first group of key engineering projects are under construction and being readied for operation, comprising new construction and expansion in the building materials, mining engineering, ore dressing, and rubber goods manufacturing industries, as well as sugar refining, foodstuffs, various light and textile industries and technical transformation projects.

The granite quarry in Qionghai County on the east coast, established as a Chinese-foreign joint venture, has been opened and put into production. The quarry imported from the FRG a complete plant for the processing of granite and uses the local granite in the production of high-grade polished granite slabs for construction and ornamental purposes. Its annual capacity is 1 million square feet, and products from the quarry are highly welcomed in the international market.

A total of 200 million yuan was invested in the excavation and supporting facilities of an open-cut iron mine, which is now in the process of being opened up. After completion of the project, the mine's annual output can be increased by 600,000 tons. It is expected that the entire project can be completed this year. All work has been completed in the opening up a cobalt mine with an annual output of 50,000 tons, and production has started. The project of a titanium ore dressing plant is promising to attain considerable production capacity.

At Yinggehai and in the ocean off the northern parts of the island, exploration for off-shore oil and natural gas is being conducted by Chinese-foreign joint ventures, and several oil and gas fields of commercial value have been discovered as being fit for future development. For some of these sites, an agreement has been signed with the Arco Co. of the United States for the development and exploitation of the natural gas at Yinggehai, and preparations are made to lay a 1,050 km pipeline to send Yinggehai natural gas to the mainland to Zhanjiang, Maoming, Foshan, Guangzhou, Shenzhen, and cities and counties in the Zhujiang Delta. According to preliminary computations, the geological reserves of the said natural gas field amount to 90 billion

cubic meters, making it the largest natural gas field in China. All preparatory work is now being carried out, and it is expected that the supply of natural gas will start on 1 July 1989.

Initial work has recently started on the geophysical exploration of possible petroleum extraction at the Qiongbai-Fushan depression of Hainan, in a cooperation between the Hainan company of the China Petroleum Development Corporation and the CSR Petroleum Consortium of Australia. Hainan, being China's main producer of natural rubber, now has 300,000 hectares of rubber plantations, producing 120,000 tons of dried rubber. Twelve enterprises on the island are engaged in the processing of rubber, with supplies intended for the manufacture of inner tubes and outer tires for motorcars, tractors, and bicycles, of conveyor and transmission belts, of all kinds of rubber hoses and rubber shoes and for emulsified rubber products.

In the last 2 years, Hainan, by means of domestic and overseas linkages, actively pursued the importation of advanced technologies and equipment for a comprehensive technical transformation of its present processing enterprises, to raise their technological quality and production capacity. The Haikou tire factory invested 12.5 million yuan in a comprehensive technical transformation and expansion, imported new equipment from Japan, and converted the enterprise to one of automated production, thereby raising the production capacity from an original 180,000 sets to 300,000 sets of tires per year, products that are selling well throughout the entire country. Rubber products manufactured on Hainan are now not only supplying the needs all over the country, but also beginning to be marketed in over 50 countries and territories.

Cane sugar production is an important mainstay of Hainan's economy. In 1985 over 80,000 hectares on the island were planted to sugar cane, and total production reached 3.84 million tons, an increase of 35 percent over 1984. Originally, the island had 27 sugar refineries, to which 9 new large and medium-size refineries were added since 1983, while 13 of the existing refineries carried out expansions and technical transformations. Up to now, there are 36 sugar refineries on the island, distributed over the areas where cane is grown. The cane pressing capacity is over 21,000 tons per day. Sugar production in 1985 was 300,000 tons, an increase of 50 percent over 1984.

Through further domestic and foreign linkages, Hainan Island built new factories for the electronics, textile, foodstuffs, and arts and crafts industries. In 1985 the gross output value of industry of the entire island was 1,377,000,000 yuan, an increase of 17.6 percent over 1984.

Steady Increases in Foreign Economic Relations and Trade

In the last few years, many foreign investors, overseas Chinese industrialists, and industrialists and businessmen from Hong Kong and Macao came to investigate and discuss the possibility of investing and cooperating in the development of Hainan. Hainan has signed 230 joint venture and cooperative management contracts with foreign businessmen. The total amount involved in these contracts is \$294 million, of which \$215 million are to be invested by the foreign parties. Of this amount \$130 million have actually been paid up and used in joint ventures and cooperative management enterprises

in such fields as industry, development of energy sources, communications and transportation, travel and service industries, in agriculture for the reclaiming and cultivating of wasteland, and in fishery and aquatic breeding. All these projects are being smoothly continued, and several of the projects have already been completed and are in operation.

Economic cooperation with foreign parties stimulated economic connections between Hainan Island and enterprises in the interior. Up to the present, Hainan is engaged in economic cooperation with 24 provinces, municipalities, and autonomous regions in the interior, signed 254 cooperative agreements, and absorbed 232 million yuan of capital from outside the island, in addition to 63 million yuan in foreign exchange funds. The execution of these engineering projects in cooperation with domestic and foreign parties plays an important role in promoting Hainan's economic and technical interchanges with foreign parties and in the technological progress on Hainan, paving the way for Hainan's future foreign trade undertakings. In 1985 the total value of commodities exported from Hainan amounted to \$76.13 million, an increase of 85.1 percent over 1984. Adding revenue from tourism and similar operations, the foreign exchange revenue amounted to \$111 million, which basically balanced the foreign exchange expenditure and income in the development of Hainan.

Creating a "Hawaii of the East"

In February this year, several Central Committee leaders, including Zhao Ziyang, Hu Qili, and Tian Jiyun came to Hainan for inspections. They pointed out that implementation of the policy of opening up to the outside and invigorating the domestic economy will allow Hainan to bring its unique advantages fully into play and thereby accelerate its construction and development. The said policies must, therefore, be unswervingly continued without any changes at all. These visitors emphasized in particular that Hainan should energetically develop its tourist trade, fully exploit its abundant resources for tourism and develop them in a planned way, gradually establishing Hainan as a scenic spot that will attract tourists by its tropical beauty. Tourism should be regarded as an important trade, to be treated as a constructive undertaking, which is also apt to stimulate the development in a series of other industries and promote the economic prosperity of Hainan.

Hainan is richly endowed by nature and can be developed into one of the most attractive tourist places of the world. It has not only a tropical scenery of enchanting beauty, but along its southern coast, especially at Yalong Bay, ideal recreational and winter sea bathing areas, with long stretches of spotlessly clean sandy beaches, the wide ocean, a flat strand, fine sand, and warm water. In the hinterland of the island, in the Wuzhishan area, the scenery is glorious and of unique charm, with the splendor of green hills in all seasons of the year, hundreds of flowers in a riot of colors, spread out like a bright tapestry. The wild mountains are covered with a dense tropical forest, the branches covered with creeper plants, overhung by clouds and mist, all in luxuriant growth, inhabited by a variety of lively animals, as an added unique interest. These are also the regions inhabited by our compatriots of the Li and Miao tribes, who are able singers and dancers, and are warmhearted

and hospitable people. Visits to these areas provide opportunities to get an idea of the infatuating, romantic and unsophisticated culture and art of the Li and Miao tribes.

In the last few years, Hainan has accelerated the construction of tourist service installations and of a network of tourist stations, and there is a steady increase in tourists. In 1985 the number of tourists accommodated reached 235,000 persons.

In the next few years, Hainan will exert great efforts on expanding the network of tourist stations and on the construction of tourist service facilities, and will also improve the quality of staff and their training, to improve the quality of tourist services. Tourist areas on Hainan will be gradually built up to become international winter resorts and winter sea bathing spas, Hainan will in fact be built up into a place worthy to be called the "Hawaii of the East."

9808

CSO: 4006/1100

ECONOMIC MANAGEMENT

BEIJING HOLDS FIRST AUCTION OF STATE-OWNED SHOPS

HK120258 Hong Kong AFP in English 0213 GMT 12 Nov 86

[By Lawrence MacDonald]

[Text] Beijing, 12 November (AFP)--The first auction here of state-owned shops to private individuals has excited buyers and cadres, but worried some workers who are anxious about changes in their "iron rice bowl" sinecures.

Hundreds of people crowded into an auditorium in the Haidian District government offices Saturday to join in spirited bidding on seven money-losing businesses put on the block in the first such sale in Beijing.

The auction, modeled on a recent experiment in the northeastern city of Shenyang, is at the heart of urban economic reforms launched by top leader Deng Xiaoping in October 1984 to boost development by narrowing state controls and widening the scope for private initiative.

Bidding was tense and lively with the auctioneer, standing on a dais at the front of the room framed by seated officials and a red banner announcing the sale, calling out the properties and acknowledging bids from the floor.

Wang Baoxia, 32, a staffer of the Haidian Grocery Company, and her husband outbid competitors with a 90,000 yuan (\$24,000) offer for the Lucky Gate Grocery, a 100-square-metre (1,000 square foot) shop with yard on a dusty road at the city's northern fringe.

"I didn't think we'd have to pay so much," she said as friends crowded round to congratulate the couple. "We have to pay 30 percent now and the balance within a year, but I think we'll make it."

Other business, including a restaurant, a bicycle repair shop and barber shop, went for 70,000 to 110,000 yuan (\$19,000 to \$30,000).

Legal and banking officials, officers of the state companies selling the shops, representatives of the State Labour Department and Association of Individual Laborers were on hand to complete formalities, stamping papers authorising the sales and allowing buyers to quit their state jobs.

Several buyers said they would retain current workers in their newly acquired properties, but Mrs Wang said she and her family would run the shop themselves, leaving the state grocery company to arrange new jobs for the five people who had worked there.

At Lucky Gate Grocery, a solid single-storey brick structure, officials had sealed doors with white paper strips to prevent tampering with the stock of soy sauce, canned foods, noodles and sundries.

"I think it is rather sudden," said an old woman shop assistant in the staff room at the back. "Two days ago some people showed up and started to measure everything. We thought it was a joke, but the manager went to the district headquarters and came back and said it was true."

Neither she nor a young woman colleague recently assigned to Lucky Gate had any idea where their next job would be. "I hope it isn't too far," the old woman said. "I'm a bit clumsy and not very good at riding a bicycle."

Chinese officials said money from the auction would help fund early retirement or new jobs for those displaced by the sale.

Reformers are hoping privatization will mean improved service and a wider selection of goods. Newspapers describe the process as sparking initiative by "unifying management and ownership."

Under state management, Lucky Gate Grocery, like thousands of other shops in Beijing, opened at 8:30 am and closed at 6:40 pm, with a 2 hour break for lunch.

Despite efforts to institute a bonus system, the manager and workers received more or less the same wage regardless of profits, with the result that the shop had been running at a loss for several years, district officials said.

"Actually, this location is quite good," the middle-aged former state manager of the Lucky Gate Grocery said with regret. "We're close to the old summer palace. If this place were fixed up, you could do a good cold drinks business here."

"I would have bought it myself, but I don't have the money," she added.

Many people apparently do.

Chinese officials said the large number of bidders who showed up despite a requirement that they be district residents affiliated with state companies selling the shops illustrated the pent-up purchasing power of some urban residents--and their eagerness to go into business.

The average wage in Beijing is 100 yuan (\$30), but for those able to earn money on the side, low housing costs and families with multiple incomes means substantial opportunities to save.

Many of those who left the auction without a purchase said they were eager to try again.

"I hope the state will sell more shops with good locations at prices of 30,000 yuan (\$8,000) or less," said one mechanic who unsuccessfully bid for a bicycle shop.

City officials said they were pleased with the results but would have to evaluate the results of their experiment before deciding whether to put other enterprises on the block.

/12232

CSO: 4020/46

ECONOMIC MANAGEMENT

RESPONSIBILITY SYSTEM REVIVES SHANGHAI SHIPYARD

OW070356 Beijing XINHUA in English 0244 GMT 7 Nov 86

[Text] Shanghai, 7 November (XINHUA)--More decisionmaking power plus the assistance of the party committee and wisdom of the workers is the secret strategy of the director of the Jiangnan Shipyard, a century old ship producer in China.

The shipyard, set up in 1865 beside the Huangpu River in Shanghai, has received orders from overseas companies for building ocean-going vessels with a total of 500,000-ton carrying capacity, even though the world ship-building industry faces a depression.

Factory profits and taxes submitted to the government increased 13.1 percent in 1985.

Director Zhao Fusheng said he is confident of the shipyard's future. The factory is able to increase the present yearly output volume of 120,000 tons to 260,000 tons by 1990.

Zhao attributed the success of the shipyard to the director responsibility system now being tried out in more than 730 enterprises in Shanghai.

"Now I can feel much more freedom and flexibility in managing production, finance and appointing factory officials," director Zhao told XINHUA.

The decline of vessel prices and the increase of raw material expenses became universal problems of ship producers. While busily seeking new ship buyers, director Zhao decided to develop the repairs business and diversify production to include non-marine-related products to make up for losses in the slack season.

In the past it was up to the ship-building company, an administrative organization governing all the major ship producers in Shanghai, to make such major changes in production. The company was also the sole representative for business negotiations with foreign companies. Now director Zhao can contact directly with foreign clients without the permission of a government agency.

Zhao led a group of technicians and managers to visit Federal Germany, the United States, Hong Kong and other parts of China early this year and signed contracts for vessels with a total carrying capacity of 350,000 tons.

One of the contracts was signed with a Germany company for building two ships for carrying 3,500 cars each. Zhao said his enterprise has already worked out production plans for 1988.

Before the shipyard began the new system in late 1984, the secretary and other officials of the party committee had the final say in almost all kinds of problems. Zhao recalled that two-thirds of the 36 party meetings held in 1984 were to solve productive and management problems, but they met with very low efficiency.

Now instead of muddling in production, the party committee concentrates on the ideological work among the workers. Party officials help strengthen the workers' sense of carrying out the party's policies and the current reform measures at the factory.

"Apart from the full support of the party committee, I have also benefited a lot from my think tank formed by experienced engineers and managers," Zhao said.

Last year, a Sino-foreign joint venture shipping company invited tenders for building four 15,800-ton multi-purpose vessels. The think tank studied conditions offered by foreign companies and beat down its opponents with sophisticated technology and reasonable prices, and its tender was accepted.

The director also set aside Saturday afternoon for meeting with workers, saying, "without their help I can do nothing."

When the construction of a container ship was delayed last year, workers helped find causes and produced a eight-point plan which was accepted by the director. As a result, they completed the vessel in time.

/12232

CSO: 4020/46

ECONOMIC MANAGEMENT

RENMIN RIBAO ON SHORT-TERM BEHAVIOR OF ENTERPRISES

HK201111 Beijing RENMIN RIBAO in Chinese 17 Nov 86 p 5

[Article by Zhao Linru (6392 2651 1172): "A Brief Talk on the Problem of the Short-term Behavior of Enterprises"]

[Text] At present, many state-run enterprises are complaining that they have no ability to carry out the updating and transformation of their equipment and have difficulty in developing their production due to lack of funds. But what we often see is that many enterprises are spending most of their funds, including depreciation funds, overhaul funds, and production development funds, on consumption or nonproduction investment, while still lacking financial [word indistinct]. This situation is caused both by the heavy debts owed by the enterprises and by the enterprises' short-term behavior of paying attention only to their immediate interests without considering their future prospects. This is a problem which must be studied and solved in the process of replacing the old structure with a new one.

How to solve the problem of the short-term behavior of enterprises? Up to now, many people have advocated the joint-stock system which would closely integrate the interests of the workers, the enterprises, and the state and enable the enterprises to have an internal motive force. I think we cannot solve the problem of the short-term behavior of enterprises just by implementing the joint-stock system. Generally speaking, the implementation of the joint-stock system, which is widely advocated at present, will encounter some objective difficulties. The performance of many enterprises is closely related to the unequal conditions in their operations. Under such circumstances, when the dividends and bonuses distributed by the enterprises whose performances are good are higher than those distributed by other enterprises, the competition in terms of the distribution of incomes among other enterprises will certainly be intensified and the workers who have bought shares will only be concerned about the prospects and the dividends of the enterprises whose shares they have bought and will not necessarily be concerned about the prospects and interests of their own enterprises. Furthermore, according to the results of investigations, some enterprises which have implemented the joint-stock system originally intended to arouse the enthusiasm of the staff and workers, but later actually channeled the part of their income which the state should have received into the pockets of individuals in the form of dividends and bonuses whose interest rates were much higher than that of bank

savings. This type of joint-stock system has actually become a form in which the short-term behavior of enterprises is realized. We should also see that under the present conditions of our country, the short-term behavior of enterprises does not exist only in the state-run enterprises. For example, at present, some rented enterprises, contracted enterprises, self-employed workers, contract farmers, and so on lack long-term planning in their operations and even carry out predatory operations. This situation shows that under the present conditions of our country, it will be difficult for us to solve the problem of the short-term behavior of enterprises just by relying on the joint-stock system.

In order to overcome the short-term behavior of enterprises, we should not only carry out the reform of the system of ownership but also carry out a systematic and overall reform in the economic and political fields and in the comprehensive harnessing of the social environment and conditions. At present, people are worried about the frequent changes in our policies, which is one of the reasons for the short-term behavior of enterprises. Therefore, we must ensure that our policies are practical policies with continuity and reliability and must really keep our promises, so that the people will have long-term concepts and long-term plans for which they can work hard. In addition, we must effectively carry out a series of comprehensive reforms step by step in order to create a real environment for the development of commodity economy and to provide our enterprises with the necessary motive force, pressure, and vitality. We must try our best to avoid using expedient measures and countermeasures, so as to prevent the actions taken earlier from becoming obstacles to the actions taken later and prevent later reforms from becoming the readjustment of earlier reforms. Only under such circumstances will it be possible to link the interests of the staff and workers closely with the interests of the enterprises, especially the long-term interests of the enterprises, and overcome the short-term behavior of enterprises through the implementation of the joint-stock system and the carrying out of other reforms of the ownership system.

I also think that we can overcome the short-term behavior of enterprises both by carrying out the reform of the ownership system and by carrying out the reform of the methods of operation and management, with the stress on the latter. As far as this aspect is concerned, I think that the best method for the present is to implement the "factory director tenurial task responsibility system."

The "tenurial task responsibility system" will serve to standardize and institutionalize the medium- and long-term interests of enterprises and link the medium- and long-term interests of enterprises with the tenure of the factory director, so as to avoid the short-term behavior of enterprises. In implementing the "factory director tenurial task responsibility system," we must define the factory director's tenurial tasks, give the relevant powers to the factory director, establish an examination system for the purpose of supervising the factory director in the accomplishing of his tenurial tasks, and establish the relevant system of rewards and penalties.

/8309

CSO: 4006/135

ECONOMIC MANAGEMENT

SICHUAN GOVERNOR URGES FULFILLING INDUSTRIAL PLANS

HK241045 Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 21 Nov 86

[Text] On the afternoon of 21 November the provincial people's government held a meeting of leading comrades of some provincial departments and bureaus. Governor Jiang Minkuan and Vice Governor Gu Jinchi stressed that leading cadres staffs, and workers of industrial enterprises and institutions in the province must strengthen their confidence, go all out, and do their utmost to improve economic results.

Governor Jiang Minkuan said that the industrial output value of the province's state-run local industrial enterprises covered by the budget from January to October this year increased by 5 percent over the corresponding period last year. However, the profit achieved and the tax submitted to the state decreased by 7.64 percent over the corresponding period last year. About 23 percent of the enterprises suffered losses from January to October this year, an increase of 7.75 percent over the corresponding period last year.

Governor Jiang Minkuan said that the provincial people's government and its general office recently issued with authorization and relayed 10 documents, including a circular on provisional rules on management of new products by industrial and communications enterprises in Sichuan Province; the suggestions on strengthening management of specific items and further improving economic results in investment; and a circular on doing a good job in turning industrial enterprises' losses into profits. We must hold serious discussions on these documents in connection with the real situations in all trades, so as to find out the reason for the poor economic results, to know where we lag behind, and to study measures for catching up with others. Enterprises whose economic results were extremely poor must discover the main reason for this including ideological, organizational, managerial, subjective, and objective reasons. According to the spirit of the documents and in connection with the real situations in their trades, they must study the problems, and put forth measures and specific and feasible methods. All provincial departments and bureaus must dispatch personnel to enterprises to help implement the spirit of the documents and quickly improve the economic results of the enterprises together with their staffs, workers, and cadres.

/8309
CSO: 4006/135

ECONOMIC MANAGEMENT

BRIEFS

ZHUZHOU PLANT MANAGEMENT SYSTEM--With the Zhuzhou City government's approval, the Zhuzhou City Synthetic Resin Plant will begin to implement a responsibility system for capital management this year. The plant is now openly inviting the public to put in tenders for a plant management contract. It is the first plant to implement the responsibility system for capital management in the province. The Zhuzhou City Synthetic Resin Plant is a medium-sized enterprise under the ownership of all the people. Due to protracted chaotic management since its founding, the plant's debts now total over 4.5 million yuan. [Text] [Changsha Hunan Provincial Service in Mandarin 1100 GMT 31 Oct 86 HK] /12232

CSO: 4006/114

FINANCE AND BANKING

FINANCE SYSTEM REFORM DISCUSSED

Hong Kong JINGJI YU FALU [ECONOMY AND LAW] in Chinese No 10, 1986 pp 28-30

[Article by Qian Rongkun [6929 2834 1024], consultant and professor, Economics Department; chairman, Department of Finance, Nankai University: "Some Views on the Restructuring of China's Financial System"]

[Excerpt] I. Financial System Reforms May Learn From Western Financial Practices

At present our country is restructuring the economic system to establish a planned commodity economy based on public ownership. This economic system is brand new. In the past the commodity economy was based on public [sic] ownership; to bring about a commodity economy based on public ownership is a new undertaking. In the past, the commodity economy was a spontaneous development; to turn that into a planned system is also a new undertaking. Accompanying this new economic system, there should also be reforms and changes in the financial system.

The new financial system will play a significant role in the nation's economy. It will be instrumental in developing the planned commodity economy; it will be instrumental in achieving microeconomic revitalization and macroeconomic control, and serve our policy of opening up to the outside. To accomplish these tasks we must abandon old conventions in our financial system, financial institutions, financial operations, financial instruments, financial markets, and financial policies; we must find new approaches. In breaking new grounds, we should also borrow from Western practices and experiences.

II. On the Issue of Establishing a Financial System

Borrowing from Western experiences, we too must establish a financial system which is headed by the central bank, and embodies a host of different types of banks, and is supplemented by other financial institutions.

All along, this and other socialist countries have practiced a state-owned banking system. The People's Bank of China took care of all banking operations. Since 1984 the People's Bank has assumed the duties of a central bank; it is a new undertaking. However, at present it does not have the

relative independence of the central banks in the Western countries, and it has little ability to extend macroeconomic controls. A central bank must be relatively independent, and should not take orders from the Ministry of Finance or other government bodies.

Before we set up new financial institutions, we should consider fully the objective needs of our nation's economic and financial developments, and consider the conditions of our existing institutions; we should revise the existing institutions as well as establish new ones.

Among various financial institutions, commercial banks are the most crucial. The Chinese Bank of Industry and Commerce is similar to a Western commercial bank. But it is a monopoly; there is no competition and no incentive to increase efficiency. In Western nations, there are numerous commercial banks, as many as 15,000 in the United States alone. However this is because the United States adopts the unit-bank system rather than the branch banking system; in nations adopting the latter system the number of banks is not as high, although it may still exceed several dozens, with four or five major banks controlling 80 to 90 percent of all commercial banking business. In a country as vast as China, there is but one bank serving all industrial and commercial enterprises; it is grossly inadequate. Several other specialty banks should, to a certain extent, conduct commercial banking operations, and we should also consider establishing more commercial banks. At present, besides state-operated enterprises and collective enterprises, there are Chinese-foreign joint ventures, foreign-owned enterprises, and individual commercial units operating in the cities. Commercial banks should consider offering them financial services. We should also consider setting up some credit union type institutions to provide financial services to collective and individual industrial and commercial units.

At present, the Chinese Bank of Commerce also handles savings accounts; the post office is offering savings service on a trial basis. There are too few savings institutions in this country. The existing ones still depend on manual operations; they are inefficient, and their network distribution is irrational. It is highly inconvenient for the people. Accompanying higher personal income there is a greater need for personal financial services. I think we should consider setting up savings banks specializing in individual accounts, savings, remittance, and loan services. At present, bank personal service is restricted to savings only; there are neither checking nor remittance services, not to mention personal loans. I suggest that savings banks should extend college student loans, installment loans on consumer luxury goods, and residential mortgage loans which promote the commercialization of residential housing.

Concerning rural financial institutions, we can consider the installation of a rural financial system which consists of a diversity of financial institutions offering different types of loans, a system headed by the Agricultural Bank of China, supported by financial cooperatives, and supplemented by people-to-people credits.

Our nation needs a bona fide investment bank. In the past, the China Construction Bank exclusively handled the allocation of our nation's investment funds, and was not a bank per se. Nowadays, instead of allocating funds, the bank is extending loans, and in fact it is replacing state grants with bank loans. Loan terms range from 10 to 20 years or longer. These long-term loans cause the banks to run short of funds. Therefore the Construction Bank is not a bona fide investment bank. In the future, we should consider issuing long-term bonds to tap new sources of funds, and also consider raising capital in foreign markets, or issuing foreign bonds.

The Bank of China should still handle import-export trades and foreign financial operations, but it should also assume some general commercial banking operations.

In addition, investment trust companies, insurance companies, and institutions handling leasing and other financial services are essential, too. At present we do not have enough of these institutions to satisfy objective needs; such operations should be expanded.

III. On the Issue of the Central Bank's Using Monetary Policies To Attain Macroeconomic Adjustments

The central banks in Western countries pursue their monetary policies in open market operations, by adjusting the discount rates, or by adjusting the reserve-to-deposit ratios and other measures. At present, we do not have a fully developed financial market; our central bank cannot take part in open market activities as its counterparts in the Western countries do. However, our central bank can still adjust the reserve-to-deposit ratio, a tool not often used by the central banks in the West, and adjust its loan and discount rates to other banks. Because our present market mechanism and our macroeconomic control of the financial system are not fully developed, we must pay attention to credit control as well as the control of the money supply.

In the West, the central banks may pursue monetary policies aiming at maintaining full employment, stabilizing prices, accelerating economic growth, or improving the balance of payment: at various times they may concentrate on one of these goals, depending on the economic needs of the time. For example, in the early 1980's fighting inflation was the No 1 objective in the United States and Great Britain. Our monetary policy goal is to promote our economic expansion and stabilize the price level. I think our central bank should also set the No 1 priority on fighting inflation. Socialist countries often take accelerated economic growth as the chief goal of their macroeconomic policies, but their total investment and consumption often exceed what their country's manpower, natural resources, and financial resources can afford, and the resulting excess demands lead to inflationary pressure. Under a system of highly centralized command plan, inflation is often disguised: price levels do not rise, but there are shortages in the marketplace, and many goods have to be rationed. In the process of economic reforms, because some prices are determined by supply and demand in the marketplace; when demand exceeds supply, inflation is brought into the open,

and the price level will rise. All countries which undergo economic reforms inevitably experience some rise in the price level. Because investment decisions are transferred from the central to the lower levels, every department, every region, every enterprise, and every government agency seeks rapid expansion; they have an insatiable appetite for investments; like a wild stampede, the situation gets out of control. Thus, total demand always exceeds supply, resulting in inflation. Inflation hampers economic growth, it hinders the process of economic reform, and it impairs the efforts to raise the standard of living. Therefore, I think the main goal of our country's monetary policy should be to fight inflation. We must seek steady economic growth with the prerequisite of price stability; we must not sacrifice price stability in pursuit of higher rate of economic growth.

To keep demand under control and make sure that it does not exceed supply, we must rely on the efforts of the state's planning department, the Ministry of Finance, the various regions, and all the departments. However, the central bank's monetary policy can be an important means of control.

To control excess demand the central bank's monetary policy must insist that government deficit cannot be made up the bank overdrafts. Deficits must be made up by issuing public debt instruments. The central bank should be prohibited from purchasing government bonds issued by the Ministry of Finance. This is practiced in Western countries and has been proven effective. For example, since the 1980's, after Ronald Reagan became president of the United States his macroeconomic policy has been to fight inflation. However the federal deficit kept increasing every year: in 1980 it was \$57 billion, but in 1985 it rose to more than \$200 billion, almost quadrupling. But these deficits are being made up by issuing government bonds. The federal reserve does not purchase these bonds, if it did, it would have to increase the money supply, and that would only aggravate inflation. The anti-inflation monetary policy has not been disrupted by deficits in the government budget, and it has been very successful. Inflation fell from 13.5 percent in 1980 to around 3 percent today. Of course, the United States paid a high price in fighting inflation: for 2 or 3 years it was faced with economic crises, higher unemployment rates, and increased foreign trade deficits. Nevertheless, issuing government bonds to pay for financial deficits is a measure we can use as a model.

Our most crucial macroeconomic problems is uncontrolled investments. To remedy this we must restructure our system of fixed-asset loan management. The nation's key construction projects, and cultural, educational, and public health construction projects should be allocated by the Ministry of Finance. Other projects should be financed through sale of bonds issued by specialized financial institutions. In this way, we can rectify past practices of capital construction projects, jostling the Ministry of Finance, which jostled the banks, which increased the money supply. The country's investment level must be kept under control.

Enterprises cannot depend on the banks for all their working capital. At present many departments are investing in fixed assets but have no provision for working capital. They borrow their working capital from the banks.

Banks should have autonomy over loans and should reject loans for working capital. At present much of the circulating funds borrowed by enterprises are wasted on inventory stockpile. This situation must be corrected.

The central bank must control the supply of money and the expansion of credit. We are now in a transition period from heavy reliance on direct control to reliance on indirect control, therefore controlling the level of credit is crucial. We should implement indirect controls gradually and allow interest rate and exchange rate to demonstrate their utility.

Our present rate of interest may appear relatively high, but in fact it is low. In recent years interest rate has stayed below the rate of inflation, resulting in a negative rate of interest. At an annual interest rate of 7 percent, if the price level rises at a rate of 9 percent, the real rate of interest is 2 percent. Our country is economically underdeveloped; we are extremely short of investment funds and at the same time we have great needs for these funds, and logically the rate of interest ought to be relatively high. Yet our real rate of interest is low; funds are being hoarded and wasted, exacerbating the starvation for funds and the stockpiling of goods. Western experience proved that low rates of interest encourage borrowing and induces inflation. If we raise our interest rate now, many enterprises will go under because, although the real rate of interest is low, some enterprises are not operating efficiently, their economic results are poor, their profits are low, and they cannot tolerate a higher rate of interest.

Because at present the enterprises have a low threshold, and because of our irrational pricing system and other factors, there are many obstacles to using interest rate as an economic lever. However we must learn to develop the commodity economy and the credit economy: the rate of interest must reflect the supply and demand of investment funds; it must comply with the law of value. We must learn from Western experience and allow the central bank to gradually and effectively utilize the interest rate to achieve macro-economic control.

Our country's RMB is a nonconvertible currency, and we do not have a fully equipped foreign exchange market. The value of the RMB does not reflect the supply and demand of foreign currencies, nor does it comply with the law of value. Its valuation does not reflect product price changes inside or outside the country, nor does it adjust to changes in import and export trade conditions. Usually the value of the RMB is set too high. At the same time the effect of adjusting the currency value to modify import and export trades has been minimal. Ordinarily devaluating the RMB should discourage imports, but most of our imports are essentials, and demand for them is inelastic. Of course at a lower exchange rate some units will import less. To a certain degree the exchange rate can still have an effect. We must use the RMB exchange rate to gradually regulate the balance of payments. If we want the exchange rate to be at a reasonable level, we should not leave it unadjusted permanently.

IV. On the Issue of Developing the Financial Market

In restructuring the financial system, opening up the financial market is a crucial issue.

The financial markets in Western countries are highly developed. There are short-term and long-term markets: short-term markets include security markets trading in treasury bills, short-term loan exchange markets, bills of exchange discount markets; long-term financial markets include over-the-counter markets and security exchanges.

Establishing a financial market is essential to the restructuring of the whole financial system. To develop a commodity economy we must first perfect the market mechanism. It is not enough just to establish a productive resources market, a consumer goods market, and labor and service markets. We must develop a capital market to aggregate funds, and improve the efficiency in gathering and allocating capital, and increase the ability of the central bank to gain macroeconomic control through its monetary policy. Specifically, establishing the financial market will have the following benefits: 1. It develops new formats and new channels for aggregating capital funds; it supplements bank credits by raising funds from other sources in the economy. Hence it increases the efficiency in capital allocation, and guides society's capital funds toward areas with better results. 2. It converts funds into bills of exchange and securities to attain higher liquidity, and helps the financial institutions maintain a high turnover rate of funds. It enables people with surplus funds to lend them out in the markets and those who need funds to borrow in these markets. This is conducive to financial and microeconomic revitalizations. 3. Through trading activities in the financial markets, the central bank can shift from relying principally on direct controls to indirect controls.

Certain conditions must be met before a financial market can be established. First we need many market participants, including various financial institutions and enterprises of all types, government organizations, collectives, agencies, and individuals. They must put large amounts of temporary surplus funds into the market, and there must be a great demand for these funds in the market; without them we do not have a financial market. Second, there must be all kinds of credit instruments: in short-term capital markets there should be bills of exchange, short-term government obligations, commercial papers, bank acceptances, and negotiable certificates of deposits in large denominations. In the long-term markets, there must be large quantities of legal and standardized corporate stocks and bonds, as well as long-term government bonds. Credit instruments must be highly reliable and guaranteed by law.

In recent years we have adopted some initial regulations pertaining to the financial market. Specialty banks have increased loans to related enterprises. Urban and rural societies are increasingly active in raising capital in a variety of ways and means. Many enterprises are issuing stocks and bonds. In the countryside personal loans have become popular, and are developing into a spontaneous loan market. Last year, for the first time, the Agricultural Bank of China issued 1.5 billion yuan's worth of 1-year bonds; it plans to issue another 1.5 billion yuan's worth of 1-year bonds this year. Between 1981-1985 the Ministry of Finance has issued 23.7 billion

yuan's worth of long- and medium-term treasury bonds. Hence we already have some credit instruments, including stocks, corporate bonds, bills of exchanges, bank-issued bonds, and treasury bills. The banks have also introduced acceptance and discount services. There are a diversity of credit instruments, and the scope of direct credit has increased; they provide the initial conditions for opening up the financial market.

However, as yet the conditions are not ripe. The amount of funds involved in loan between financial institutions is limited, and capital transactions with their foreign counterparts are minimal. Bills of exchange and discounting operations are inadequate; many stocks and bonds are ill qualified to be put on the market; treasury bills and bank-issued bonds cannot be traded in the market. At present, we are still faced with many problems if we want to set up a full-fledged financial market. We need to create better conditions, transform short-term funds into bills, and long-term funds into securities. And we must formulate a set of securities regulations and corporate laws so that there is legal basis in the financial market. We should improve the ways banks issue their bonds and the Ministry of Finance issues treasury bills and government bonds so that those instruments can be traded freely in the market.

Some people proposed that we should first establish a short-term fund market by utilizing the funds aggregating within the banking system, and then expand into the bills of exchange market, and negotiable certificates of deposits in large denominations, and other markets. This proposal warrants further consideration. At present the short-term capital market is only in its fledgling form, and is imperfect. Recently, the first short-term capital market opened in Shanghai; it handled only borrowing and lending by sector, within its own trade, and discounting bills, but no security exchange. At present, some businesses are handling the sale and purchase of bonds for customers in cities like Shenyang. These are only markets in an embryonic stage and are not a bona fide long-term capital market. We must borrow from Western experience and develop our financial market systematically. We must test the water first, and then proceed steadily.

12986/12948

CSO: 4006/079

FINANCE AND BANKING

BANK INTRODUCES 5 NEW SERVICES

Beijing JINGJI RIBAO in Chinese 30 Sep 86 p 1

[Article by Fu Jikun [0265 4949 0981] and Xie Zhenjiang [6200 6966 3068]:
"Adapt to Developments in the Commodity Economy, Accelerate Reforms in
Financial System: Chinese Bank of Industry and Commerce Introduces New
Settlement and Acceptance Services"]

[Text] On 1 October the Chinese Bank of Industry and Commerce will introduce five new services in Beijing, Tianjin, Shanghai, Wuhan, Guangzhou, Xian, Chongqing, Shenyang, Dalian, Harbin, Changchun, Nanjing, and Chengdu; these new services include: fixed-amount bank drafts, regular and traveler's checks, electronic transfers, out-of-town access of funds in demand deposits, and personal remittance.

With the introduction of these five new services, many of the bank's local branches and savings depositories in the 13 major cities are linked up by modern electronic equipments to handle the problems of interregional cash transfers, deposits and withdrawals. That is, after the implementation of these new services, customers, by following required procedures, may present special bills at designated Bank of Industry and Commerce in any of the 13 cities (certain operations restricted to 8 or 10 of those cities,) to deposit or withdraw funds.

On 29 September the Chinese Bank of Industry and Commerce held a ribbon-cutting ceremony at its Sanlihe branch in Beijing to unveil these new services. Chen Muhua [7115 1970 5478], member of the State Council, and president of the People's Bank of China, was present to cut the ribbon and speak at the ceremony.

Chen Muhua said that the central government has urged that the comprehensive restructuring of the financial system be speeded up. Concurrent with studying the comprehensive reform process, we must promptly act upon each facet as we see fit. Nowadays our people's income is constantly rising, and the scope of commodity and currency circulation is widening: these factors require that the banks not only properly support the economic growth by offering savings and loan services and providing good customer services to the enterprises and the public, but that they also develop and perfect their settlement procedure to accommodate the expansion of our commodity economy

and the needs of the people. The Bank of Industry and Commerce's introduction of these five new settlement and acceptance services will certainly play an important role in solving various problems, such as the appropriation and idling of funds in transit, and the necessity of carrying excessive cash or large-denomination currency.

Chen Muhua also said that in launching these new services the Bank of Industry and Commerce should sum up and learn from its experience. The specialized banks should keep an open mind about restructuring or launching specific operations; they should raise their sense of urgency and strive to do a solid job. This is an important link in adjusting to the expansion of the commodity economy. The People's Bank must extend its support, and in every way accommodate the specialized banks in their endeavor to restructure their operations. Chen also urged the postal and wire services to extend their support.

According to reports, the Bank of Industry and Commerce successfully conducted electronic transfer simulation experiments among the branch offices and savings depositories in the 13 cities, including Beijing and Tianjin; the results are satisfactory.

12986/12948
CSO: 4006/079

FINANCE AND BANKING

WUHAN OPENS FIRST FUND MARKET; OTHERS MAY FOLLOW

HK270517 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD) in English 27 Oct 86
p 1

[Article by Tony Ngan]

[Text] Wuhan, capital of Hubei Province, has introduced a new financial market--reportedly the first in China--to tap local funding resources.

Other cities have been allowed to have similar systems.

According to the SHENZHEN SPECIAL ZONE DAILY, the new market is a "horizontal" approach breaking through the barriers of the highly centralised financial system of the past.

Hubei Province is on an important section of the fertile Yangtze basin.

The primary fund market it has introduced is in three tiers.

The first serves as a network among financial bodies on a collective basis. It links up 16 credit associations in the city to facilitate inter-association movement of funds, and is self-regulated by the participants themselves.

The deals are conducted in a small exchange centre located in Hanjiang street, well known as a market place for retail goods, and the centre is managed by the Hanjing Street Credit Association.

The monetary transactions take place every Tuesday at the centre. All the terms from interest rate to forms and period of settlement are mutually agreed on a free-trading basis by the parties themselves who are mostly small economic groups or individuals.

This financial market in Wuhan was the first one of its kind to have been granted a licence to operate. When it opened for business in May, it chalked up a daily turnover of more than renminbi 2.4 million yuan.

The centre has held 19 trading days since then, recording about HK\$10 million in turnover to date.

The role of such a centre in moderating the financial activities of the local business community has been recognised. The Beijing headquarters of the Bank of China has agreed to let other cities start similar systems.

The second tier of the market is said to facilitate the inter-bank activities, assuming part of the role of a central bank to maximise outlets for surplus deposits which are being held by certain specialised banks but never fully utilised previously.

The local People's Bank convenes an inter-bank meeting on the 7th, the 17th and the 27th of each month, to assess the credit requirements and financing capabilities among the banks in the next meeting.

On the basis of the regular assessments, the People's Bank provides services as an exchange centre to develop and regulate inter-bank lending and borrowing in the city.

Activities at this level began in January this year. By August, a turnover of 5.14 billion yuan had been recorded. They have prompted each bank to launch similar assessment and budgeting exercises on a daily, 10-daily, monthly and quarterly basis.

The increased mobility of the available funds within different levels of the same banking institution is said to have resulted in a total turnover of such movement at 9.9 billion yuan because much less money is now allowed to lie idle at any level.

An efficiency/utility rate of 95 percent is being claimed by the People's Bank in Wuhan in the use of its funds.

The third tier of the city's financial market goes "inter-regional", initiated by the People's Bank in Wuhan to link up ten cities including Shenzhen, Nanjing, and Changzhou of Jiangsu Province, in a similar but much more extensive network.

The banking authorities of these 10 cities have reached an agreement to "meet" via telecommunication on the 8th, the 18th and 28th of every month, starting from March 18 this year, to share information on their respective supply and demand situations.

Since then, the 10 cities have transacted about one billion yuan, with Wuhan alone taking up a share of about 410 million yuan of the total turnover.

/6662

CSO: 4020/41

MINERAL RESOURCES

GOLD PRODUCTION EXCEEDS PLAN

Harbin HEILONGJIANG RIBAO in Chinese 9 Oct 86 p 1

[Article by Long Jin [7893 6855]: "Heilongjiang's Gold Production Increased"]

[Text] After successive years of increased gold production, this year gold production in Heilongjiang has reached new heights. By the end of September production had already surpassed the state plan. Current gold output is 34.2 percent greater than during the same period last year.

This year Heilongjiang has implemented preferential policies for profits in gold-producing areas and enterprises, encouraged gold-production units to develop lateral economic ties and aroused the initiative of various industries and occupations in setting up mines and extracting gold. According to statistics, last year the various industries amassed over 15 million yuan and newly built 22 gold extraction projects, while during the first half of this year more than 28 million yuan were collected and 54 new jointly managed projects were built. Provincial, local and county governments at all levels have promptly coordinated and resolved problems of geology, capital funds, timber, land, electricity, etc., during gold production. Gold-management departments at all levels have joined with concerned departments to actively support gold production. The level of mechanization in gold production has also been improved and this has resolved the difficulty of gold extraction in winter. By April gold output was double that of the same period last year.

Wulaga Gold Mining Bureau, Huma Gold Mining Bureau, Wujing Gold Division and other units have all exceeded production by 30 to 90 percent over the same period last year. Daxinganling, Jiamusi, Yichun, Huanan, Luobei, Mohe, Muleng, and other localities, cities, counties and districts have all fulfilled state plans ahead of time.

9864/7051

CSO: 4006/76

INDUSTRY

NEW STAGE IN TECHNOLOGY TRANSFORMATION IN NORTHEAST

Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 24, 16 Jun 86 p 18

[Article by Liu Yuqin [0491 3768 3830] and Jiang Min [1203 2404]:
"Technological Transformation of the Old Northeastern Industrial Base Enters
New Stage"]

[Text] During socialist modernization, the northeast has been China's base for iron and steel, energy, and machinery. The state has always paid utmost attention to the development and construction of the northeast. During the First 5-Year Plan (1953-1957), the northeast was given 56 or one-third of the country's total 156 key construction projects. However, today after 20-some years, the equipment in many key industries has become obsolete, and technologies have become outdated. Their seriously antiquated condition has left the northeastern economy ill equipped to meet the needs of China's modern construction.

To revitalize and transform the old northeastern industrial base, achieve the strategic objective of the northeast's economic and social development, that is, to build it up into an open type of economic zone, in which industry, agriculture, light and heavy industry as well as the tertiary industries develop in harmonious coordination, with heavy industry as the main component, rationally structured, with advanced science and technology, a perfect infrastructure and a prosperous and abundant population, the northeastern region adopted the strategic measures of accelerating the technological transformation of its traditional industries, raising technological levels of operations, readjusting its economic, commodity production, and technical structure. During the Sixth 5-Year Plan (1981-1985), the northeastern region invested over 17 billion yuan in the transformation of more than 40,000 old enterprises, and has taken a new path of striving for saving investments, shortening completion times, and raising production.

During the Seventh 5-Year Plan (1986-1990), the northeast will invest 28 billion yuan in technological transformations, one-sixth of the total national investments in technological transformations. The focal area of the transformations will be Liaoning Province, with 16.7 billion yuan of

investments, which places it first throughout the entire country. This indicates that the technological transformation of the old northeastern industrial base has entered a new historical epoch.

The main fields on which the present technological transformation will concentrate are energy sources, communications, metallurgy, machinery industry, the chemical industry, the building materials, and the light industry. These industries produce 76 percent of the total output value of the northeastern region. By 1990 the northeast will have become a modern industrial base with heavy industry as its main component, and most of its production will have reached the international standards of the late 1970's and early 1980's, while some will indeed reach advanced international standards.

During the Sixth 5-Year Plan, the heavy industry base of Liaoning Province had allocated an average of 2 billion yuan per year for technological transformations, restructuring, and expansions. The cumulative investment in technological transformations completed during the 5 years was 10.38 billion, having made preparations for more than 10,000 projects, of which by now more than 7,600 have been completed and are in operation. In all the 5 years, industrial enterprises imported 2,063 foreign technologies, transactions that involved \$1.1 billion. Of the contemplated projects, 262 had been on the state's import plan; most of them have had contracts signed, were completed at different times, and are in production. Through technology imports over 1,000 enterprises throughout the province have undergone transformations to varying degrees, among these almost 400 enterprises have been radically changed.

Through technological transformations during the Sixth 5-Year Plan, Shenyang City with its predominance of machinery industry has markedly improved its ability as a supplier of ancillary items for the state's key industrial projects: for the state's key electric power projects, such as the Gezhouba and the Longyangxia hydropower stations, for the Yuanbaoshan power generating project, for the Jinjing 500,000-volt power transmission and transforming project, for the electrification of the double-track Beijing-Qinhuangdao railway line, it provided high quality and highly sophisticated large power transmission and transforming equipment. For construction at eight large coal mines it provided 7 auxiliary plant items. According to only the Municipal Engineering Industry Bureau's statistics on ventilators, water pumps, valves, high voltage circuit breakers, electric cables, transformers and other such auxiliary items, the city's industry shipped these items during 1985 to various places in the country to be used on key construction products. The sales amounted to over 495 million yuan and accounted for 66 percent of the total sales of the municipality.

Jilin Province last year completed technological transformations with an investment of 810 million yuan, an increase of 76.4 percent compared with 1980. This increased the industrial output value by 960 million yuan, which is more than 40 percent of the total newly added output value of the whole province. The Changchun Automobile Factory, which was a key construction of the First 5-Year Plan and is the largest factory of this kind in the country, is now in the process of complete renovation of its old factory buildings. The transformation projects include adding a 250-meter assembly production line

and transforming the paint production line in the body shop. The transformation has already been completed for 50 production lines, and 29 lines have been newly built. After completion of the all these renovations, the factory plans to manufacture 68,000 model 141 trucks per year, and to produce 120,000 trucks by 1990.

To ensure the smooth progress of renovations and transformations, Jilin Province established a systems-coordinating network to integrate the operation of large, medium, and small projects, the manufacture of main machinery and auxiliary parts, and of lateral and vertical linkages. There are altogether 430 parts and components and 114 items of general use, including motors, starters, clutches, tempered glass, tires, instruments and meters, and plastic parts.

As to Heilongjiang Province, famous for the manufacture of the three power machinery items, namely electric motors, boilers, and steam turbines, it completed during the Sixth 5-Year Plan the transformation of over 5,500 projects with an investment of 3.9 billion yuan, thereby adding 5.65 billion yuan of new industrial production value.

9808

CSO: 4006/1139

INDUSTRY

BRIEFS

TANGSHAN EXPANSION--Beijing 17 October (XINHUA)--Work began this week on the first phase of the expansion project of the Tangshan Iron and Steel Company, one of the country's key construction projects for the 1986-90 period. The project includes a 1,265-cubic-meter blast furnace and 180-cubic-meter sintering machine with a total investment of 500 million yuan (about 135 million U.S. dollars). The company will produce 750,000 tons of pig iron annually when it is completed by 1988. [Text] [Beijing XINHUA in English 1450 GMT 17 Oct 86 OW] /12232

XINJIANG INDUSTRY--The quality of Xinjiang region's industrial products that had declined for a while has been improved substantially in the past few months. By the end of September, the quality stability rate of major industrial products covered by the region's sampling test operation had risen to 81.58 percent, thus the target of raising the quality stability rate to 80 percent that was fixed early this year has been fulfilled ahead of schedule. Now 94 enterprises in Xinjiang have passed the quality control test and their products have attained the required quality rating. Of these enterprises, 34 have reached Grade 2 quality rating. In Urumqi City, where industrial enterprises are concentrated, the percentage of products meeting standards has been raised from 78 percent to 96.8 percent. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 16 Oct 86 HK] /12232

XINJIANG LIGHT INDUSTRY ENTERPRISES--Xinjiang's light industry worked hard in improving product quality. Between January and September, the region's percentage of products with improved and good quality was 95.45. Except for the production-construction corps, the region's light industry fulfilled between January and September a total output value of over 219.5 million yuan, and the total sales volume was 219.08 million yuan, or 99.78 percent of the region's gross output value. Compared to the same period last year, the total sales volume increased by 16.7 percent. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 23 Oct 86 HK] /12232

CSO: 4006/114

SMALL-SCALE ENTERPRISES

STRENGTHENING OF TOWNSHIP, TOWN ENTERPRISES ADVOCATED

Beijing JINGJI RIBAO in Chinese 18 Oct 86 p 1

[Article by Lu Xueyi [7120 1331 5669]: "The Development of Town and Township Enterprises Is Key to the Second Step in Rural Reform"]

[Text] Results obtained in rural reform over the last 7 years demonstrate that the first stage in China's rural reform, which was centered on the household contract responsibility system, has been accomplished and has fulfilled its historic mission. Still, the goal of rural reform is to specialize, commercialize and modernize the countryside and involves a longer historical process. The time has come to discuss the second stage in rural reform.

The second stage in rural reform is an integral whole and a large system that is comprised of many subsystems. Like the first stage, the second will involve a series of reforms. But what is the key to these reforms? Everyone has a different answer to this question. I believe the following.

The second stage in China's rural reform must continue the policies of liberalization and invigoration, promote the development of rural productive forces, help the countryside transform itself from a semi-self-sufficient natural economy to a planned commercialized economy, transform traditional agriculture into modernized agriculture and gradually reduce the gaps between industry and agriculture and between city and countryside so that the nation's economy can develop rapidly and in a balanced fashion. In view of the overall situation in the nation's economy and of the trends in rural development following implementation of the household responsibility system, I believe that the key to the second stage in rural reform is the vigorous development of township and town enterprises. I base my view on the following.

1. The need to achieve rural specialization. To achieve rural specialization, we must change the situation in which 800 million people out of a population of 1 billion engage in agriculture, and the only way to do this is to transfer peasants into non-agricultural employment. Yet it will be impossible to accomplish this if we depend on state-sponsored secondary and tertiary industry to absorb all surplus rural labor. What can we do? All we can do is let peasants raise their own funds, learn technology themselves, take full

responsibility for their own profits and losses, set up various township and town enterprises on their own and transform themselves into enterprise employees.

2. The need to commercialize the countryside. To commercialize the countryside and to develop a commercial economy, we must first ensure great abundance of various commodities. We will never be able to produce many commodities if 800 million peasants continue to engage in agriculture. In 1985 each rural laborer produced an average of only 462 yuan in agricultural produce, and the marketed rate for agricultural and sideline products was only 53.9 percent. Conversely, each town and township enterprise employee contributed an average of 2,729 yuan in commodities, and these enterprises helped raise the rural industrial and agricultural marketed rate to 63.9 percent. The countryside will be able to supply society with more and more commodities once rural production is restructured, town and township enterprises develop, rural specialization advances and industry begins to contribute a bigger share of total rural output. In this fashion, the rural economy gradually will be commercialized.

3. The need to modernize the countryside. To modernize the countryside, we need big industry to supply modern means of production so that we can effect technological transformation, and we need financial assistance from the state. Nevertheless, agricultural production is unique, as this sector has long production cycles, yields relatively low economic results and thus cannot be expected to generate all of the accumulation it needs. On the other hand, the reform of the industrial administrative system has just begun, the financial resources of the state are limited and it would be unrealistic to expect the state to provide more funds to subsidize agricultural modernization. It is, rather, town and township enterprises that provide a new way to effect accumulation for investment in agriculture. In the 5 years between 1979 and 1983, enterprises at the township and village levels earned 56.9 billion yuan in profits, paid 18.6 billion yuan in taxes to the state and, after deducting funds for reinvestment, contributed 9.4 billion yuan toward the purchase of agricultural means of production, capital construction on farm fields and subsidization of agricultural production. This amount is equal to 46 percent of the total investment made by the state in agriculture, forestry, hydraulic construction and meteorological development during the same period. In regions where town and township enterprises are well developed, we can use profits from these enterprises to subsidize, technologically transform and gradually modernize local agriculture. In Jiangsu, where township and town enterprises are well developed, these enterprises contributed 3.5 billion yuan in profits to assist the farming sector between 1979 and 1984, thus forcefully promoting the modernization of the province's agriculture.

4. The need to restructure rural output. The key factor behind the irrational mix in China's rural output is the backwardness of rural secondary and tertiary industry. We will never be able to solve the problem if we confine ourselves to restructuring agricultural output. Only by developing town and township enterprises and by absorbing much surplus labor into secondary and tertiary industry can we unleash rural productive forces. And only when we have developed township and town enterprises can we develop the processing of

agricultural produce and animal products; rationally readjust the mix of output in cultivation and agriculture; and expand grain, cash-crop, forestry, animal husbandry and fishery output.

5. The need to reform the circulation system. Reform of the circulation system constitutes another important part of the second stage of rural reform. Yet circulation is determined by production. The monolithic structure of agricultural output defines the exchange between city and countryside, namely, agricultural produce and sideline goods are shipped to cities, and agricultural means of production and rural consumer goods are produced in cities and shipped to the countryside. This monolithic exchange relationship and this narrow and unvarying channel of circulation is neither economic nor rational. Thus the basic way to reform the circulation system is to vary rural output, and the diversification of rural output and of the channels and forms of circulation is the only fundamentally cure for the problem of circulation. In general, moreover, China's commercial, communications, storage and shipping and service sectors, that is, tertiary industries, are too backward and fall far behind the levels attained in our primary and secondary industries. Thus the vigorous development of township and town enterprises and the mobilization and encouragement of collective forces to engage in commercial, transport, service and other industries comprise another important link in the reform of the circulation system. Throughout the countryside, nearly 13.80 million households now specialize in industry and commerce, specialized markets of all kinds have been established across the country, millions of collectives and specialized households are engaging in transport work and collectives and individuals have funded and constructed many refrigerated and constant-temperature storage facilities. These efforts have played a major role in alleviating difficulties in rural marketing.

6. The need to strengthen the foundation of agriculture. Agriculture will continue to serve as the foundation of the national economy during the second stage of rural reform. So what must we do to strengthen agriculture? Under existing productive conditions and levels of scientific advance, we have pretty fully exploited available productive potential now that we have implemented the household responsibility system. This situation is fine, peasants will farm their fields well and we may even be able to get a little more out of existing potential. Yet if we are to make new breakthroughs in agriculture, we must effect additional reforms and introduce new inputs, maintaining and expanding farmland irrigation and drainage systems, promoting greater agricultural mechanization, increasing inputs of quality chemical fertilizers and pesticides and applying and disseminating science and technology, such as developing and spreading improved crop strains. Yet all of these things will require a tremendous amount of funds. Where will these funds come from? The state has already proposed a new general policy--"use industry to subsidize agriculture." This "industry" is none other than town and township enterprises. We must use the profits generated by these enterprises to provide financial assistance to agriculture so as to enable that sector to continue to develop.

In addition, the development of small cities and towns, the initiation of rural collective and public welfare projects and services, the development of education and cultural activities, the improvement in cadre quality,

intellectual investment and the like will require a considerable amount of financial and material resources and will depend on the development of township and town enterprises.

In view of general developmental experience both in China and abroad, we can say that rural modernization actually is a process of specialization and division of labor that enables many peasants to engage in non-agricultural employment and involves a restructuring of output so that non-agricultural production increasingly predominates, a disintegration of the natural economy so that commercial production fully predominates and a gradual liberation of the countryside from poverty so that rural residents are enriched.

Thus the key to the second stage of our rural reform lies in the forceful initiation of all types of township and town enterprises and a shift of the approximately 150 million surplus rural laborers out of agriculture. Both rural reform and the entire national economy will be invigorated if we grasp this central link.

12431

CSO: 4006/78

CONSTRUCTION

SYSTEM FOR EVALUATING FEASIBILITY OF CONSTRUCTION PROJECTS

Beijing RENMIN RIBAO in Chinese 27 May 86 p 1

[By correspondent Ge Daxing [5514 1129 2502]: "To Avoid Errors in Strategic Decisions and Raise Investment Effectiveness, the State Formed a Force For Prior Assessment of Over 100 Large and Medium-Sized Capital Construction Projects--Some Project Proposals Underwent Important Changes After Assessment and Debate"]

[Text] Beijing, 26 May , XINHUA--At the request of the the State Planning Commission, 104 of this year's proposals for large and medium-sized construction projects are now subjected to careful assessment and debate by a force set up by the China International Engineering Consultation Corporation [CIECC], to avoid errors in investment decisions.

Of these capital construction projects, for which the state is preparing large financial and material investments, 38 are of the following industries: energy, communications, transportation, posts and telecommunications; twenty-eight are of the raw and semifinished materials industries, and the rest are projects of the machinery, electronics, light and textile, medical and pharmaceutical, military engineering industries, or relate to agriculture, forestry, water conservancy, science and general education, broadcasting, and urban construction. In addition, a series of important projects of technological transformation will also this year be subjected to assessment, to be organized by the CIECC. The feasibility studies of these construction projects and the plans of large-scale projects will be examined and decided upon by the State Planning Commission according to the results of the assessments.

The system of prior assessment of newly proposed important construction projects and the emphasis on the early stages of construction projects is the result of a review of China's experiences and its lessons learned in the many years of economic construction. This reform was decided upon during the latter half of last year. It concerns the procedure for deciding upon construction projects and is an important reform. The CIECC, which bears the heavy responsibility of conducting these assessments, has made a series of preparations in this connection.

The CIECC has 39 engineering consulting units as member companies. The head of the CIECC said that the projects the State Planning Commission this year entrusted them with were evaluated according to their scale and the adequacy of the foreign contribution. The CIECC also formulated the system of rules to be followed in project evaluations, established a responsibility system for evaluations, and called for strict quality control. In conducting evaluations, the CIECC stresses looking at the project from many angles, placing particular emphasis on technological soundness in order to come to an accurate, fair, and scientifically reliable evaluation. At present, many projects are under evaluation. Some projects have been substantially revised after evaluation. Losses that would have been incurred from faulty planning are thus avoided.

9808

CSO: 4006/1100

CONSTRUCTION

RESULTS OF CONSTRUCTION INDUSTRY REFORMS

Beijing LIAOWANG [OUTLOOK] in Chinese No 22, 2 Jun 86 pp 20-21

[Article by LIAOWANG reporter Zhang Zhichu [1728 2535 2806]: "Results of and Guiding Ideology Behind Reforms in the Construction Industry-- With Yang Shen [2799 1957], Vice Minister, Ministry of Urban and Rural Construction and Environmental Protection"]

[Excerpts] The construction industry was the first industry to carry out overall reform in China's urban structural reform. The progress and results of the building trade reform are visible and tangible, and yield substantial benefits. Everyone is directly affected by daily changes in his city of residence. There is truly a difference each passing year, as so many of our relatives and friends move into new quarters. There is, furthermore, the new Tangshan, which has been rebuilt from a heap of rubble; there are the many new factory areas and a modern Shenzhen built up on a piece of flat ground at miraculous speed. A comrade who had devoted long years of his life to the construction industry remarked: The Sixth 5-Year Plan was a span of 5 years of hard struggle and progress in the construction industry; every year up to 100 million square meters of urban housing and over 10 million square meters of public installations were completed, and the key projects that were finished and made available for use number in the hundreds. This scale and pace of construction is unprecedented. From their personal experiences, people pass a fair judgement on the reform in the construction industry: It is on the right track, its measures prove effective, and its development is a healthy one.

But, what in-depth changes has the reform brought about, and what are its beneficial results? These are questions which require the close attention of economic theorists and those actually involved in the reform. On the eve of a conference nationwide for a review of reforms in the construction industry, I had the opportunity to interview Vice Minister Yang Shen of the Ministry of Urban and Rural Construction and Comrade Fu Renzhang [0265 0088 4545], director of the ministry's Bureau of Building Administration, both whom expressed their views on these issues.

They told me that reforms in the construction industry were begun as early as 1980. After experimenting locally for a time, reforms were launched full scale

and has now reached the stage of additional polishing and improving. The guiding principle of the reform is to conscientiously review the development and course taken by the construction trade during the last 30-some years, courageously absorb the successful experiences of rural reform, actively emulate foreign administrative methods, and gradually form an administrative system with Chinese characteristics. Seven years have passed, and the construction industry shows profound changes in four respects.

Smashing the compartmentalization between departments and regions and the initial formation of an open construction market has turned the construction industry into a commodity producer with an strongly independent character. The whole industry has ceased to rely on state subsidies, and has started to become an industry that provides the state with accumulations.

In the past, construction jobs were given vertically according to hierarchy. Enterprises were in every respect adjuncts of departments or regional administrations. Now, the public considers the construction industry the most active trade, with the entire country as its market. And why? Both Yang Shen and Fu Renzhang believe that it is the result of instituting the system of inviting tenders and contracting for building work. In China all trades now generally practice contracting an administrative manner, meaning that enterprises receive orders and contract out the projects to the lower levels. Only in the building trade is there competitive contracting. Construction jobs are mainly obtained by winning them in the market. In other words, every "bowl of rice" in the business trade is obtained by going after it oneself, otherwise there is no way to stay alive, and development would be even further out of the question. This method compels enterprises to improve quality, perfect business administration, and improve their sense of results, time, information, and qualified personnel. During the interview, one of the staff brought in a statistical table which indicated that now more than 70 percent of the projects in the construction industry have been obtained by going after the jobs oneself, and that the working force throughout the country, in all regions and departments has reached 4 million. With this method of inviting tenders for contract and of lateral associations, it makes no difference whether it is a state-run or collective enterprise, or what the administrative relationship is; the party with the fastest delivery, best quality, and most reasonable price will win in the competition. Letting the best win, and the worst lose, is like weighing things on a scale. Everything is measured justly and fairly. It is then also that in this kind of competition that the barriers separating local and central authorities are torn down and that the whole country gradually emerges as one unified market of the building trade. The statistical table revealed another item: In the 1970's, losses among state-run enterprises under the Ministry of Urban and Rural Construction ran as much as 54 percent; by 1984 only 39 enterprises remained and losses were only 3.5 percent, with profits reaching about 1.5 billion yuan every year. According to statistics that covered over 9,000 projects which had used the system of inviting tenders and contracting, the total saving in investments was nearly 300 million yuan, and construction time was shortened by 20 percent.

It appears that a successful reform must conform to a planned commodity economy as a prerequisite. The reform must start out from and rest with the invigoration of the enterprises, only then will the anticipated results come about. Is it not that the true value of the system of inviting tenders and contracting lies precisely in this point?

Smashing the unitary fixed-wage system not only spurred integration of urban and rural work forces, and created a labor market for the whole trade, but also, due to the linkage of a variety of production factors, brought about the prospect of mutual interlinking of different ownership systems and development with mutual competition.

The large-scale use of contract labor is already recognized by the people as a successful experience in the construction industry's reform of the labor employment system. Yet, it also resulted in a series of unforeseen fundamental changes. In August of last year, I had the opportunity to visit a small housing complex at Nanhu in Nanjing, where a local comrade revealed to me that the building was on 580,000 square meters of land, had 278 multi-storied houses, was built with an investment of 170 million yuan, was big enough to accommodate 10,000 families, but that it was forever left a "half-finished job," so that the people did not know when it would be that they would be able to enjoy their fine new dwellings. Unexpectedly, it was Fu Renzhang who joyfully told me that the entire complex was finished at the end of last year and that 4,000 families had moved in into their new quarters. This evoked my endless admiration. It was even more unexpected for me to hear that the whole job was finished under the unified organization of the city's Construction Development Corporation and executed mainly by the Jiangsu Agricultural Construction Team through public tender and contract. Seventy percent of the job was excellently done. The Jiangsu Agricultural Construction Team is now working in all the country's 26 provinces, municipalities, and autonomous regions, and is even sending its men abroad for contract work. Viewing the situation nationwide, there are almost no state-run construction enterprises that do not work together with the agricultural construction teams. The proportion of their fixed wages has dropped from 83 to 65 percent. No wonder people tell me the present state-run construction enterprises have truly become a kind of a "permanent camp with a constant turnover of soldiers," a place left with only a "skeleton crew" of administrative and key technical personnel, the actual work force being hired from the countryside or the cities whenever necessary. In the last few years, the agricultural construction teams and the township collective construction enterprises have doubled and redoubled their team members, while state-run enterprise personnel have increased by only 13 percent. It is under the impact of this type of labor employment system that a mobile and flexible market for construction labor has come into being, which allows anyone to freely enter and leave, and use it in a big or small way. Yang Shen said: Without this kind of a huge trade-related labor market, the construction industry would have to stop thinking of doing so well. He further explained: A new trend in the construction industry is lateral association in such areas as technology, administration, equipment, and finance between state-operated, collective, and

rural construction enterprises. These linkages have changed the traditional structure of ownership, provided new productive avenues for rural surplus labor, and are creating a new productive force.

Implementing collective contracting and contracting with the inclusion of remuneration according to product value has not only changed the business pattern of enterprises. It has also changed the distribution system, caused an unprecedented upsurge in worker enthusiasm in the enterprises and among their employees, and spurred improvement in production quality.

It is probably the employees who are most deeply affected by these changes. There has been an appropriate separation of ownership and management rights in those 1,000-10,000-staff corporations according to the principle of cutting them down, separating rights, joint responsibility, and joint profits. They have instituted systems of collective contracting, of teams accounting for their own profits and losses, and have changed the teams from working purely as production organs into becoming one business level of their own. Furthermore, by making good on carrying out the reform for contracting with the inclusion of remuneration according to product value, they truly implemented the principle of more gain for more work and changed the past method of one kind of distribution pattern and one level of distribution into a method of two levels of distribution. With stronger macroeconomic control and broadened authority for the enterprises, the profits of the working teams are "tied up" together, which greatly strengthened the employees' awareness of being masters of their own affairs, and motivated everybody to do careful calculations and strict budgeting, raise efficiency, and increase output value. This is the main reason for seeing in recent years less "enforced idleness" at the work place stemming from poor organization, and seeing more work to make every minute and second count, even continuing work by lamp light. Before 1981 the only place in the whole system where the average per worker output value was above 10,000 yuan was Handan No 2 Construction Company, now there are as many as 236 units. The average per worker output value has risen 61.1 percent in 5 years. Monitoring almost 20,000 projects, it was found that the work time for every 1,000 square meters declined from 162 days in the past to 132 days. This will reduce work time required for large-scale projects by 7.5 days every year, hard to imagine without the reform. In 1985 alone the labor of almost 1 million people was saved owing to improved labor productivity.

It is obvious from the above that reform in a trade must be comprehensive. Smashing the system of enterprises helping themselves from the big pot of the state and smashing the system of staff and workers helping themselves from the big pot of the enterprises must be carried out in unison. Both actions must supplement each other and help each other forward. The successful reform in the construction industry elucidates this well.

Complete rules and regulations and administrating according to the law has on the one hand ensured the smooth progress of the reform, and on the other, assisted government departments in making the shift from direct to indirect administration.

The trial stage in the reform of the construction industry revealed the tendency of enterprises to care only about their rate of progress and output value at the neglect of project quality, and also revealed the interference by certain unhealthy tendencies. Speaking of these matters, Comrade Yang Shen said that at the time of changing from the old to the new organizational pattern, there had been many "loopholes" that people could take advantage of, and without reliance on down-to-earth work and without a policy of establishing sound and appropriate rules and regulations, the reform would have been blocked. In the last few years, therefore, they formulated at different times almost 20 relevant regulations and measures which established a series of rules and regulations in the three areas of business operations, quality supervision, and project maintenance, and they set up quality supervising stations and other law enforcement organs. There are now not only project quality monitoring centers all over the country, but all localities have one after another established 18 monitoring stations, and more than 200 cities have established quality inspection teams that restore once sagging project quality, and stabilize the situation.

With the formulation of rules and regulations and a policy to guide them, all localities and all basic units have something to go by in the conduct of their affairs. The government agencies can turn to the use of economic, legal, and administrative means to exercise indirect control. Yang Shen said that breaking away from entanglements in specific affairs leaves freedom to concentrate on certain important matters of strategic development. He said that because of various reasons, relations have not yet been fully regulated; this is one of the difficulties in the reform, but regardless of how many difficulties and obstructions there are, we shall advance in the face of all difficulties and under no circumstances retreat.

From the conversation, I took advantage of the opportunity to ask what new actions are intended during the Seventh 5-Year Plan in the reform of the building trade. Yang Shen said: In the next 5 years the state plans to construct 925 large and medium-sized projects, and build 650 million square meters of urban housing and 3 billion square meters of rural housing throughout the country. In the wake of the development of tertiary industries, many new public installations have to be built, such as high-grade hotels, large banking buildings, scientific research centers, large buildings to house communication installations, sports facilities, etc. All these projects added together make a building program of considerable dimensions. The only way to successfully accomplish all these tasks is to relentlessly keep up with the reform and to pursue it in depth. Since practice has already attested to the success of the reform in the construction industry, we had better rely on further consolidating and perfecting as we continue along the road of reform and open up the path for further advances.

9808

CSO: 4006/1139

DOMESTIC TRADE

HEILONGJIANG, SHANGHAI STRENGTHEN ECONOMIC COOPERATION

Harbin HEILONGJIANG RIBAO in Chinese 7 Sep 86 p 1

[Article by Zhang Liming [1728 1448 2494]: "Heilongjiang and Shanghai Have Concluded an Agreement Covering Six Areas of Cooperation and Will Establish Closer Economic Relations"]

[Text] Ceremonies for the signing of an agreement to strengthen economic cooperation between Heilongjiang and Shanghai were held today in Harbin.

Xue Ying [5641 3841], deputy secretary general of the Heilongjiang provincial government, and Hu Shuheng [5170 2885 5899], deputy secretary general of the Shanghai municipal government, signed the agreement on behalf of their respective governments.

A 27-member delegation led by Shanghai Deputy Secretary General Hu Shuheng attended the Conference to Establish Horizontal Relationships between Heilongjiang and the Rest of the Nation, and Heilongjiang Vice Governor Liu Zhongli [0491 0112 5668] paid a call on the Shanghai delegation. The two sides reviewed the growth of economic and technical cooperation between Heilongjiang and Shanghai since 1982 and agreed that cooperation has grown rapidly. And to make the long-term, stable and across-the-board economic relations between the two governments even closer, the two sides reached agreements in the following six areas. (1) Joint development of natural resources. Shanghai will provide technology, equipment, skilled personnel and funds to help Heilongjiang develop its natural resources and to assist the province in its efforts to make production more sophisticated. Heilongjiang, in turn, will provide Shanghai with a long-term, stable supply of raw materials. (2) Joint development of export trade. The two sides will increase supply of goods for export by jointly operating factories. (3) Increasing economic and technical cooperation. Shanghai is willing to provide support in terms of technology, equipment, and skilled personnel on numerous levels, through many channels and in many forms. Heilongjiang, in turn, will provide products, profits and remuneration on favorable terms. (4) Increasing exchange of commodities. To this end, Shanghai will begin running sales exhibitions in Harbin, Heilongjiang will establish sales networks for its native products in Shanghai and both sides will serve as each other's sales agents or will cooperate in the marketing of each other's goods. (5) Increasing exchange of information. The two sides at regular intervals will provide each other with publications

containing economic and technical information. (6) To promote mutual cooperation, the two sides have agreed to establish a council to promote comprehensive economic and technical cooperation, the main body of which will be inaugurated in Shanghai late this year or early next.

The Shanghai delegation is currently on an inspection tour of Hei He and Qiqihar, where it is exploring areas for cooperation, and has signed nearly 100 agreements on economic and technical cooperation during this visit to Heilongjiang.

12431

CSO: 4006/105

DOMESTIC TRADE

FUZHOU STRENGTHENS ECONOMIC COOPERATION WITH CHENGDU, LANZHOU

Fuzhou FUJIAN RIBAO in Chinese 7 Oct 86 p 1

[Article by Lai Rennan [6351 0117 0589] and Lin Rongsheng [2651 5816 2932]: "Fuzhou Cooperates in More Than 40 Projects with Chengdu and Lanzhou so That the Parties Involved Can Develop Their Advantages, Eliminate Weaknesses and Develop Together"]

[Text] Fuzhou has taken another step forward in establishing horizontal economic relations with other parts of the country. The city recently signed a total of 40-some specific agreements providing, for example, for jointly run factories, parts and accessory supply, readjustment of shortages and surpluses through commodity exchange, use of the port of Fuzhou as an entrepot for foreign-exchange earning exports, and the like with Chengdu, the "city of plenty" and the hinterland belly of China, and Lanzhou, an important outpost in the Northwest. These projects were established on the basis of agreements on horizontal economic cooperation that were reached during a friendly visit led by leading comrades of Fuzhou to Chengdu and Lanzhou.

Fuzhou and Chengdu plan to set up a plant producing satellite dishes and a sophisticated factory producing seamless steel pipes in the Mawei Development Zone, to assemble fractional force power plants in Fuzhou, to copper-plate sheet metal with equipment imported by Lili Co Ltd, Hong Kong, and to invest in the joint production of colored glass tubes and bulbs. Chengdu will supply Furi Co with potentiometers and other accessories, and Fuzhou will supply plastic sheets for the manufacture in Chengdu of White Pigeon-brand plastic slippers and sandals for sale throughout the Southwest. Chengdu will supply Fuzhou with sodium carbonate, wire rods, rolled steel, pigskin, other industrial raw materials, frozen pork, refined vegetable oil and other nonstaple foods. Fuzhou will supply Chengdu with small dried shrimp, laver, canned fruit and the like; serve as a sales agent on behalf of Chengdu or cooperate with that city in the sales of its industrial goods, traditional Chinese medicines, native products and the like; and help Chengdu import equipment and technology.

Fuzhou and Lanzhou have decided to use the latter's abundant resources of traditional Chinese medicines and establish a jointly capitalized plant in the Mawei Development Zone to produce herbal medicines for export; to use Lanzhou's fruit, melons, flax and other native goods and operate joint food

processing, flax spinning and linen weaving plants for export production; and to have Fuzhou serve as Lanzhou's sales agent for, or have the two cities jointly export, Lanzhou's wool carpets, woollens and other industrial products through the port of Fuzhou. The two cities will also cooperate to manufacture plastic products, cosmetics and a complete line of foods and condiments and, together with the Huarong Co Ltd of Hong Kong, plan to invest in an aluminum-magnesium beer can manufacturing plant. Lanzhou refineries will use extraplan resources to supply Fuzhou with lubricating oil and other petrochemicals. Lanzhou will sell Fuzhou mutton, facai, melons, fruit and the like, and Fuzhou will supply Lanzhou with canned fruits and palm oil. Fuzhou will serve as sales agent for Lanzhou, buy up entire lots of that city's goods or cooperate with that city in the export of more than 60 of its commodities; introduce Lanzhou to foreign businessmen; and assist that city in initiating the "three forms of import processing" and labor-service exports, in setting up enterprises funded with foreign, overseas Chinese and Hong Kong-Macao capital and in importing technology and equipment.

12431

CSO: 4006/105

FOREIGN TRADE AND INVESTMENT

COOPERATION WITH U.S. AUTO INDUSTRY INCREASES

HK170049 Beijing CHINA DAILY in English 17 Nov 86 p 2

[Article by staff reporter Guo Zhongshi]

[Text] China took another step forward in its co-operation with the United States auto industry last Saturday with the signing of a new agreement under which China will use U.S. technology to manufacture diesel engines for heavy-duty trucks.

The B series engine license contract, concluded between the Cummins Engine Company Inc. of the United States and three Chinese counter-parts, will allow China's Second Automobile Works [SAW] in Shiyan, Hubei Province, to use Cummins' technological knowhow to assembly 60,000 diesel engines of the series for trucks of 3 to 8 tons when it goes into operation in 1990.

Under the contract, the U.S. company is to provide expertise, designs and technical consultation, train personnel and send experts to SAW to help in the plant.

During the next 5 years, the SAW will build a branch factory for production of the B series engines. When the entire line goes into operation, SAW's heavy-duty trucks will be strong competitors in the automobile export market, according to the spokesman of the China National Automotive Industry Import and Export Corp.

Prior to the signing ceremony in Beijing's Great Hall of the People, State Councillor Zhang Jinfu met with Robert Campbell, vice-president of the International Department of Cummins. The two exchanged views on the future of China's auto industry.

Zhang said the country's auto industry was geared to speedy new development with the blessing of the state.

If the country's auto industry is to soar, he said, the key link is the production of high-quality engines.

At present, the number of automobiles manufactured in China, averaging about 400,000 a year, falls far behind domestic demands, not to speak of export, he said.

However, he said, China is a big potential market and enjoys the advantages of low labour costs, low taxes, low land use fees and low service charges. "We will make use of foreign technology to produce parts first for export to generate foreign currency," he declared.

Campbell told Zhang that his company has no doubt about China's ability in terms of low cost and high quality. He said that his company's co-operation with the Chongqing Engine Works 4 years ago had impressed him greatly.

"The workers' skill and dedication and the quality level of products are as good as anywhere in the world," he said, adding that his company will soon buy parts from China.

The manufacturing involvement with China, he said, "is the first step in a long and deepening cooperation."

/9599

CSO: 4020/440

FOREIGN TRADE AND INVESTMENT

BULGARIAN ASSESSMENT OF SINO-JAPANESE TRADE

Sofia OBSHTESTVO I PRAVO in Bulgarian No 8, 1986 p 5

[Political commentary by Petko Bocharov: "The Limits"]

[Text] It is very difficult to talk specifically and accurately about relations between China and Japan. They have always been enveloped in some sort of Asian ambiguity. Nevertheless, the facts of their relations are beginning to emerge if not in the political sphere then at least in the economic sphere. We already know, for example, that Japan is China's most privileged partner. With enviable business prudence and perspicacity the Japanese have penetrated deep into the vast, rich Chinese market, and are constantly strengthening their position. And this is happening as just five decades ago they were razing and plundering the Chinese lands as a nation furious for conquest.

It would be truly erroneous to say that time has erased the memories. First of all, the majority of the population that witnessed the Japanese aggression in its youth is still very much alive. But there are signs of suspicion, and even animosity among Chinese youth today evidenced by the anti-Japanese street demonstrations in some Chinese towns last autumn. Despite all this, despite unfavorable remnants, despite smoldering mistrust, as a trader and well-wisher Japan is the undisputed number one in China today. How did the Japanese do it?

But using their brains. The Japanese study and analyze conditions and trends in China most painstakingly, in the greatest detail and most punctiliously so that they can propose to the Chinese exactly what the latter want, maybe even before the Chinese themselves have hit upon it. For example, we know that one of China's greatest problems is the abundance of manpower, especially in agriculture. China has no interest in labor-saving machinery. The Japanese offer them machinery that increases the productivity of the land. In regions of southern China, crops are lost if they are harvested during periods of rain or high humidity--which often happens. The Japanese therefore propose drying rooms, not tractors. A typical capital investment in agriculture that truly increases productivity without affecting the work force.

Right, everyone will say, those people are rational businessmen. Recently, however, there have been signs that they are getting carried away. It is as

if, blinded by the pursuit of profits, the Japanese are going beyond the limits to the point where even leading circles in Beijing are obliged to give expression to mounting dissatisfaction and irritation. The problem is that, during the last few years, China has continuously expanded its unfavorable trade balance with Japan which reached the enormous sum of 5.2 billion dollars in 1985.

There is a substantial difference in the goods which the two countries trade. China exports mainly raw materials, primarily oil, to Japan. From Japan, it imports industrial goods, chiefly durable consumer goods. Consequently, it is clear given the structure of trade that the decreasing international price of oil is a painful blow to China.

The shadow of imbalance in bilateral trade also fell across Sino-Japanese negotiations in Beijing at the end of May. At that time a high-level Japanese delegation visited the Chinese capital and, according to announcements, various plans for joint production were discussed. Special attention was paid to the Chinese complaint that the Japanese intended to export to China only ready-made articles and remained stubborn in not wanting to supply new technology.

However, one way or another, the bargaining and disputes behind closed doors did not prevent Chinese Premier Zhao Ziyang from commenting to the press that Sino-Japanese relations were better than ever.

12907/6662

CSO: 2200/11

FOREIGN TRADE AND INVESTMENT

TRADE, COOPERATION WITH THAILAND INCREASE

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 24 Oct 86 p 3

[Article by Lu Donghua [1687 2639 5478] and Qi Yongqiang [7871 3057 1730]: "Sino-Thai Economic Cooperation Grows Steadily: Both Sides Invest and Open Factories in the Other's Country; Bilateral Trade Exceeds \$100 million in the Last Half Year"]

[Text] Sino-Thai economic relations and trade have grown steadily in recent years, reaching in the first half of this year \$123.41 million, which is one-half the volume expected for the entire year.

Ever since China and Thailand established diplomatic relations in July 1975, bilateral trade and economic relations have grown rapidly. In 1978, the governments of the two nations signed a trade agreement which provided for the development and growth of bilateral trade on the basis of equality and mutual benefit. In the same year, the two nations signed an agreement establishing a joint trade council and an agreement on exports and imports for 1979. The two nations began signing annual import-export agreements in 1979 and as of 1985 had signed seven such agreements. Bilateral trade has grown steadily, and the number of commodities involved has also risen. In the last 2 years, however, trade has declined due to the recession in the world economy yet has been maintained at an annual level around \$300 million.

Bilateral economic cooperation has increased in recent years as China implemented her policies of opening up to the outside world and of invigorating her economy.

As of the end of 1985, Thai businessmen had invested a total of approximately \$200 million in establishing 31 feed, motorcycle, glass, carpet and other enterprises, most of which have shown excellent economic results and earned profits for investors, in Guangzhou, Shantou, Shanghai, Beijing, Hainan Dao, Tianjin and so on. For example, the Yichu Motor Cycle Co Ltd, in which Chinese and Thai concerns invested jointly, went into production in early 1985 yet was able in the same year to distribute 1.9-plus million yuan in dividends to stock holders. Early this year, the two sides in this joint venture decided to increase investment in order to expand production.

China has signed agreements on 20 joint equity and cooperative construction and exploration ventures in Thailand. Among these projects, 12 enterprises have already gone into production. In addition, China has also signed 100 contracts to provide labor service and to produce and construct other things, worth a total of \$200-some million. To attract more Thai investment, China has issued a number of policies extending favorable treatment and improved transport in the Chaozhou-Shantou region.

FOREIGN TRADE AND INVESTMENT

LAW AMENDED TO ENCOURAGE FOREIGN JOINT VENTURES

Hong Kong JINGJI YU FALU [ECONOMY AND LAW] in Chinese Vol 6, Apr 86 pp 9-10

[Article by Zhao Lin [2600 2651]: "China Acts Pragmatically to Encourage Foreign Investments"]

[Text] The mainland recently took two major steps to encourage foreign businessmen to set up Chinese-foreign joint ventures: one, amending Article 100 of the "Implementation Regulations for the Law of the People's Republic of China on Joint Ventures Using Chinese-Foreign Investments" by extending the duration of joint ventures from 30 to 50 years, with provision for further extension beyond 50 years in special cases; and two, promulgating the Provisions Concerning Foreign Exchange Balance of Chinese-Foreign Joint Ventures," which relax foreign exchange control and lay down 14 provisions to solve the foreign exchange problems of foreign investors, which they are most sensitive about, in order to protect their legitimate interests practically.

China has always claimed that its open policy is not an expediency, but a long-term basic state policy. The two important measures it has taken seem to testify to that.

Since it promulgated the "Joint Ventures Law" in 1979, China has been absorbing foreign capital and setting up Chinese-foreign joint ventures for 7 years, which fall into three stages: beginning, hesitating, and developing. Over 2,300 Chinese-foreign joint ventures, 3,700 Chinese-foreign cooperative ventures, and 120 foreign-owned enterprises had been created as of September 1985. Most of these 6,000 or so enterprises, however, are small and medium-sized concerns; about 60 percent of them are capitalized at less than \$1 million, including investments from both Chinese and foreign partners; while over 20 percent are capitalized between \$1 and \$5 million. Large-scale enterprises like the Beijing Jeep Company, in which the Chinese and Americans sank a total of \$50 million, are few and far between. As for projects costing hundreds of millions to over \$1 billion, like the Daya Bay Nuclear Power Plant and the Pingshuo Coal Mine, are rare indeed.

Foreign businessmen invest and build factories in China to earn big profits. As a result, China has to offer not only preferential treatment in tax and other matters, but also favorable terms concerning duration. In the past, the duration of joint ventures in the mainland was usually from 10 to 15 years,

clearly detrimental to projects involving huge investments and long construction periods. That was why foreign businessmen concentrated their investments on small and mediums-sized projects in such industries as light industry, textiles, and electronics, which are profitable and yield quick returns, but are deterred by long construction periods and low return rates from entering areas like communications and energy, which are desperately needed in China. High-risk projects like oil prospecting are in a particularly weak position to attract foreign capital because of the short project duration rule. To put an end to this situation, many economists have appealed for lengthening the duration of joint ventures appropriately. Under the recent amendment, the duration of joint ventures ranges from 10 to 30 years. Duration for those requiring large amounts of investments and long construction periods or involving advanced technology can be extended to 50 years and beyond. This demonstrates China's pragmatic style.

The number of Chinese-foreign joint ventures soared over the past 2 years; in 1983, 107 such ventures were approved across the nation, joined by over 700 and 1,000, respectively, in 1984 and 1985. As Chinese-foreign joint ventures mushroomed, foreign exchange control remained centralized in the hands of the government. Hence many enterprises were confronted with the problem of not being able to balance their foreign exchange. The departments concerned conducted a survey and discovered that of the thousands of Chinese-foreign joint and cooperative ventures, about one third can earn foreign exchange through exports and another one third more or less balance their foreign exchange. The remaining one third fail to balance their foreign exchange. Nor can they remit overseas in foreign currency the renminbi they have earned. These enterprises found themselves in a particularly beleaguered state and had trouble keeping production going last year when China tightened the money supply as its foreign exchange declined sharply. Foreign businessmen were disturbed. Last year the Chinese departments concerned specifically called a conference on the use of foreign capital, which drew up a number of regulations. The "Provisions Concerning Foreign Exchange Balance of Chinese-Foreign Joint Ventures," promulgated by the State Council on 19 January this year, explicitly stipulate that the central government and localities shall macroeconomically adjust with foreign exchange on hand the foreign exchange of Chinese-foreign joint ventures approved by the state or local authorities in order to ensure that the enterprises balance their foreign exchange at a time when they are not yet able to export to earn it. The ratio of products allowed to be sold domestically will be raised for technically advanced enterprises to replace similar imports. Foreign businessmen are also encouraged to reinvest in China with renminbi; the projects of such reinvestment can be remitted on favorable terms in full. While these measures ameliorate the foreign exchange imbalance, they are no long-term solution. This prompted Mayor Li Hao [2621 3493] of Shenzhen to go one step further by suggesting that a foreign exchange market be set up in special economic zones [SEZ's] to fundamentally solve the problem of foreign exchange imbalance. There are reports that with the approval of the relevant departments, Shenzhen has set up a foreign exchange regulating center, through which all enterprises can solve their foreign exchange problems.

One of the objectives of encouraging foreign businessmen to build factories in China is to attract advanced technology and accelerate the "four

modernizations." Since the fulfillment of the Seventh 5-Year Plan will impinge on the country's quadrupling its gross value of industrial and agricultural output and achieving a moderately comfortable standard of living by the end of the century, China has been even more keen to import advanced technology and equipment. It is expected to import 3,000 pieces of advanced technology during the Seventh 5-year Plan to expedite developments in energy, transportation, telecommunications, building materials, and agriculture.

In an unprecedented move, China established four SEZ's--Shenzhen, Zhuhai, Xiamen, and Shantou--in 1980, offering preferential treatments in tax, profits, the import of raw materials, etc. Later it opened 14 coastal cities and 3 delta areas, thus opening a wide expanse of the country to the outside. It also promulgated a series of foreign economic laws, rules, and regulations to provide a legal basis for Chinese-foreign joint ventures. At the same time, it has been spending vast sums of money to improve the infrastructure and investment climate in the SEZ's and opened cities. Today, airports and new harbors, berths, and highways have been built and advanced communications equipment installed in all SEZ's and opened cities. All this has proved highly attractive to foreign businessmen, who have so far come from 28 nations and regions, including U.S., Britain, and Japan, to invest in China. The country's fast, stable, and sustained economic growth in recent years, in particular, has opened the eyes of the world to its economic potential. Especially appealing to foreigners is China's market of 1 billion people. Hence the stream of China-bound foreign businessmen over the past few years. At the beginning, most investments projects were in hotel construction, tourism, and the tertiary industry; now, production projects predominate. Geographically, joint ventures have also been fanning out gradually from the 2 provinces of Guangdong and Fujian to more than 10 provinces along the coast and in the interior. Even remote border provinces and regions like Ningxia, Qinghai, and Xinjiang in the northwest, and Yunnan in the southwest have also set up joint ventures. Last year about a dozen provinces and municipalities all over the nation successively invited foreign businessmen from around the world to visit them for technical investment talks. In the same year the Chinese government held investment talks with the European Economic Community in Brussels and with Japan in Osaka. The talks were highly successful and paved the way for the entry of even more foreign businessmen into the China market.

The products of Chinese-foreign joint ventures, ranging from Weinabao shampoo and various domestic electric appliances, products of Chinese-German joint ventures, to motorcycles jointly produced with Japan, have come to stand for fashionable, advanced merchandise in China and are very popular. Meanwhile, many products made by Chinese-foreign joint ventures are sold abroad, enabling China to earn a handsome amount of foreign exchange. The Dynasty brand of wine, made by a Chinese-French cooperative venture, even captured a gold medal award in an international competition; it sells so well overseas that supply cannot keep up with demand. Jianguo Hotel, the earliest Chinese-Swiss joint venture in Beijing, became a model for 50 luxury hotels throughout the nation on account of its excellent service and advanced management.

Confusion has also appeared in Chinese-foreign joint ventures. For example, in their scramble to do business with foreigners, the provinces seriously

duplicate one another's imports. A total of 112 production lines for color TV sets were imported, capable of producing more than 10 million units annually, yet most parts and components have to be imported. There is also an excess of production lines for the manufacture of suits. A number of localities have even imported some equipment and technology that was essentially not advanced. Not only did they suffer by having to pay higher prices, but they also could not find a market for their products. Accordingly the departments involved convened a national conference last year on the use of foreign capital and decided on a series of measures to solve investment problems. Reportedly restrictions will be imposed on industries without really advanced technology and on contracting companies operating on a shoestring budget. To prevent import overlapping, there will be strict controls on the import of 43 kinds of production lines, such as those for microcomputers, video cassette recorders, marble cutters, washing machines, and xerox copiers. In addition, foreign businessmen will be encouraged to invest in transportation, energy, building materials, communications, food, and other technology-intensive and export-oriented industries. Effective measures will also be adopted to encourage foreign investments in the interior and remote areas.

When he received Donald Calloway, chairman of Pepsico Inc., on 28 January, Zhao Ziyang reiterated that the current campaign to reverse unhealthy trends and crack down on economic criminal activities will not affect the policy of opening up China to the outside at all. He expressed the hope that the joint venture between China and Pepsico will succeed. As far as establishing Chinese-foreign joint ventures is concerned, a strong momentum will be maintained this year, with the number of projects expected to exceed last year's, which was a record. Most of them will be technology-intensive and export-oriented enterprises requiring large sums of investments.

12581

CSO: 4006/1020

FOREIGN TRADE AND INVESTMENT

VICE MINISTER DISCUSSES FOREIGN TRADE

HK070847 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 43, 27 Oct 86 pp 7-8

[Article by LIAOWANG reporter: "Wang Pinqing, Vice Minister of Foreign Economic Relations and Trade, Talks About China's Foreign Trade Situation"]

[Text] Abstract: Despite the harsh external environment, China still scored good results in foreign trade in the first eight months of this year. This can be attributed to three causes: First, some policies even more favorable to productive enterprises have been implemented and the exchange rate for Renminbi has been readjusted; second, the export commodity makeup has been duly readjusted; and third, lateral economic association has been promoted in the wake of the exploration of avenues to reform.

The depreciation of the U.S. dollar and the appreciation of the Japanese yen are favorable to China attempting to expand its exports. In the same time, however, it has also had an unfavorable influence on China's import business. China is going to take some measures to cope with the trade protectionism that is currently on the upsurge.

China is neither looking forward to an absolute balance in bilateral trade nor trying to curtail imports, but wishing to achieve a positive balance through expanding export of Chinese commodities to developed countries.

China is mending its pace in easing the short supply of export commodities, trying hard to upgrade the quality of its commodities, stepping up the construction of its communication infrastructure to meet the needs of foreign trade, and fostering a contingent of high-quality foreign trade personnel.
[end abstract]

Foreign trade occupies an important position in the Seventh 5-Year Plan being implemented from this year. To find out our country's position in foreign trade, our reporter recently interviewed Wang Pinqing, vice minister of Foreign Economic Relations and Trade.

[Reporter] What are the progress and prospects of China's foreign trade this year?

[Wang] This year, China is faced with a harsh external environment in foreign trade--the oil price slumped on the international market, the exchange rates of major international currencies have been fluctuating drastically, and trade protectionism is rising daily. All these have created great difficulties for China's foreign trade and, in particular, its export business. However, thanks to the correct leadership of the CPC Central Committee and the State Council, as well as to the strong support of various localities and departments and the common efforts by all kinds of foreign trade enterprises, unexpectedly good results have been scored in foreign trade in the first eight months of this year. Preliminary statistics for the period from January to August provided by the Ministry of Foreign Economic Relations and Trade show the following facts: 1) The export growth rate has been relatively high--the foreign exchange revenue arising from export trade totaled \$17.36 billion, an increase of 12.3 percent over the same period of last year, with the export of commodities other than oil growing more remarkably. 2) Last year's excessively high growth in imports has been kept down--the amount of foreign exchange spent on imports in the first eight months of this year totaled nearly \$19.2 billion, a slight decrease as compared with the same period of last year; meanwhile, the import commodity makeup is tending to be more reasonable. 3) Foreign trade deficits have been reduced substantially and the state's foreign exchange balance has remained relatively stable, which fully ensured that the needs of imports and other international payments were met, and 4) There has been an inspiring change in the export commodity makeup. The proportion of processed and finished goods has been raised considerably; the proportion of traditional export commodities, namely, light industrial products and textiles, has been raised from 39.7 percent last year to 46.5 percent this year; and good prospects for a transition to intensive and precision processing are emerging. By and large, the development trend of China's foreign trade in the first eight months of this year is encouraging and this year's prospects are promising.

[Reporter] Could you talk about the reasons why China's position in foreign trade is improving this year?

[Wang] The reasons are manifold. Apart from the common efforts by various localities, departments, and enterprises, I think the following three reasons are quite important.

First, correct policies must be adopted. To cope with the long-standing shortage of some export commodities as a result of the keen demand for these commodities on both the domestic and international markets, some more favorable policies toward productive enterprises, that will further boost production of export commodities, have been added to the existing policies and measures aimed at encouraging exports. At the same time, the state has readjusted the exchange rate of Renminbi to further promote exports, thus achieving initial success in improving the long-standing situation in which China's export commodities lack competitive power due to the overvaluation of the Renminbi. All these policies and measures have played an important role in bringing into full play the initiative of productive and foreign trade enterprises in promoting production of export commodities, in increasing the supply of export commodities that are marketable on the international market, and in expanding exports.

Second, the export commodity makeup has been readjusted to keep in line with the developing situation. This year the oil price has slumped on the international market; the U.S. dollar has been depreciated while the Japanese yen, the Deutsche mark, and the Swiss franc have appreciated by a wide margin; the markets in some developed countries and areas, such as Japan, Western Europe, and the United States, have had a growing demand for imported commodities; and entrepot trade has been brisk in the Hong Kong market. Seizing this opportunity, we have exerted ourselves to readjust the export commodity makeup and increase exports of commodities other than petroleum. So we have made up the decrease in foreign exchange revenue due to the oil price slump and the decline in oil export, and we have managed to expand spot foreign exchange trade with developed countries and areas. In consequence, the export volume of commodities other than oil has been raised by 38.9 percent over the same period of last year, resulting in an increase in foreign exchange revenue of billions of dollars. This has not only helped to make up the reduction in foreign exchange revenue due to decline in oil export but has also brought about a relatively high growth. As compared with the figures recorded in the same period of last year, the volume of exports to Hong Kong has increased by 58.9 percent, that to the European Community by 34.8 percent, that to the United States by 13.2 percent, and the volume of exports to Japan, excluding oil exports, has increased by 12.8 percent. Although this latest readjustment of the export commodity makeup, in a certain sense, was made under the pressure of circumstances, it has shown that adjustment of the export commodity makeup can tap great potential.

Third, lateral economic association has been developed in the wake of exploration of the avenues to reform. In the reform of the foreign trade structure this year, we have sorted out and consolidated our foreign trade enterprises, clearly defined their range of business, and established and improved their operation and administration system. We have permitted a number of potential large- and medium-sized productive enterprises to directly deal in import and export business and encouraged productive enterprises to promote production and export of commodities. We have taken action to develop the lateral economic association between port cities and the hinterland, between productive and foreign trade enterprises, and among foreign trade enterprises themselves, so that they can complement each other with their own favorable conditions. As a result, we have managed to get rid of stagnancy in the export business in old port cities and boosted export trade and economic development in the hinterland as well. At the same time, we have adhered to the principle of acting in unison in dealing with foreign business firms and fully exploiting all positive factors. The administration of foreign trade has been effectively improved, ensuring the orderly operation of import and export trade as well as the national interests as a whole.

[Reporter] Could you talk about the impact of the depreciation of the U.S. dollar and the appreciation of the Japanese yen on China's foreign trade?

[Wang] At present, Japan and the United States are our major trade partners and they are maintaining quite close cooperative relations with our country in terms of supply of funds and technology. Therefore, the depreciation of the dollar and the appreciation of the Japanese yen have had a tremendous impact on China's foreign trade revenue.

On the one hand, these developments are favorable to China, which is expanding its exports. First, due to the drastic fluctuation of exchange rate and the oil price slump, the international market, especially the market in developed countries and areas, has become quite brisk, which can boost China's exports to these countries and areas as well as to some other markets. Second, although our country has suffered great losses from declining oil exports, including those to Japan, the appreciation of the Japanese yen has raised the production costs for various trades in Japan, especially for the manufacturing industries. This has stimulated Japan's need to import semifinished products and other intermediate products, which has granted China a better opportunity of expanding export of traditional commodities, such as agricultural, sideline, local, and special products, light industrial products, textiles, and garments, as well as export of other commodities, such as some semifinished products, rough machining products, and finished products. Third, the appreciation of the Japanese yen will naturally encourage Japanese enterprises to promote direct investments abroad, and this will help China attract capital and technology from Japan, boost the production of export commodities in China, and expand its export trade. And fourth, to a certain extent, the appreciation of the Japanese yen will help China to minimize its adverse balance of trade with developed countries and areas, including Japan.

On the other hand, the depreciation of the dollar and the appreciation of the Japanese yen have also had some unfavorable effects on China's foreign trade, mainly on the import sector. For example, as far as trade with Japan is concerned, due to the appreciation of the Japanese yen, the amount of foreign exchange and funds in Renminbi used to import commodities and complete sets of equipment that are quoted in Japanese yen has increased drastically. Meanwhile, many Japanese exporters have sought to raise the prices or reduce the supply of those commodities quoted in U.S. dollars, which has made our import trade more difficult. Such a circumstance will more or less affect the steady development of the bilateral trade between China and Japan. The depreciation of the dollar will incur similar problems for China when importing commodities from those countries whose currencies, linked with the dollar, have been appreciated accordingly. Fortunately, we have managed to reduce some losses in import trade as we have done a good job in negotiating with our trade partners, have properly handled the price issue, or have taken some appropriate value protective measures when signing import contracts.

[Reporter] Could you comment on trade protectionism?

[Wang] Trade protectionism is now prevalent in developed countries. At the very beginning, protectionist measures were imposed on only a few individual items imported from certain countries. But now protectionism has brought about indiscriminate trade restrictions imposed on certain commodities imported from most countries in the world. This development has seriously jeopardized international trade as a whole. Items most severely affected are light industrial products, textiles, and agricultural and sideline products. The majority of developing countries have suffered most heavily from trade protectionism since the above mentioned commodities are their staple exports to developed Western countries. For China, these commodities are traditional export items which account for a notable proportion of its export trade. Therefore, we can quite surely state that China's foreign trade has suffered

most heavily from trade protectionism. We sincerely hope that all countries, out of the desire for world economic prosperity, do their best to limit and then get rid of trade protectionism. At the same time, to cope with the upsurging trade protectionism, we must also adopt some measures. First, we are going to strengthen cooperation with foreign governments and non-governmental circles to fight against trade protectionism. Second, we are going to readjust our import and export policies toward different countries in light of specific circumstances, so as to deal with restrictions that certain countries have imposed on our country's imports and exports. China's exports determine its import capacity. Whichever country opens its own market to us to a greater extent will enjoy more opportunities of exporting goods to our country. And third, we will do our utmost to raise the competitive power of Chinese export commodities on the international market.

[Reporter] How are we going to minimize China's deficits in trade with some developed countries? What can China and Japan achieve in their efforts in this aspect?

[Wang] The balanced development of bilateral trade is the basis of constant expansion of international economic cooperation. At present, in trading with developed countries, China's import volume exceeds its export volume by far and the trade deficits are enormous. If this issue is not solved promptly, the development of bilateral trade will be seriously affected.

In light of the course of economic development in China, one can see that China has always set store by the balance of international trade. In view of the existing gap between China and developed industrialized countries regarding economic development and of the actual needs arising from socialist modernization, we are neither looking to an absolute balance in bilateral trade nor trying to solve the adverse balance through curtailing imports, because such practices are not beneficial to either side. We are looking to a positive balance, namely, keeping the gap between the import and export volumes narrow or maintaining a general balance by expanding the export of our commodities to developed countries. This is possible for two reasons. First as there is a considerable gap between China and developed industrialized countries in terms of their technological levels and production structures, Chinese commodities entering the market of developed countries will not affect the operation of enterprises in these countries and the marketing of their products. On the contrary, many products imported from China are items that developed industrialized countries do not produce, therefore the import of these products will help to fill the demand of their markets. And second, China's excessively high deficits will inevitably reduce our paying power, hence will restrain us from importing goods from developed countries. After all, this will in effect mean that their products will lose part of their market in China. Thus we can say that maintaining a balance in bilateral trade conforms to the interests of both China and developed countries. We earnestly hope that governments and non-governmental circles of developed industrialized countries will take positive measures in the interest of the development of bilateral trade, further open their markets, lift or relax certain restrictions imposed on commodities exported from China, and assist China in expanding export trade. Of course, China itself will make greater efforts to promote production of export commodities, step up the development

and promotion of export commodities, improve their quality, upgrade their position, and thus raise their competitive power. We believe that so long as both sides cooperate, China's trade deficits will be reduced and bilateral trade will develop and expand smoothly.

China's excessively high deficits in its trade with Japan have already drawn great attention of the governments and of non-governmental circles of both countries. Japan is one of the major trade partners of China. Whether Sino-Japanese trade can develop steadily in the long term will depend on whether China's exports to Japan can grow substantially, whether China's enormous trade deficits can be reduced very soon, and whether a general balance in bilateral trade can be achieved. We hope that the Japanese side will lift some artificially imposed restrictions preventing Chinese commodities from entering the Japanese market, such as those regulations regarding high tariffs, import quotas, bans on imports, animal quarantines, and so on, which are unfavorable to the development of trade between China and Japan. We also hope that the Japanese side will actively cooperate with us in improving the quality of Chinese commodities exported to Japan and developing new export commodities, so that Chinese commodities can more readily meet the demands of the Japanese market. As far as these efforts are concerned, positive results have been scored through consultation, some agreements on cooperation have been concluded, and specific measures are now being worked out. In my opinion, China and Japan have their own favorable conditions in respect of economic development--Japan can supply China with what China needs and, in return, China can supply Japan with what Japan needs. So long as both the Chinese and Japanese sides can adhere to the four principles of "peace and friendship, equality and mutual benefit, mutual trust, and long-term stability," take a positive forward-looking attitude, sincerely cooperate with each other, and earnestly solve real problems existing in bilateral trade, China's trade deficits will be reduced step by step, a general balance will be achieved, and an all-round, ready, long-term development of the Sino-Japanese trade and economic and technological cooperation will be possible.

[Reporter] In light of the circumstances at home, the main issues that need to be solved over a long period are the restructuring of outmoded export commodity makeup and the raising of the proportion of finished industrial products, especially intensive and precision processed products, in export commodities. In the near future we will have to concentrate our attention on the following four issues: 1) Both the domestic and overseas markets have a keen demand for some staple commodities, and thus sources of export goods are insufficient; 2) Some export commodities lack competitive power because their quality fails to meet the standards applicable to the international market; 3) The transport capacity fails to keep up with the needs; and 4) The quality of our economic and trade personnel fails to fully meet the needs of the international trade environment characterized by sharp competition.

We are now taking effective measures to deal with all the above problems. With regard to the sources of export commodities, we will continue to implement various policies and measures laid down by the state to promote production of export commodities and to give full play to export commodity producing enterprises in augmenting supply of goods. On this condition we will uphold the principle of giving preference to export trade, with a view to

properly handling the relations between domestic marketing and export, that is to say, arrangements will be made to ensure that goods essential to the national economy and the people's livelihood will be exported in a planned way; for the commodities that are demanded by both the domestic and overseas markets and are in a short supply, we will do our utmost to export part of the goods available while vigorously raising output; and, with regard to those commodities for which the demand is flexible on the domestic market, we will give priority to the export sector.

Expanding exports and raising foreign exchange revenue is a must for implementing the policy of opening up to the outside world, for speeding up the process of socialist modernization, and for safeguarding the fundamental interests of all the Chinese people. With regard to the quality of export commodities, with the support of the state departments concerned, we will make great efforts to speed up the building of our export commodity producing system, arrange production of export commodities according to the demand on the international market, improve their quality, increase the selection of goods, enhance the processing standards, modify packaging of commodities, speed up the upgrading process of traditional commodities and the development of new products, and thus enhance the competitive power of Chinese commodities on the international market. With regard to communications and transportation, the state is stepping up construction of infrastructure, improving port facilities, opening more regular nonstop steamship services, and increasing the capacity of combined railway transport. These measures will provide more favorable conditions for the development of our country's export trade. With regard to the fostering of a contingent of qualified personnel specialized in foreign trade, we are going to make use of various channels, strengthen general training and rotational training of foreign trade staff members, and strive to build up in a short period a contingent of competent foreign trade personnel who are proficient in both business operations and foreign languages and are highly adaptable to the international economic and trade environment.

/12913

CS0: 4006/125

FOREIGN TRADE AND INVESTMENT

ZHENG TUOBIN URGES SUPPORT FOR POOR AREAS

Beijing GUOJI SHANGBAO in Chinese 15 Sep 86 p 1

[Article by Yang Baogen [2799 1405 2704]: "Zheng Tuobin [6774 2148 1755] Asks Foreign Economic Relations and Trade Departments To Do Three Things To Help Poor Areas Become Wealthy"]

[Text] Helping poor areas to produce export goods and become wealthy is a vital task for foreign economic relations and trade departments. Zheng Tuobin, Minister of Foreign Economic Relations and Trade, recently made an on-the-spot investigation in certain Jiangxi counties and cities, such as the Jinggang mountain region, Taihe, and Ji'an, and made the following three suggestions as to how foreign economic relations and trade departments can help build up poor areas.

1. Provide Information: Many poor areas are mountainous and rather inaccessible to information. The primary task of foreign economic relations and trade departments is to provide information. In particular, they should help poor areas to gear their production to international market demands, make plans, develop export goods which create foreign exchange in a planned way, strive for unity of action and results, and avoid guesswork.
2. Give a Strong Push to the Sale of Products: Poor areas severely lack fixed links and sales channels to export their products. The best way to build up poor areas will be for all trading corporations and their subsidiaries to actively, and of their own accord, help them to push the sale of their products abroad.
3. Give Financial and Material Assistance: Poor areas have rather weak economies and particular problems in developing production of export goods. When poor areas decide to produce export goods and set up export goods bases, in addition to the state and localities helping them by making proper arrangements for construction funds, each foreign economic relations and trade department should make the greatest efforts in its respective jurisdiction to give them financial and material assistance.

In order to help poor areas, it is understood that the Ministry of Foreign Economic Relations and Trade has decided to set up in Jiangxi export goods production bases for tea and Xianggu mushrooms, build a special foreign trade dock in the port of Jiujiang, build warehouses for tobacco and firecrackers in Pingxiang, and help the cigarette paper mill in Jinggang mountain region in areas such as pulp supply.

FOREIGN TRADE AND INVESTMENT

JIANGSU'S GU XIULIAN WANTS MORE FOREIGN INVESTMENT

OW061328 Beijing XINHUA in English 1156 GMT 6 Nov 86

[Text] Beijing, 6 Nov (XINHUA)--Jiangsu Province welcomes more foreign investment and joint-ventures, the overseas edition of the "PEOPLE'S DAILY" reported today.

Gu Xiulian, governor of Jiangsu Province said, "Jiangsu has many advantages to offer foreign investors, such as a rich economic foundation and a high level of technology and management."

According to Gu, the province also has developed agriculture and industry, favorable geographical conditions and adequate transport facilities.

"Jiangsu has many regions open to foreign investment, where business people are given preferential treatment," she said, adding that the potential for developing the tourist industry in the province is great.

Gu, the first and only woman in China to be a provincial governor, said the provincial government will give more authority to the city governments of Suzhou, Wuxi, Nantong, and Nanjing in the use of foreign investment, the renovation of technology and the establishment of new factories.

These four cities will independently decide production projects which require investments of up to 5 million U.S. dollars, while other provincial cities have this power for investments under 3 million.

She added, "The provincial government will do more to ensure uninterrupted production in enterprises funded by foreign investment."

"Though electricity is in short supply at present, the power supply to foreign invested enterprises should be guaranteed," Gu stressed.

The 49-year-old governor said her province will offer more preferential treatment to foreign invested enterprises, especially those providing export products and advanced technology.

"Under the principle of mutual benefit, we will guarantee the rights and interests of foreign investors and will help to make their businesses profitable," she said.

She said, "Measures will be adopted to upgrade efficiency levels and streamline working procedures to smooth the way for foreign investors."

FOREIGN TRADE AND INVESTMENT

JIANGSU EXCELS IN KEY METAL EXPORTS

Nanjing XINHUA RIBAO in Chinese 19 Sep 86 p 1

[Article by Guo Baocai [6753 1405 2088] and Yao Guoguang [1202 0948 0342]:
"Horizontal Links Are Well Established and There Is an Abundant Supply of
Export Goods; the Volume and Rate of Progress of Jiangsu's Metal and Mineral
Exports Both Rank First in Their Industry Throughout China"]

[Text] Jiangsu Province's 1986 plans for metal and mineral exports were over-fulfilled 150 days ahead of schedule. Its volume of nonferrous metal exports rose 1.77-fold over the same period in 1985, its number of varieties of metal and mineral exports rose from 5 to almost 40, and its rate of progress and volume of metal and mineral exports both rank first in their industry throughout China.

The major reason why Jiangsu was able to raise its volume of metal and mineral product exports so much during a slump in the international market, is that the Jiangsu Metal and Mineral Trading Corp. has improved its horizontal links with metal and mineral industries and other provinces, developed these links from the field of circulation to that of production, and expanded its supply of marketable export goods. Based in 16 mills, such as the Nanjing Germanium Mill, the Wuxi Window Screen Mill, the Jingjiang County General Metal Products Mill, and the Lianyungang Foundry, Jiangsu has built a series of bases for 9 export products, such as germanium and indium goods, tungsten and molybdenum goods, ferroalloys, fasteners, construction hardware, and cast iron, developed new export varieties, such as aluminum products and high-grade manual door-locks, and made metals and minerals its key export products.

Moreover, Jiangsu has developed favorable conditions by setting up permanent trade organizations in certain areas, such as Europe, America, and the Middle East, speeding up information feedback, and opening to the outside world and establishing good transport services in five of its ports, such as Lianyungang. It has improved its horizontal links with inland provinces and cities, which are rich in mineral and energy resources and have the capacity to smelt metals on a large scale. It has now established goods supply links with 150 industrial mining enterprises in 26 provinces and cities. In the first half of 1986, other provinces and cities supplied 11 million yuan of export goods direct to Jiangsu. The Jiangsu Metal and Mineral Trading Corp. recently has developed extensive contacts with delegates from 14 provinces and cities, over 70 industrial trade enterprises within Jiangsu, 8 overseas

Chinese organizations, and development corporations in the Shenzhen and Zhuhai SEZ's. It has reached agreements to develop projects for 13 exports, such as electrolytic manganese and titanium dioxide, which is expected to increase export goods over 100 million yuan, and has laid a solid foundation for increased exports in 1987.

12267/5915

CSO: 4006/39

FOREIGN TRADE AND INVESTMENT

CITIC PLANS TO BECOME GROUP OF SUBSIDIARIES

HK051452 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 29 Oct 86 p 1

[Article by staff reporter Xu Yuanchao]

[Text] The China International Trust and Investment Corp. (CITIC), an economic entity under the State Council, is restructuring itself into a powerful group to oversee foreign investment and joint ventures.

The corporation will probably be renamed CITIC Group, according to a tentative plan proposed by CITIC Chairman Rong Yiren and approved by the State Council, CITIC spokesman Yang Guangqi told a press conference recently in Beijing.

Yang said that the new group is a socialist enterprise formed by a number of subsidiaries, or as Rong calls it, a "conglomerate."

"We will introduce management expertise that has proven successful in capitalist countries to run the group," Yang said.

The first subsidiary to be set up is a real estate company, to be followed by a bank evolved from the CITIC Banking Department, a trade company and a company concentrating on investment and joint ventures, he said.

The group will adopt a new system of unified leadership and decentralized management, replacing the existing practice whereby everything has to be decided by the board of directors.

Subsidiaries will have the right to make business decisions and will assume sole responsibilities for their own profits and losses, he said.

A technology development office will be established in the CITIC Group to track new technology development in industrialized countries, import advanced technology, popularize applicable technology in domestic companies and to sell Chinese scientific findings to foreign companies.

Yang said that CITIC will shift its emphasis from routine projects which make quick profits to power, metallurgical and raw materials industries that have trouble attracting investment.

Rong is fond of telling his colleagues, "CITIC has good prospects for gains, but it should not be bent solely on profits." The admonition has become a motto among CITIC staff.

The corporation, with assets of 4.6 billion yuan, was established in October 1979 when China first opened itself to the outside world.

Rong was asked by Chinese leader Deng Xiaoping to resume his business career in China by establishing a company to specialize in attracting foreign capital and introducing modern technology and equipment for the country's economic reconstruction.

Often dubbed "the red capitalist," Rong hails from a prominent Shanghai entrepreneurial family that operated textile, cotton and flour mills before the founding of People's Republic in 1949.

Xu Zhaolong, CITIC president, was involved in the chemical industry and printing and dyeing mills prior to 1949. The two families had close business ties at the time, according to CITIC officials.

CITIC now employs 800 people. As of last month, the corporation had set up 47 joint ventures and invested in 114 domestic companies. It had also issued \$550 million in corporate bonds in Japan, West Germany, and Hong Kong.

/9599

CSO: 4020/440

FOREIGN TRADE AND INVESTMENT

BRIEFS

XINJIANG CLOTHING EXPORTS TO SOVIET UNION--Xinjiang exported over 360,000 pieces of garments to the Soviet Union in the past 2 years, earning over 5.8 million Swiss francs in foreign exchange. To meet Soviet needs, the Xinjiang apparel sector has been working hard to come up with designs. In 1984, it produced 100,000 dresses for export to the Soviet Union through Ili, Xinjiang. In 1985, it exported 260,000 dresses. Recently the Soviet Union has placed additional orders for 190,000 pieces of children's wear and 150,000 dresses. [Text] [Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 4 Apr 86 p 3] 12581

CSO: 4006/1023

SPECIAL ECONOMIC ZONES

SPECIAL ECONOMIC ZONES ON NEW THRESHOLD

Guangzhou KAIFANG [OPEN POLICY] in Chinese No 2, 8 Feb 86 pp 12-15

[Article by Zong Shuzhi [1350 6615 0037]: "Summary of the National Conference on Special Economic Zones"]

[Text] The establishment of special economic zones [SEZ's] is a major Chinese policy in the new era as it opens itself up to the outside. After their creation at different times since 1980, the four special economic zones of Shenzhen, Zhuhai, Shantou, and Xiamen have completed massive infrastructural projects at an amazing pace and put together a fledgling investment environment capable of attracting foreign capital. Their economies having taken shape, they have now emerged from their infancy. At a national conference held in Shenzhen not long ago on SEZ work, responsible officials from central ministries concerned, from the two provinces of Guangdong and Fujian, and from the four zones reviewed the experience of zone development, conscientiously examined the new challenges facing SEZ's in a pragmatic spirit, worked out problems in their path ahead, and clarified the goals of their drive to establish an export-oriented economy in the Seventh 5-Year Plan as well as the focus of their work. The conference was a great success.

First Get A Clearer Understanding Of Guiding Ideas

The conference laid down a crucial guiding principle, namely that we must seriously concentrate on production, improve standards, and pursue efficiency as required by the development of an export-oriented economy. Revolving around this principle, we should control the scale of infrastructural development, reform in earnest, and strengthen management effectively so that we can scale new heights in everything we do.

People are happy to see in the SEZ's and in the reports by SEZ-run enterprises to various industrial ministries that the zones have achieved remarkable progress and considerable results toward creating an investment environment, using foreign capital, importing technology and equipment, expanding production, and holding their own in international competition. After 6 years of work, the four zones have completed infrastructural projects representing a total of 7.63 billion yuan in investments and prepared 45 square kilometers of land for development. Total foreign capital actually invested stood at \$1.17 billion, about one fifth of all foreign capital actually invested in the

entire nation. Estimates put the zones' gross value of industrial and agricultural output for 1985 at 4.86 billion yuan, a 5.3-fold increase over 1979 before the zones were established (42-fold in the case of Shenzhen). Both a large mass of data and real-life instances demonstrate that the zones have begun to function as the "four windows" and the hubs from which the "two networks of activities radiate." Facts show that the CCP Central Committee was completely right in its decision to set up SEZ's.

We will adopt a variety of methods in the future to accelerate modernization, using as much foreign capital as possible. The idea of setting up SEZ's is to apply preferential policies laid down by the state, exploit favorable conditions, attract foreign capital, import foreign technology, equipment, and scientific management, utilize foreign markets, and develop productive forces, thus advancing and expediting economic growth nationwide. After years in action, SEZ pioneers have clearly deepened their understanding of this guiding principle. But now that they have gone through years of hectic growth which saw countless enterprises flourish, they still need to continuously deepen their understanding in conjunction with practice as they go about reconciling development with improvement.

A key issue facing SEZ's today is to reform and sort out whatever that does not meet the demands of SEZ development in the new stage, as manifested notably in imperfections in infrastructure and services, management, technical development, legal protection, high-efficiency management, and other things that make up the investment climate; an irrational investment structure and a limited ability to earn foreign exchange; a need to improve the management of Chinese-foreign joint ventures and foreign-owned enterprises; and the failure of the macroeconomic regulatory system to keep up with economic activities. These problems were inevitable in the initial stage, but we must see that subjectively we have overexpanded the scale of development in the past 2 years and failed to focus our energies on strengthening management, upgrading the quality of enterprises and workers, and improving economic efficiency. This is highly detrimental to our drive to make the zones more export-oriented, which requires us to adapt guiding ideas to the new situation even as we see our achievements and elevate the standard of our work.

At the moment we must take care to determine an appropriate growth rate and concentrate on mastering production, raising standards, and pursuing economic efficiency. Accordingly, we must control the scale of capital projects firmly to prevent the economy from overheating. Of the various SEZ's, Shenzhen has attracted more attention than any other in this respect. The government took a string of measures to stiffen macroeconomic control last year, even so over 40 percent more projects were completed compared to the year before. The scale of development has gotten out of hand in the absence of comprehensive long- and medium-term planning regarding production distribution or the industrial structure. Guest houses, hotels, commercial buildings, and housing were over-built. Because of the investment explosion, debts piled up and banks developed cash flow problems which will not go away soon. All this has spelled trouble for development. Some leading comrades from the zones now realize that it clearly hurts a zone's healthy economic growth to continue to expand the scale of its development, particularly to undertake an excess of non-production projects, at a time when management, technology, and worker

quality still have a long way to go before they meet the standards of an export-oriented economy and when the return on capital is still relatively low. It is just this kind of realization that prompted Zhuhai Municipal CCP Committee to adjust three times the scale of capital building for 1985, finally trimming it to 40 percent of the original plan. What is more, it decided to focus on projects in energy, communications, telecommunications, and road networks, on key agricultural and industrial production projects, and on the training of expertise, in the process avoiding an investment and credit spiral. These experiences teach us that in building SEZ's in the future and to use foreign capital effectively and constructively, we must take pains to put the scale of construction in the overall context, set a proper direction of investment, and reconcile growth rate with economic efficiency. It was pointed out at the conference that we must earnestly clean up and shake up projects now in the works and contain the scale of investments at the 1984 level, focusing on export-oriented industrial projects and those that will round off the infrastructure. In principle no new development zones will be built and we must make sure the construction of tourist facilities, hotels, and shopping centers is in line with market demand in order to prevent unchecked development. The key to a successful push for an export-oriented economy lies in raising management standard and improving efficiency. That is the crux of SEZ work. That is also where the correct guiding principle leads us.

The Top Priority Now Is To Vigorously Develop Export-Oriented Industries

Special Economic Zones must firmly give top priority to the development of technically advanced industries whose products can break into the international market. Only thus can they live up to their role as windows to technology, knowledge, and management. In November 1985, the Special Economic Zones Office of the State Council held a "seminar" in Shenzhen "on the development of export-oriented industry" in that zone, thus putting on the agenda the building of an adaptable export-oriented industrial system.

Since their establishment, the zones, especially Shenzhen, have set up a number of enterprises using foreign capital and by relying on economic and technical cooperation with the interior. These enterprises have played an important role in developing the SEZ's productive forces and enhancing their ability to export and earn foreign exchange. Statistically, exports make up 50 percent of the total sales of Shenzhen industry. But we should also see that at present some enterprises are ill-equipped to export and earn foreign exchange. They should begin by raising the levels of production technology and business management and open up a new path to exporting and earning foreign exchange.

To develop export-oriented industry, the zones must take realities as their point of departure and have a clear sense of direction. In light of our conditions and our commodity mix strategy to open up the international market, the zones should concentrate on developing traditional industries using applicable advanced technology and equipment, and focus on small and medium-sized projects. They should follow the policy of "sophisticated, small, light, and new" to minimize inputs and maximize outputs, exports, and foreign exchange earnings. This so-called "sophisticated, small, light, and new"

policy has a two-fold meaning: one, develop sophisticated, small, and light products using new technology; and two, establish small-scale and compact enterprises that are sparsely staffed with skilled personnel and use modern processes and equipment. If we go after highly technology-intensive products and put up factories to produce them from the very beginning, not only will we fall short on technology and capital, but whatever we manage to come up with will find it hard to crack the international market anytime soon. As we steadily consolidate our industrial technical prowess, of course, we can go in for high-tech projects selectively and in a targeted way. This requires us to combine our short-term development focus with the objectives of our long-term effort and draw up a development plan based on serious research on and forecasts of the international market and technical and economic feasibility studies.

To develop export-oriented industry, SEZ's must also engage in economic and technical cooperation with the interior in a variety of ways. In other words, they must establish successful economic linkages with the interior. Since they had little in the way of industry to begin with, SEZ's must cooperate with the interior in order to intensify their ability to attract foreign capital and import and assimilate advanced technology. In recent years, Shenzhen has concluded over 400 agreements with various central ministries and more than 20 provinces, municipalities, and autonomous regions; absorbed 500 million yuan in investments; set up over 170 enterprises jointly with the interior; and made good use of personnel, technology, equipment, and funds from interior enterprises. With backing from key factories in the interior, including their high-quality name-brand products, they have had production breakthroughs and increased exports year after year. The Shenzhen Electronics Holding Company, (with 117 member enterprises), which opened for business during the SEZ conference and whose main components are enterprises under the Ministry of Electronics Industry in Shenzhen and other concerns under the municipality of Shenzhen, is a prime example of what can be done by relying on interior technology and enterprises to accelerate the export orientation and technical upgrading of the electronics industry. Some industrial ministries in the central government have indicated their intention to use the personnel, technology, equipment, and economic forces of interior enterprises to continue to support SEZ's.

To develop export-oriented industries, we must also cultivate a sense of an international market. Thus we must study and research the conditions, characteristics, and changes of the international market in depth, open up markets, and guide production with business. Leading comrades from the Ministry of Textile Industry pointed out that China is one of the 10 largest textile-exporting nations in the world, but the value of our exports accounts for only 4 percent of the world's overall textile trade, a discrepancy caused by the lack of market information and uncompetitive products. They carefully selected products likely to do well in the international market and built factories in Shenzhen to make them, insisting on small batch production, giving customers a wide variety of choice, and producing what sells in the market. They offer good services and ship orders promptly and on schedule. That way the factories became highly export-oriented. The conference proposed the establishment of information centers in a number of industries to help open up markets. Moreover, we must make a concerted effort to train qualified

personnel, build an army of high-quality workers, and develop high-standard, highly-efficient industrial enterprises.

Intensify Macroeconomic Control As Well As Treat SEZ's Specially

After reviewing in earnest their experiences, conference participants straightened out some of the snarls plaguing the way the SEZ's are run today, in line with the spirit of documents issued on successive occasions by the CCP Central Committee and the State Council, and within the framework of strengthened macroeconomic control. While we must subordinate SEZ economic activities to the general national economic interests, we should give SEZ's a definite measure of flexibility and treat them specially. The conference also considered in detail preferential treatments given SEZ's in capital building control, tax policy, credit control, foreign exchange control, import and export control, among other things, the limits of their authority and appropriate control measures.

Chinese SEZ's are a special institution aimed at building socialism by using capitalism under the control and guidance of the socialist state. In their reports, leading comrades from the SEZ's all mention that as an organic part of the overall national economy, SEZ enterprises must follow national policies. SEZ's must submit themselves to macroeconomic government control in such matters as strategic objectives, strategic focus, strategic measures, industrial structure, technical structure, production distribution, the scale of urban development, population size, the direction of the building of the two civilizations, etc. But SEZs make foreign capital the basis for construction funds; joint ventures, cooperative ventures, and foreign-owned enterprises the basis for economic undertakings; exports the basis for production; and market mechanisms the basis for economic activity. They must also combine government macroeconomic control with the full utilization of market mechanisms. By permitting experiments in structural reform within the jurisdictions of SEZ's in order to free ourselves from the strictures of existing institutions, the CCP Central Committee and State Council were exactly taking realities as their point of departure and searching for a set of systems and management methods that can serve as a guide to reconcile policy universality with the need to make SEZ's special. The government last year took a series of measures to remove some elements of instability in the national economy. This move, however, created problems for the implementation of certain policies rightly special to SEZ's. The conference emphasized throughout the need to handle well the relations between policy universality and special policies, and stressed policy consistency and continuity. It also made it clear that in drawing up new regulations in the future, we should fully consider SEZ's actual circumstances and must not impose the same policies on all and sundry. The conference also pointed out that the Seventh 5-Year Plan is a crucial period in the all-round restructuring of China's economic system. SEZ's must take the lead in restructuring their own economic systems through painstaking practice and gain experience in marrying macroeconomic control with microeconomic invigoration.

Development Objectives of the Formative Stage

The building of a SEZ goes through a process in which steady gains are made in the economy, in technological progress, in the standards of management, education, and qualified personnel, and in its ability to export. At a time when the country is gradually putting together an open development strategy under which it is to derive increasing strength from ever-widening foreign economic intercourse, what does it mean to be a SEZ with its mission of serving as a "window" and a "hub?" Looking ahead, officials from the several SEZ's came up with responses.

The conference decided that SEZ's must achieve these objectives during the Seventh 5-Year Plan: forge ahead toward establishing an export-oriented economy; move from the initial to the formative stages; and live up to their roles as "window to technology, window to management, window to knowledge, and window to foreign policy." Their major missions are: continue to improve and round off the infrastructure in areas already developed, amplify economic legislation, further efficiency and improve the environment; concentrate on the development of export-oriented industries, import technology and capital from abroad, establish economic linkages with the interior, expand social productive forces, and fortify our material and technological basis; strengthen enterprise management, upgrade the levels of production technology and business management, develop a host of internationally competitive "flagship" products, gradually sell most of our products abroad and strive to balance our foreign exchange and even come up with a surplus; raise economic efficiency by every possible means to ensure increases in national income and revenues, which would create favorable conditions for increasing accumulation for the state; step up the development of expertise and the training of qualified personnel and elevate the building of the socialist spiritual civilization in the zones to a new level; restructure the economic system in depth, establish a sound macroeconomic system, and gain experience with Chinese characteristics in the application of economic methods and modern information techniques to economic management. The conference came up with this slogan: SEZ's are the whole nation's SEZ's, the whole nation supports SEZ's, and SEZ's serve the whole nation. If SEZ's succeed, that will have positive implications for reform nationwide, the policy of opening up to the outside, and economic development. Comrade Gu Mu, a state councillor, said in his speech, "The domestic situation is very good and the international conditions are also highly favorable. With efforts, the above objectives are achievable. It is up to us." He urged SEZ comrades to work as hard as oxen plowing uncultivated land. They should uphold high standards in their work, make stringent demands on themselves, have the courage to expose inconsistencies, and do a good job conscientiously and cautiously to ensure the success of a socialist nation's experiment in the establishment of special economic zones.

Special economic zones, which were the first to embark and explore their way ahead on the bumpy road of modernization, now once again find themselves on the threshold of a new phase. The central government has laid down correct policies and principles for the SEZ's, frequently expressing its ardent expectations and exercising effective supervision. "At high tide the two shores are wide apart. The air is still. A lone sail is seen in the mist." May the SEZ's soar to new heights in its new phase of development.

SPECIAL ECONOMIC ZONES

STRATEGIES FOR DEVELOPMENT OF SHANTOU SEZ EXAMINED

Guangzhou NANFANG JINGJI [SOUTH CHINA ECONOMY] in Chinese No 3, 1986 pp 28-30

[Article by Cai Qian [5591 6197]: "An Examination of Short- and Medium-Term Strategies for the Development of the Shantou Special Economic Zone"]

[Text] To ensure the continued healthy development of the Shantou Special Economic Zone's [SEZ] externally oriented economy, we must firmly grasp the spirit of the CPC Central Committee concerning the Seventh 5-Year Plan and formulate short- and medium-term development strategies for the zone in accordance with overall long-term plans for the zone and with the pattern along which the zone has developed.

A. We Must Improve Enterprise Economic Results and Vigorously Strengthen Export Foreign-Exchange Earnings.

In trying to integrate trade in technology, industry and agriculture, the Shantou SEZ has established a number of export production bases and achieved a certain amount of success. In the next few years, as the state tries to bring fixed-capital investment throughout the nation under control, the Shantou SEZ must focus on export foreign-exchange earnings and must not seek greater and faster capital construction. Therefore, we must pay careful attention to the following two key links.

First, we must learn to use economic levers effectively so as to strengthen control over enterprises funded with foreign, overseas Chinese and Hong Kong-Macao capital and to improve the ability of enterprises run by the zone itself or those run in cooperation with units in the interior to respond to exigencies. This is a fundamental point that affects the zone's ability to improve results and to earn more foreign exchange. At present, a few foreign enterprises and joint equity enterprises falsely report foreign-sales losses, evade inspection and supervision of domestic-sales profits by audit and tax agencies, take advantage of weaknesses and loopholes in the tax system to transfer funds, and reduce China's foreign-exchange earnings by evading taxes. Thus we urgently need to improve economic law so as to legalize, systematize and standardize the managerial work carried out by economic-adjustment and inspection-supervision departments. Our ability to improve the economic results of enterprises run by the zone itself and enterprises operated in cooperation with units in the interior will to a large extent depend on how

much cadre quality is improved. And in this work, we must strive to escape the effects of the old closed system of circulation, establish a new type of production management that is open in all directions and, especially, gain a full understanding of international market trends. Only with rapid feedback of information can we successfully upgrade traditional products. And we must improve enterprise economic results under the new export licensing system that the state is trying to implement throughout the country.

Second, to earn more foreign exchange, we must devote great efforts to changing the zone's mix of exports, to opening international markets and to export production planning. The reasons behind these desiderata are as follows. (1) With the exception of 10-odd light industrial products such as garments, carpets, toys, plastic products, pottery and porcelain and fresh agricultural produce and sideline goods, most of the zone's exports are still primary goods. There is a big difference in the amount of foreign exchange earned by raw materials and finished goods and by finely and crudely packaged processed goods. For example, Chaozhou cuisine, a quality traditional product line that we used to sell in large quantities to Hong Kong and Macao, can no longer compete with finely packaged products from Taiwan and Thailand and thus have lost market competitiveness or can only be sold after middleman repackaging. Another example is eel fingerlings. One kg of this export contains 7,000-some fingerlings, which after careful raising, grow into 1.7 metric tons of adult eels which can become a high-grade product after being processed with the roasting equipment the zone has imported. Live or roasted adult eels are much more profitable than the raw material, that is, eel fingerlings; the reduction in raw-material exports will help us control foreign markets for the finished product; and raw-material processing will provide more employment opportunities and increase the income of the people of the zone. And for the canned crab the zone exports, each ton of raw material earns an additional 5,000 yuan from processing. There is room for crude or fine processing or fresh packaging of other light industrial goods, minerals, agricultural produce and sideline products as well. In sum, we must increase export processing and improve product grade. (2) The direction of the zone's trade is confined to markets in or reexports by Hong Kong and Macao. Thus our export trade has few channels, we possess very little market information and sales prices are primarily controlled by Hong Kong and Macao. Japan, for example, has a trade promotion organization that has established 80-some centers around the world that gather information for and serve Japanese companies. The Shantou SEZ must establish information centers abroad and broaden markets for its goods. (3) Export production planning must provide for full utilization of the zone's resources, tailor measures to suit local conditions, establish production bases for traditional products, link these bases with processing industry so that the latter can meet market demand, and provide for production of marketable exports that are "fine, small, light and novel." This planning must also provide for vigorous introduction of technology, imports of raw materials, processing for export and earning of foreign exchange, be attentive to the zone's relations with the interior, enable the zone to serve as a bridge, combine the industrial base and raw materials of the interior with advanced imported technology, provide for more sophisticated processing and fine packaging and increase product quality and grade. The zone's commodity-production bases can be located within the zone or, through arrangements with the interior, be established outside of the

zone. Although the zone is small in area, we can take advantage of its position as a "window to the outside world" and the fact that the zone faces in two directions to lay the planning framework for multi-tiered, multifunctional, three-dimensional, interconnected export production.

Meanwhile, the Shantou SEZ must devote careful attention to a second way of earning foreign exchange--non-trade foreign exchange earnings, which can be increased by expanding the tourism industry and by initiating exports of labor services. When Shenzhen was made an SEZ, it immediately made tourism a key industry and now boasts 9 agencies concentrating on this industry and 10 organizations incorporating this work into other operations. The Shantou SEZ has frequent contact with foreign countries and many ties with overseas Chinese and compatriots in Hong Kong and Macao, yet the zone has only one hotel, the 52-room Longhu Guest House, which clearly is insufficient. We should try to establish a unique tourist area and unusual sightseeing routes incorporating local cuisine; locally produced lobsters, spotted groupers, eels, crabs, abalone, squid, oysters, clams, citrus and lichees; and the beautiful scenery, famous sites and ancient relics of Mayu, Longhu, Zhuchi and Guangwo. The development of the tourism industry will also bring economic benefits in terms of transportation, commerce and services.

In short, during the Seventh 5-Year Plan, the Shantou SEZ should devote great effort to the expansion of exports and to the development of new industries that can earn foreign exchange, make increasing foreign-exchange earnings and expanding employment the objectives of this stage of development and lay the groundwork for the creation of a high-tech, externally oriented economy.

B. We Must Proceed from Reality and Achieve the Zone's Strategic Objectives in a Planned and Phased Fashion. In the Short and Medium Terms, We Should Establish and Carry Out Strategies for the Development of Labor-Intensive, Export-Led Industry.

One view on how to achieve the strategic objective of making the Shantou SEZ a high-tech, externally oriented economy is that the zone should leap over the first stage of development in export processing zones, labor-intensive industry, and move directly to the second stage, technology-intensive industry. This notion clearly is divorced from the objective reality of the Shantou SEZ. The development of any given thing occurs in stages, and the Shantou SEZ is still in the initial stage of development. Basic factors dictate that, within the short term, the zone cannot rapidly establish advanced industry and a totally externally oriented economy. Thus the question of whether or not we should change the zone's type of economy is not at issue here. Yet in terms of economic and technological foundation, the zone does have a sort of low-tech externally oriented economy. 50 percent of the zone's 104 industrial enterprises produce textiles, clothing, plastics, toys, electronic and electrical goods and food and feed. This industrial mode is similar to those of Hong Kong and of Taiwan's export processing zones, Gaoxiong, Nanzi and Tanzi, during the 1960s--all of which had export-led industries focusing on the production of electronics, plastics, toys and clothing. These industrial modes are characteristically labor-intensive and low-tech, employ little capital, yield rapid returns on investment, boast reliable markets, produce little pollution, use little energy and require

investment environments that are relatively easy to provide.

Accurate estimates and understanding of current conditions in the Shantou SEZ provide important guides for us in drawing up short- and medium-term development strategies for the zone. I wonder if we might not divide the zone's development into three stages, which would be as follows: (1) Development up to now, which stage saw the establishment of an externally oriented economy; (2) the Seventh 5-Year Plan, during which the externally oriented economy takes shape and develops; (3) 1990 and beyond, when a high-tech, externally oriented economy is achieved. The primary tasks of the Seventh 5-Year Plan are to improve economic results, increase export foreign-exchange earnings and strengthen the zone's economic and technological foundation. If we accept this scheme, how shall we draw up short- and medium-term strategies for foreign-capital imports and industrial development? Some comrades believe that foreign-capital imports should focus on technology-intensive and knowledge-intensive projects in electronics, plastics, petrochemical, light, textile and food processing and packing industries. We, however, believe that stress should be placed on the above light industries as well as other labor-intensive, export-led industries that require little investment, yield rapid results, use little energy and produce little pollution. Included among these latter industries would be labor-intensive agricultural-produce processing industries that permit effective transfers of technology. We should adopt this strategy during the short and medium terms because of the following reasons.

First, this strategy is in line with the current economic and technological levels of the Shantou SEZ. When we examine the history of the development of export processing zones around the world, we discover that most of these zones went through the stages of import substitution, export processing, production of intermediate raw materials, basic industry, technology-intensive industry and the like. Given its current economic and technological bases and investment environment, the Shantou SEZ cannot leap over the stage of labor-intensive industry. Naturally, this does not imply that we must simply give up trying to import advanced technology, nor does this deny the possibility of establishing certain technology- and capital-intensive sectors and industries in the zone.

Second, the strategy accords with the zone's investment environment and can help us exploit our strengths and avoid our weaknesses. The Chaozhou-Shantou plain is small in area but heavily populated. In terms of agricultural population, an average of 2,988 people are squeezed on to each square km of cultivated land, there is much surplus labor in the cities and countryside yet the labor force is not suited, qualitatively speaking, to modern high-tech production. In terms of transportation, the region is not serviced by railroads, local harbors cannot admit 10,000-ton freighters and airports cannot handle large aircraft. Energy and communications also fall short of investor needs. These unfavorable factors inhibit development of the zone. Still, export-led labor-intensive processing industries will enable us to take advantage of the region's large population, and the investor climate needed for such industries, especially those projects that are linked to the zone's raw materials, should be easy to provide. The zone must pay special attention to the development of agricultural-produce processing, for agriculture is an

important component of the zone's economy. We should draw on the approach employed by Thailand, which linked commercialized agriculture with export industries centered on labor-intensive processing of agricultural produce. And we should fully exploit the abundant natural and labor resources in the regions's agriculture and sideline industries, produce a line of foodstuffs showcasing local cuisine and gradually reduce reliance on exports of primary goods and raw materials.

Third, the strategy is suited to current conditions and current market-management practices in China. If the Shantou SEZ wants to develop knowledge-intensive industry, the zone cannot place all of its hopes on foreign investors. At present, trading markets for technology provides an effective way to import advanced technology. Investors undoubtedly will lose confidence if we forbid or permit only a small proportion of the goods produced with advanced technology by enterprises funded with foreign, overseas Chinese and Hong Kong-Macao capital to be sold on domestic markets. And if all of these goods are exported, investors will end up adding yet another competitor in a limited market. We believe that trying to keep our markets closed is unfeasible but also that it will be hard to introduce, use or maintain advanced technology if we do not give up some of our markets yet at the same time fail to erect protective customs barriers and to establish technology-intensive industry. Thus in the short and medium terms, we should continue to encourage foreign investors to establish labor-intensive industries in the zone. At the same time, while striving to introduce advanced foreign technology, we should also make projects that apply advanced domestic technology to the development of the natural resources of the Chaozhou-Shantou region the starting point for the planned, phased development of technology- and knowledge-intensive industry in the zone. During the transition to a high-tech, export-oriented economy, we should focus our study on this strategy.

12431

CSO: 4006/92

SPECIAL ECONOMIC ZONES

XIAMEN FORMULATES PLANS TO CREATE FREE PORT

HK040513 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 4 Nov 86
p 10

[Article by Paul Sham]

[Text] Three special teams working urgently on Xiamen's plans to turn the special economic zone into a free port are expected to report to the municipal government before the end of the month.

Sources said the ad hoc teams were established recently to map out measures and long-term strategies to fulfill the policy launched 2 years ago to create the duty-free zone.

Xiamen has already taken some small steps towards this goal by setting up special warehouses and factories where export-oriented enterprises, Chinese and foreign-owned, are exempt from paying duties.

China's first joint-venture bank was set up in the city last year, and four foreign banks have received approval to establish branch offices.

The municipal government also plans to set up a "management line" including customs control by 1988 to control the flow of products and people between Xiamen and the rest of China.

The three working groups are separately examining from every angle the complicated task of establishing a free port.

The first has been formed by about 30 researchers from Xiamen University specialised in the economies of the region.

Four senior staff of the Xiamen International Information Development Co. form the second team and the third comprises members of the city's political consultative committee.

Sources said that due to the complexity of creating a free port, Xiamen was likely to follow the examples of Taiwan and South Korea by initially restricting the concessions, although eventually aiming to apply them to the whole special economic zone.

The city would probably first establish the Huli Industrial Zone as a duty-free export-processing area and the Dongdu Wharf as a similarly exempt transshipment centre. Both are located in suburban areas.

These free-port practices would later expand to the whole city when conditions were ripe.

One major obstacle to establishing a fully-fledged free port would be the 600 or so domestic enterprises in the city which still relied on supplies from and markets in other Chinese cities, the sources said.

Until these enterprises could achieve an export capability of about 60 percent of production, allowing them to operate under free-port rules would entail more losses than gains.

The free flow of capital and personnel and the convertibility of foreign currencies needed in a free port would be another possible stumbling block since they would conflict with present practices in China.

The working group formed by members of the political consultative committee were thought likely to come up with a strategy based on the past experiences of Xiamen in conducting foreign trade--the city, in fact, was chosen as one of five foreign-trade ports more than 2,000 years ago.

Meanwhile, Xiamen is offering a series of preferential terms in an attempt to attract foreign investors into Huli.

These include abolishing the land development fee of 130 yuan a square metre and scrapping the electricity subsidy fee based on the capacity of the installed transformer.

In addition, the land use fee will be 5 yuan a square metre annually and the rent and selling price of a standard factory will both be lowered by 10 percent.

The purchase price of a factory can be paid by installments over a year, the first payment amounting to 30 percent of the total.

The industrial zone was set up in 1979 and Xiamen has invested about 300 million yuan (about HK \$630 million) in infrastructure construction.

/9599

CSO: 4020/440

LABOR AND WAGES

LABOR SYSTEM REFORMS ANNOUNCED

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 38-39, 1 Oct 86
pp 19-20

[Article by Xiao Yin [5135 7299]: "How To Implement Reforms in the Labor System"]

[Text] On 9 September 1986 in order to meet the demands for reforming the Chinese economic system and for the development of a planned socialist commodity economy, the State Council promulgated four provisional regulations for reforming the labor system: "The Provisional Regulation for Implementing the Labor Contract System in State-Run Enterprises," "The Provisional Regulation for Recruiting and Employing Workers in State-Run Enterprises," "The Provisional Regulation for Dismissing Staff and Workers Who Violate Discipline in State-Run Enterprises," and "The Provisional Regulation for Unemployment Insurance for Workers in State-Run Enterprises." These four provisional regulations for reforming the labor system go into effect on 1 October.

The promulgation and implementation of these four provisional regulations is the first significant reform of China's labor system. It is also one of the chief points in the overall reform of the economic system. It is believed that this has major significance for further developing the initiative and creativity of staff and workers, for strengthening enterprise vitality, for meeting the demand for developing a socialist commodity economy and for promoting the growth of socialist productive forces.

China's present labor system was gradually set up in the 1950's and it has played a positive role in ensuring labor employment and economic construction. However, during the following rather long period of time, this labor system has not incorporated reforms in keeping with the changing circumstances so that numerous corrupt practices exist. Specifically, there is the system of employment in state-run enterprises. On the one hand, enterprises lack the autonomy to select staff and workers. Those who are needed cannot be brought in while those who are unnecessary cannot be dismissed. Surplus personnel must still be under "contract." On the other hand, staff and workers lack the autonomy to select their occupation and work unit. Basically this means that they are stuck with their first assignment for the rest of their lives. The phenomenon of not applying what one has learned while working in areas in which one is not competent occurs regularly. This plus various other factors has led to enterprise personnel doing superficial work, lax discipline, and low efficiency.

Egalitarianism in the lifelong labor employment system, in the "iron rice bowl" system and in the distribution system is similar to "having one big pot." It has already seriously impeded the growth of economic undertakings. Enterprise leadership is troubled by this and most staff and workers are dissatisfied. The time for reform is ripe.

So that the reader may better grasp the chief points of the four provisional regulations for labor reform newly promulgated by China, the author will cover them briefly below.

First, the reform of the employment system. Whenever state-run enterprises, state agencies, public agencies, and mass organizations hire new workers, regardless of what hiring method is used, they must all implement the labor contract system.

Implementing the labor contract system means changing the current methods in China of using purely administrative procedures for assigning and hiring workers. Once a labor contract has been signed, workers and enterprises select each other and labor relations are established and adjusted using a combination of economic, legal, and administrative measures. Labor contracts must specify the responsibilities, duties, and rights of both parties. The duration of the contract may vary and it should be proposed by the enterprise on the basis of the requirements of production and established through consultation with the workers. The contract deadline refers to the expiration of the contract. If both parties are agreeable, the contract may be renewed. As soon as the labor contract is signed it is protected by law and must be strictly observed and implemented by both parties. When a labor dispute arises between the two parties in the contract, it must be decided upon according to procedures for handling labor disputes. If one party violates the contract and causes the other party to suffer economic losses, that party must pay compensation according to the consequences and the extent of their liability.

Labor contract workers are regular enterprise workers and come under the national labor wage plan. They are entitled to the same rights to labor, to work, to study, to participate in enterprise democratic management and to obtain political honor and material incentives as permanent enterprise workers. Generally speaking, their wages, insurance and welfare benefits are at the same level as those permanent workers in the same enterprise doing similar work and having similar positions. They differ in that there have been some reforms in insurance and welfare benefits. The portion "underwritten" by the enterprise has decreased. The state uses wage supplements as compensation for the decreased portion. Contract workers may start or leave work under specific conditions. The state has set up a social insurance system with retirement pensions and unemployment relief for contract workers so as to eliminate anxiety over their futures. This has ensured the relative stability of staff and workers and the rational mobility of the labor force. The advantages of the permanent labor system have been retained while the "iron rice bowl" has been eliminated.

Second, the reform of the hiring system, practicing open recruitment geared to the needs of society, comprehensive examinations and hiring the best.

In recent years although some reform measures have been adopted in the hiring system many problems still exist, primarily the problems of "being replaced by sons and daughters" and "recruiting from within," that is, recruiting the children of staff and workers. Many enterprises have lowered employment prerequisites so that "the worst are chosen to replace others." As a result, the quality of staff and workers has declined, the composition is irrational, relations among relatives within enterprises are complex and difficulties in management have increased. Moreover, it has also encouraged a dependent mentality among young people, that is, they wait until their parents retire and then replace them on the job. They do not make their own efforts to acquire educational and technical knowledge. This has influenced the quality of education and the growth of a generation of young people. At present employment pressure in cities and towns has let up; at the same time, the move to revive the rural and urban economies has opened up a broad channel for transferring the rural labor force. Consequently, the State Council has decided that henceforth the practices of "being replaced by sons and daughters" and "recruiting from within" shall be stopped.

According to the regulations of the State Council when enterprises hire workers they must adopt procedures for open recruitment that are geared to the needs of society and implement comprehensive examinations to hire the best. They must publicize general hiring regulations beforehand and make signing up open to the public. All those seeking employment who meet the prerequisites for examination may sign up to take part in the employment test. Once they have undergone comprehensive examination of their moral character, intelligence, and physical condition the list of qualified candidates may be published. Thus the task of recruiting workers is carried out under the supervision of the masses.

Third, enterprises have the right to dismiss staff and workers who violate discipline.

The state has implemented the "unified contract and distribution" labor system for workers for a long time. Thus, once an individual becomes a permanent worker or staff member in an enterprise, even if he performs poorly or commits serious errors, as long as there are inadequate conditions for discharging or removing him, the enterprise must keep him "under contract." He cannot be dismissed. Although the number of such people is small, their effect is great. To some degree they contributed to the lax state of labor discipline and to the corruption of the ranks of staff and workers. Consequently, in order to further strengthen labor discipline in enterprises it is essential to preserve the normal order of production in enterprises and give enterprises the right to dismiss workers who violate discipline.

According to the regulations of the State Council, enterprises should uphold the principle of giving priority to the education of those who violate discipline and actively do good work in turning this situation around. Those who receive education or administrative sanctions to no effect must be dismissed according to the requirements, limits, and procedures in the regulations.

When dismissing staff and workers who violate discipline, the key points for enterprises to observe are to seek truth from facts, follow official procedures, and not abuse their power. Only in this way can they receive the support of staff, workers, the masses and, particularly, the support of unions.

The state has adopted an attitude of responsibility toward dismissed workers and protects their lawful rights and interests. If a worker refuses to accept his dismissal, he is allowed to submit an appeal to the local labor dispute arbitration office or to the People's Court. If it is discovered that it really is a case of retaliation, not only must the situation be rectified immediately, the person in charge must be investigated and severely punished.

Fourth, set up a social insurance system, resolve problems in the contract system concerning worker retirement pensions and staff and worker unemployment insurance.

Once the "iron rice bowl" was smashed the issues of most concern to staff and workers in the reform of the labor system were medical treatment, support for the elderly, and guarantees for one's livelihood during periods of unemployment. Consequently a social insurance system was established and retirement pension insurance and unemployment insurance was made available for workers under the contract system. This eased their anxieties over their futures. These are the essential prerequisites in the reform of the labor system.

The method for implementing retirement pension insurance for unemployed contract workers is as follows. Enterprises and workers make payments into retirement pension insurance funds. Enterprises pay in about 15 percent of the worker's total amount of wages and list disbursement prior to paying income tax. Workers pay in 3 percent of their standard wages. When the retirement pension fund is insufficient, the state will provide an appropriate subsidy. Once a contract worker meets conditions for retirement he will be issued retirement payments, medical allowances, funeral subsidies, pension funds for the support of immediate relatives, relief funds, etc., on a monthly basis. Specialized social insurance agencies under labor administration departments are in charge of handling this work.

As for the ability of the state and enterprises to provide support, the State Council has stipulated that the scope of implementation be temporarily limited to: staff and workers in state-run enterprises which have declared bankruptcy; staff and workers in state-run enterprises on the verge of bankruptcy which have made cutbacks during the prescribed period for reorganization; and staff and workers dismissed from state-run enterprises and contract workers who have concluded or canceled labor contracts. As for the unemployment insurance fund for staff and workers, state-run enterprises pay in 1 percent of the total amount of standard wages of all of their staff and workers and list disbursements before taxes. During unemployment periods, staff and workers receive a specific amount of unemployment relief and medical subsidies according to relevant provisions.

9864/7051
CS0: 4006/76

LABOR AND WAGES

XINHUA REPORTS ON WOMEN'S PROGRESS AS PRODUCERS

OW010408 Beijing XINHUA in English 0242 GMT 1 Nov 86

["Women Now 'Hold up Half the Sky' in Commodity Production"--XINHUA headline]

[Text] Hangzhou, November 1 (XINHUA)--Chinese women now provide half the push in the ongoing drive to expand the country's commodity economy.

With this expansion China hopes to eliminate its traditional self-contained economy, which was based on a subsistence level income for producers.

Coastal Zhejiang Province is a good example of how women are doing their bit in the drive. In Zhejiang, 2.2 million women work in township-run factories, making up half of the province's rural industrial work-force, according to the provincial women's federation.

Founded by 800 rural women, the Panbao Lace Factory in Pujiang County, in central Zhejiang, exports embroidered clothing to Britain, the United States and 22 other foreign countries.

In all, 75 percent of Zhejiang's seven million able-bodied women are now engaged in commodity, industrial and sideline production, farming, commerce and service industries.

A federation official said many local women have been promoted as business executives and salesclerks. "Believe me," she went on, "this is something they would not have dreamed of before the Chinese Government encouraged peasants to pursue commodity economy production as a way of increasing their income."

For example, 1,851 women now serve as executives of rural factories and 625 women as salesclerks in the suburbs of Jinhua city, in central Zhejiang.

Zheng Cuijin, director of a rural household electrical appliance factory in the suburbs of Lanxi city, has helped import foreign technology and equipment for making enamel-insulated wire, turning her previously unprofitable factory into a successful one.

Bao Wenqin, 32, a peasant in Huangyan County, has become famous in Zhejiang not only for earning 20,000 yuan (5,400 U.S. dollars) through working diligently over the past two years, but also for her willingness to help others achieve prosperity.

Bao, now running an insole factory, told XINHUA, "I think only when everyone is rich, will our country be rich." She often passes her skill and management techniques on to fellow villagers. With her help, 1,000 women in her township are now doing insole production.

A provincial women's federation official said Zhejiang women are trying to learn work skills and improve their general knowledge by attending training classes.

Also in Jinhua, 92 percent of the rural women are literate, among the highest ratio in Zhejiang.

/6662

CSO: 4020/41

POPULATION

COUNTRY'S POPULATION DEPENDENCY RATIO SAID DOWN

OW061330 Beijing XINHUA in English 1202 GMT 6 Nov 86

[Text] Beijing, November 6 (XINHUA)--China's population dependency ratio has registered a 15 percent decrease since 1964, according to the paper HEALTH NEWS today.

Based on an analysis of 1982 national population census data, the State Statistics Bureau announced the 1982 population dependency ratio as 100:62, compared to 100:78 in 1964, the paper said.

Population dependency ratio is a proportion between the working-age population (15-62) and nonworking-age population (under 15 and over 64), according to the paper.

According to latest predictions by the State Statistics Bureau, up to 1990, China's population dependency ratio will be down to 100:46, the paper reported.

The paper attributed the drop to the government's family planning policy, which has lowered the birthrate in the past few years.

In the 1960's, children made up the main part of China's total dependency population, but at present, the decrease in numbers of children in the ratio is greater than the increase of those over 64, which resulted in a rapid drop of the ratio of the total dependency population, the paper added.

According to some experts' predictions, during the period between 1982 and 2040, China's population dependency ratio will gradually drop during the first 30 years and increase in the last 30 years, and until 2040, China's population dependency ratio will be no more than 63 percent of 1982's, the paper said.

/6662
CSO: 4020/41

TRANSPORTATION

MODERN TIANJIN-TANGGU HARBOR HIGHWAY CONSTRUCTED

Beijing JINGJI RIBAO in Chinese 19 May 86 p 4

[Report by special correspondent Wu Jiang [6762 3068]: "China Builds a Modern Highway--The Tianjin-Tanggu Harbor Highway Provides Marked Benefits"]

[Text] During the Sixth 5-Year Plan, the Ministry of Communications attacked the problem of inadequate energy supplies and foreign trade-related transport by constructing the Tianjin-Tanggu harbor highway system, a major technical project. This project will have a major impact and yield tremendous benefits during the Seventh 5-Year Plan.

The Tanggu New Harbor in Tianjin Municipality is one of China's largest harbors. The massive increase in the volume of foreign trade over recent years has resulted in the slow passage of goods through this port. Containers alone have more than doubled between 1984 and 1985 and when traffic was at its peak, as many as 20,000 containers passed through this port, an average of more than 600 containers per day. Because of the bad roads, slow trucks, and insufficient transport capacity, the harbor became seriously congested. The Ministry of Communications set out to modernize the Tianjin-Tanggu highway and pulled together its engineering resources to boldly attack this problem. Thanks to the joint efforts of the many S & T cadres, staff members and workers, China's first highway of modern standards was constructed, a pioneering project for China's future development of modern highways during the Seventh 5-Year Plan.

From construction of the roadbed to construction of the control system, advanced infrastructure of international standards were used. A modern, rubberized asphalt was used for surfacing, the subgrade compacted to hardness, and the surface made skid-resistant, bringing the foundation up to expressway standards. Over the whole length of the highway, computers monitor vehicles and accidents. The traffic signs are those internationally used which can display messages and are luminescent so as to be visible at night. To prevent disturbance by the glare of oncoming vehicles at night, a trial section with an "anti-dizziness network" was installed to ensure safety. The construction of this highway with its modern control and safety devices have yielded important benefits. At the height of traffic at the end of 1985, the highway not only assumed over 95 percent of the cargo traffic that the railways used to carry but also approximately 46 percent that of other goods. This alleviated the difficulty in transporting goods to the port. The highway increased transportation speed by 10 to 20 percent and reduced accidents by 15 percent.

TRANSPORTATION

SHANGHAI PORT RAISES CARGO HANDLING EFFICIENCY

OW171100 Beijing XINHUA in English 0830 GMT 17 Nov 86

[Text] Shanghai, 17 November (XINHUA)--Shanghai Port, one of China's largest, handled cargo exceeding 100 million tons in the first 10 months of this year, according to the Shanghai-based JIEFANG DAILY.

The number of foreign ships waiting to be unloaded at the port has been reduced to the minimum over the past 6 years, the paper quoted a port official as saying.

According to the official, this was the result of the reform of the port management system, which has stimulated the initiative of the port workers.

While carrying out technical upgrading and building new port facilities, workers here have tapped the port's productive potential.

The port has loaded and unloaded more than 500,000 tons of cargo at the docks of the owners of cargo this year and concluded contracts with transport departments to ensure timely cargo distribution.

As a result, the time for loading and unloading 1,000 tons of cargo has been cut down by 5 percent and that for ships being docked at the port by 5 percent. The stevedores' working efficiency has been raised by 1.6 percent.

The official said the number of foreign ships waiting to be unloaded at the Shanghai Port was reduced from 84 per day in August to 70 in September and 50 last month.

The official noted that the port would build 18 berths and upgrade 13 existing berths in the 1986-90 period to boost its handling capacity by 20 million tons.

/12232
CSO: 4020/46

TRANSPORTATION

UPGRADED GUANGZHOU-SHENZHEN RAILROAD TO BE OPEN SOON

HK170319 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1232 GMT 10 Nov 86

[Text] Quangzhou, 10 November (ZHONGGUO XINWEN SHE)--The construction of the new second line of the project of electrifying and double-tracking the Guangzhou-Shenzhen railroad is drawing to an end and the line is expected to be opened to traffic at the end of the year. Immediately after the commission of the line, the construction of a double-trace electric railroad will be started.

The project of electrifying and double-tracking the Guangzhou-Shenzhen Railroad is divided into two major phases: double tracking construction and electrification. Since the construction of the double tracking project was strated in February of 1984, so far, 95 percent of the project's earth and stone roadbed has been completed; some 70 bridges, 15 stations, and over 450 culverts basically completed; and the new 98-km-long line along 16 sectors of intervals has been opened to traffic. After the whole line is opened to traffic at year-end, the carrying capacity of the line will increase by 100 percent or more and the travelling time from Guangzhou to Shenzhen will be cut by half an hour.

The electrification construction will be undertaken immediately following the completion of the double-tracking. Through the line electric locomotives will be used to draw trains, signals will be automated, and opticfiber communications introduced. All passenger trains will be equipped with air-conditioning and train dispatch will be controlled [words indistinct]. When the time comes, the line will become the most advanced and modernized railroad on the mainland and the traffic capacity between sectors will be nearly 100 [word indistinct] of trains a day. It will then take less than 2 hours to travel by train from Guangzhou to Hong Kong.

/12232

CSO: 4006/114

TRANSPORTATION

RENMIN RIBAO COMMENTATOR STRESSES TRAFFIC SAFETY

HK210556 Beijing RENMIN RIBAO in Chinese 1 Nov 86 p 1

[Commentator's article: "Comrade Driver, Please Pay Attention to Safe Driving"]

[Text] Newspapers have lately carried reports on road accidents. Please read the following three reports:

A report carried by 7 October HUNAN RIBAO reads: On the afternoon of 4 October, eight traffic accidents occurred on the Changsha-Changde highway between Hanshou and Wancheng. Three people were seriously wounded and five others slightly. Six cars were damaged, resulting in a loss of nearly 20,000 yuan.

A report carried by 13 October GUIZHOU RIBAO reads: On 7 October, five passengers from the Yanhe county sanitation and antiepidemic center who were going to attend a meeting in Anshun city met with two accidents on the same day. The first bus they took ran against a stone fence and capsized. The other bus they later took ran off the road and slid 40 meters down a hillslope. Tens of passengers were injured.

A report carried by 21 October HENAN RIBAO reads: In the afternoon on 20 October, a truck belonging to the Changge county chemical fertilizer plant and loaded with tanks of ammonia solution was approaching the Ducun temple on the Jingshen highway when a tank dropped from the truck and exploded. The thick ammonia solution quickly volatilized. Two people were killed, 15 others seriously wounded and another 30 slightly.

This was very sad news. However, these three accidents were not the most serious either in terms of casualties or in terms of loss of property. There were many accidents more serious than these. They were lessons paid for with blood. They were startling sights. Traffic accidents affect many families. They occur more easily especially with the advent of winter. This deserves our close attention.

In our country, the standard of road works is low and the quality poor. With the fast economic development in recent years, the number of vehicles of various types has increased greatly, and passenger and freight transport is busier than ever before. This is the chief cause of traffic accidents. This

problem cannot be solved overnight. The standard of road works can only be raised and the quality improved step by step. The increase in the number of vehicles and the prosperity in the transportation business are a good thing. Of course, traffic accidents are not totally avoidable, but they should be minimized so that the drivers, the passengers and the pedestrians are all safe.

The problem of traffic accident concerns society as a whole and has to be solved with the joint efforts from all quarters. In this commentary, we sincerely give the comrade drivers a word of advice: The steering wheels in your hands and the accelerators under your feet are things of vital importance concerning life or death. On many occasions, the driver is the factor deciding whether or not the accident occurs. The comrade drivers may be driving on a long journey on high mountains. They may be on short trips in the streets. They have to brave the heat of summer and the chill of winter. They may sometimes miss their meals. They make great contributions to the state and the people. However, there are, in fact some "speeders" and "prefer money to their lives." They may bring disasters to other people and also to themselves.

Reportedly, with the adoption of the contract system, some drivers have aroused their enthusiasm because they want to haul greater loads at a faster speed and to earn more income by working hard. This is a good thing, of course. However, once a traffic accident occurs, a good thing will turn into a bad thing. Therefore, they must never forget that safety comes first. "Rather stop for 3 minutes than rush for 1 second"--this is a wise remark of an experienced driver. It is said that some drivers are incompetent jobbers. They lack good driving skill but have plenty of guts. Seeing that driving is "lucrative work," they try to get their driving licenses by improper means. Some may even drive without a license. Such a pretender in driving will bring serious disaster. The departments concerned should in the future tightly grasp the issuance of driving licenses and resolutely eliminate the pretenders among drivers. This means doing their duty to the people and to the pretenders as well.

A traffic accident often occurs in a split second, and yet it leaves behind deep and lasting sufferings and losses. A matter involving human life should be treated with utmost care. So, let us watch out!

/8309

CSO: 4006/135

TRANSPORTATION

BRIEFS

NEW LIAONING RAILWAY LINE--Construction of the Haicheng-Xiyuan local railway, one of Liaoning Province's key construction projects during the Seventh 5-Year Plan period, began on 22 October. This 91.6-km-long railway line will have 15 stations and will require a total investment of 102 million yuan. The construction period will be 4 years. [Summary] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 22 Oct 86 SK] /12232

BUILDING OF JIANG BRIDGE--Beijing, 3 November (ZHONGGUO XINWEN SHE)--China is to build another highway bridge in Wuhan across the Chang Jiang. Jingji Cankao said today that this project, which had been approved by the state, was to be covered by the first phase of the working plan of key projects during the Seventh 5-Year Plan. The state also approved the proposal of making use of foreign loans to build the bridge. The existing dual-purpose railway and highway bridge crossing the Chang Jiang was the first large bridge built shortly after the founding of new China. With the development of economic construction in Wuhan City, the traffic capacity of this bridge can no longer satisfy the demand of development. During the latter half of this month, Wuhan City will hold a technical and economic discussion on building and reconstructing the highway bridge. The city has also engaged Mao Yisheng, a noted expert in bridge construction, as chief advisor to the expert advisory group, and Li Guohao, a famous expert in bridge mechanics, as an advisor to the group. It has also engaged some well-known bridge experts as members of the group. [Text] [Hong Kong ZHONGGUO XINWEN SHE in Chinese 1348 GMT 3 Nov 86 HK] /12232

PORT PROJECT COMPLETION REQUEST--Mayor Jiang Zemin is very much concerned with the construction of Shanghai's new international passenger transport station. Before seeing representatives to the meeting on five ports recently, he asked Yan Runtian, director of the Shanghai Affairs Bureau, about the progress of this new international passenger transport station project. He Said: This plan must be carried out as soon as possible. On entry to Shanghai Municipality from the sea, on the ground, and from the air, we are now accelerating construction of the new railway passenger station; our airport is completed; and only Shanghai Harbor's new international passenger transport station remains to be built. Mayor Jiang calls for departments concerned to make a concerted effort to fulfill this task of great importance as soon as possible. [Text] [Shanghai City Service in Mandarin 1100 GMT 6 Nov 86 OW] /12232

QUANGXI'S BEIHAI AIRPORT COMPLETED--Nanning, 10 Nov (ZHONGGUO XINWEN SHE)--
A trial flight ceremony was held today at newly built Beihai Airport. At 1035, a Boeing 737 from Guangzhou effected a safe landing at the airport. Construction of Beihai Airport started on 10 April 1985, with a total investment of 35.5 million yuan. The airport, located 23 kilometers from northeast of Beihai City, has a 1,800-meter runway 50 meters in breadth and can allow landing of two Boeing 737's at the same time. It has been learned that the airport will be put into operation in December this year after today's successful trial flight. To start with, it will open the Guangzhou-Nanning-Beihai flight and the Guangzhou-Zhanjiang-Beihai flight and more flights will probably be increased if necessary. Early in the 1930's, there was a small airfield for air-mail in Beihai City. During World War II, the U.S. Air Force "Flying Tigers" squad of Claire Chennault built a temporary military airport here. In 1947 the American airline set up a branch here, opening the Beihai-Guangzhou-Hong Kong flight, but the branch was closed down at the end of 1949. [Text]
[Hong Kong ZHONGGUO XINWEN SHE in Chinese 1313 GMT 10 Nov 86 HK] /12232

NEI MONGGOL HIGHWAY--Hohhot, 7 October (XINHUA)--A new highway from Hohhot, capital of Nei Monggol Autonomous Region, to Lamawan, Qingshuihe County, in the region's Ulanqab Meng, was completed and opened to traffic on 6 October. Construction of this 90.1-kilometer highway, with bridges passable to 20-metric tons trucks and 100-metric ton trailers, is a project in connection with the development of Jungar coal field. [Summary] [Beijing XINHUA Domestic Service in Chinese 1212 GMT 7 Oct 86 OW] /12232

NEI MONGGOL HIGHWAY BRIDGE--Beijing 21 October (XINHUA)--A 530-meter long, 12-member wide highway bridge over the Huang He, China's second-longest river, is being constructed in the Inner Mongolia Autonomous Region in North China. On its completion in October 1988, the Wuhai bridge will ease the transportation burden on the Baotou-Lanzhou Railway and help promote the interflow of materials and goods between north and northwest China. [Text] [Beijing XINHUA in English 1057 GMT 21 Oct 86 OW] /12232

SHENYANG STATION CONSTRUCTION--Shenyang, 6 November (XINHUA)--Construction started today on a railway station designed to accommodate 140 trains daily in Shenyang, capital of Liaoning Province. Vice-Premier Li Peng laid the foundation stone. As one of the state's large and medium-sized projects for the Seventh 5-Year Plan (1986-1990), the station will have an advanced control system, and the complex will include hotels, restaurants, shops, teahouses and recreation rooms. Shenyang, an economic center and hub of communications in China's northeast, has the country's largest daily railway passenger flow of 170,000 and the existing facilities are strained. The first phase of the new station, with a planned investment of 150 million yuan (40 million U.S. dollars), will be completed by 1990. [Text] [Beijing XINHUA in English 1039 GMT 6 Nov 86 OW] /12232

CSO: 4020/46

TAIWAN

NATION SAID TO FACE TWO MAJOR ECONOMIC DILEMMAS

Beijing LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 39, 29 Sep 86 pp 23-24

[Article by Xiao Luntian [5618 0243 3240]: "Two Major Intractable Problems in Taiwan's Economy"]

[Text] Two of Taiwan's biggest and most intractable economic problems in the last 5 years have been excessive foreign-exchange reserves and a decline businessmen's willingness to invest. Taiwan used to have a shortage of foreign exchange and a huge international trade deficit, and thus Taiwan authorities had no choice but to adopt a variety of strict measures to increase foreign reserves. For example, under the slogans of "exports come first" and "everything must serve exports," Taiwan authorities used various policy incentives to stimulate export production. With respect to imports, the authorities employed high tariffs averaging 75 percent ad valorem and more than 2,600 restrictive measures, such as limiting the number of industrial plants [foreign businesses] that can open on the island and establishing local content rules, export ratio requirements, limits on import sourcing and restrictive qualifications for importers.

Behind these protective barriers, Taiwan over the last 30-some years has seen its foreign reserves swell dramatically, reportedly to a current total of more than \$30 billion, a level that the local economy cannot begin to absorb.

One of the reasons for the expansion in the Taiwan's foreign reserves is the "foreign-exchange fetish" that the authorities have long displayed, that is, their penchant for buying up foreign exchange from the private sector in exchange for Taiwan dollars. To date, the "central bank of China" has unleashed a total of 1.38 trillion New Taiwan dollars to buy up U.S. currency, increasing money supply and flooding the market with Taiwan notes. For several months straight, the money supply has grown at a rate of more than 25 percent, creating heavy inflationary pressure on Taiwan's currency. A second issue is that Taiwan authorities treat foreign exchange as their own private treasure. They do not permit the private sector to hold and use foreign exchange, nor do they employ foreign exchange for economic development or to replenish capital but rather deposit that money in foreign banks. For Taiwan's the 14 planned public construction projects, which require an investment estimated to total \$9 billion, the authorities incredibly went and borrowed \$7 billion from

abroad, giving rise to the very contradictory situation in which the farmer hides his hen in somebody else's house and yet goes and borrows money to buy eggs. Confronted by persistent questioning from "legislative yuan delegates," the governor of the "central bank of China" disclosed that, because Taiwan's political situation is unique, money deposited in Taiwan might be taken by the enemy regime at some point in the future, and thus Taiwan authorities deposited this money in foreign banks "under the names of three companies."

The people of Taiwan are extremely disgusted at this narrow-mindedness. The news media believe that foreign exchange should be public property belonging to all the people of Taiwan and that it is very doubtful what might become of that property during times of political turbulence if that property is deposited in the accounts of a few agencies or individuals. Business circles believe that these acts demonstrate the authorities' lack of confidence in Taiwan's political situation and future, and thus private interest in investment has dimmed.

In addition, Taiwan's huge trade surplus has created friction with foreign countries and resulted in the imposition of restrictions by Taiwan's leading trade partner, the United States. In recent trade negotiations, the United States forced Taiwan to increase the exchange rate between the Taiwan and U.S. dollars by 15 to 20 percent and imposed severe restrictions on Taiwan's exports. Products exported by medium and small enterprises account for 97 percent of Taiwan's foreign trade volume [as published], but the U.S.-Taiwan trade agreement undoubtedly will reduce the competitiveness of these enterprises in the U.S. market. With the continuous appreciation of the New Taiwan dollar, business circles have adopted a stop-wait-and-see attitude. Overwhelming policy interference from the U.S. is a painful millstone depressing Taiwan's economic growth. And the problems created by the decline in businesses' willingness to invest in Taiwan are very obvious. Many perceptive observers believe that the current spurt in exports is a result of the heavy squeeze that is being exerted on the mix of enterprises and that in the future Taiwan's economy will lack the strength to grow due to insufficient long-term investment in industrial production, sluggish development in the mix of industry and the resulting decline in competitiveness.

Taiwan's "executive yuan" has continually urged relevant economic agencies immediately to come up with a scheme to resolve these two major economic problems. After holding emergency discussions, the "ministry of finance," "the ministry of economic affairs" and other agencies decided that Taiwan should extend "investment tax reductions" for another year, meaning that the authorities should continue to use tax reductions to encourage investment. The "executive yuan's" economic planning and development council recently urged authorities to liberalize imports, accelerate public investment, create a better environment for private investment and make polluters foot the bill for the damages they cause. And "minister of economic affairs" Li Dahai [2621 1129 3189] indicated that he is stepping up studies of countermeasures, reportedly suggesting that the "ministry of finance" sharply reduce import duties on more than 1,200 goods, that restrictions on overseas Chinese and foreign investment in Taiwan be relaxed and that the range of industries eligible for investment tax reductions be expanded.

Some enterprises have applauded the relaxation of foreign-exchange controls, believing this measure provides an effective way to reduce exchange reserves. But other enterprises which have benefitted from protectionism oppose the measure. The TAIWAN SHIBAO believes that relaxation of control on overseas Chinese and foreign investment in Taiwan will not help reduce foreign reserves but rather will actually cause those reserves to increase because outsider investment amounts to capital inflow, causes a corresponding increase in international current-account surpluses and leads to a further rise in foreign reserves. And the proposal to liberalize Taiwan investment abroad amounts to nothing more than a transfer of some of the reserves monopolized by the "central bank of China" into private hands for investment abroad and will not suffice to resolve the problem of excessive foreign reserves. Thus these proposals to liberalize overseas Chinese and foreign investment in Taiwan and Taiwan investment abroad will by no means effectively reduce foreign reserves. Moreover, since exports account for one-eighth of Taiwan's gross national product, relaxation of import controls is only a short-term remedy. Experts fairly unanimously recognize that an increase in public investment would serve both to consume the excess in foreign reserves and to produce a chain reaction-effect in increasing investor confidence. Yet relevant authorities lack the will to make this investment. Thus the problem of excessive foreign reserves remains insoluble, and Taiwan's fiscal policy confronts a tremendous challenge.

As for the problem of declining willingness to invest, Taiwan authorities seem to have "exhausted every scheme only to find themselves at wit's end." Some commentators dodge the tough issues and dwell on trivialities, claiming that the problem is due to a poor investor climate, which stems from instability in world economic trends, incoherence in Taiwan's industrial development policies, limited opportunities for investment, a lack of law and order and so on. And Taiwan's economic officials think the problem can be resolved through "tax reductions for investment." In fact, however, this policy has already been tried many times--thrice in the last 5 years--and has never proved effective. The revisions made this year have broadened the scope of the policy, which originally was directed toward investment in strategic industries and in certain types of special equipment, to cover the entire economy, including private enterprises. Nevertheless, many experts believe that this policy still will not be enough to increase businesses' willingness to invest. Taiwan business circles have firmly indicated that the authorities should take a good hard look at their own policies and administrative efficiency and ask themselves whether their performance in these areas can really give entrepreneurs sufficient confidence and encouragement. Taiwan business circles fairly unanimously believe that investment has declined primarily because businessmen lack confidence in the future. Although time solves all problems, the decision of whether or not to invest must be made quickly and cannot be delayed, and thus entrepreneurs have no choice but to forgo investment when the policies of the authorities are erratic. Some economists have urged the authorities to strengthen investor confidence, improve the investment climate and restructure industry by effecting such policies as increasing the size of enterprises and making labor-intensive enterprises more technology-intensive. In fact, however, industrial restructuring takes a long time and cannot be accomplished in just 3 or 5 years. Nor can the investment climate be improved in the short term. And

investor confidence cannot be strengthened because there is much anxiety concerning the domestic situation on Taiwan. So most of Taiwan's medium and small businessmen just hope to make a fast buck, flocking to whatever activity seems to offer a little return for nothing and racing into something else as soon as profits in that activity start to dry up.

Observing general economic conditions on Taiwan, the island's media commonly believe that economic development must be considered in its entirety. From this systemic point of view, any given matter is always causally interrelated with many other factors, all of which interact together. For example, the policies of supporting certain industries, encouraging exports and controlling imports that Taiwan has maintained over the last 30-odd years have generated a huge trade surplus. Economic and trade officials have continuously sought to expand trade surpluses as they attempt to open new trade markets. And Taiwan's strict controls on foreign currency have led to a tremendous expansion of reserves. These policies have produced the side effects from which the island currently suffers.

High or low willingness to invest is also the result of the interaction of many factors--investor confidence, investment climate, national consciousness and the like. Solving problems requires coordination of the entire system so that everything works together. In theory, then, if the Taiwan authorities are to resolve their thorny economic problems, they must take the advice of many experts and provide strategic systemic guidance, coordinate the entire system through policy and make all economic agencies function as an integral whole. Yet in trying to deal with the island's current economic problems, Taiwan experts have stubbornly clung to their own points of view, and Taiwan's economic agencies, such as the "ministry of finance," the "ministry of economic affairs" and the "economic planning and development council," have acted stupidly and incompetently, shirked responsibility, procrastinated and performed inefficiently, thus exacerbating the problems and creating a vicious circle that will be hard to break.

12431

CSO: 4006/78

TAIWAN

BRIEFS

INDONESIAN DELEGATION TO ATTEND ECONOMIC TALKS--Taipei, Oct. 29 (CNA)--The Third Sino-Indonesian Economic Cooperation Conference will open Thursday in Taipei. Major topics to be discussed at the one-day meeting will be ways and means to enhance the cooperative relations in trade, investment and the tourism industry between the Republic of China and Indonesia. The ROC-Indonesian trade and economic relations have been very close despite the lack of diplomatic ties between the two nations. The ROC-Indonesian trade totaled U.S. dollar 700 million last year with the ROC suffering a deficit of U.S. dollar 130 million, according to the committee. [Text] [Taipei CNA in English 0243 GMT 30 Oct 86 OW] /6662

CSO: 4020/41

- END -