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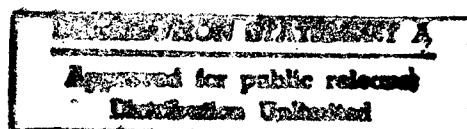
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China Report

ECONOMIC AFFAIRS

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14 March 1985

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

POSITIVE, NEGATIVE EFFECTS OF PRICE SUBSIDIES ANALYZED

Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 11, 5 Nov 84 pp 19-20

[Article by Qiao Rongzhang [0829 2837 4545]: "The Dual Effects of Price Subsidies"]

[Text] Price subsidies are an important economic policy in China. Since 1953, the state has employed such subsidies fairly effectively to protect production, stabilize prices and ensure a secure livelihood for the people. But because the scope and amount of these subsidies has steadily expanded in recent years, the state's financial burden has grown increasingly severe, thus attracting attention from and engendering debate among the broad masses of people. Chinese economic theorists are not entirely unanimous in their perceptions regarding price subsidies. Some cadres place emphasis on the positive role of these subsidies and advocate that the subsidies be continued, while other cadres stress the negative effects of the subsidies and urge limitations thereon. How, then, should we approach price subsidies?

A price subsidy is a subsidy or compensation that the state provides when planned prices fall below actual value or costs or when there is an unequal exchange of value among commodities. In actual economic life, price subsidies are primarily employed in situations where buying and selling prices are reversed or equal or where losses result from policy change and price readjustment. Thus price subsidies are actually an economic policy that the state adopts according to the objective requirements of the law of value when prices deviate from value (which deviation is sometimes necessary) and differ somewhat from financial subsidies, which, in addition to price subsidies, also include tax reductions and subsidies to cover enterprise losses.

Price subsidies have undergone a process of evolution and development in China. When the system was initiated in 1953, only cotton wadding was included. By 1960, however, 5 commodities received subsidies; by 1970, 11 commodities were covered; and by 1980, the number of subsidized commodities had grown to 38. In recent years, the steady increase in the scope and quantity of price subsidies has led to a dramatic rise in the money value thereof, which, according to incomplete statistics from relevant departments, rose 11-fold between 1965 and 1981. What caused this rapid rise? First, there was an increase in the reverse gap between the purchase and sales prices for agricultural produce. Prior to 1979, grain and edible-oil production showed losses and received subsidies every year. The state's

sales prices for these goods, however, did not change, and thus the losses suffered in grain, oil and cotton production grew ever larger, and subsidies for these losses increased accordingly. Second, procurement quotas for agricultural produce have been steadily reduced, and the relative volume of goods purchased at extra-quota price-surcharge rates and at negotiated prices has steadily risen. These prices are higher than the official quotations, and with the state's selling prices unchanged and the growing relative volume of these higher purchase-priced goods, price subsidies thus have also increased. Finally, the international prices of imported commodities have risen, the foreign-currency exchange rate is irrational and the number of imports subject to price subsidies has also increased, all of which factors have led to mounting deficits year after year.

The steady increase in price subsidies has engendered a certain amount of change in people's perception of price subsidies. At first, people fairly generally believed that the subsidies had only a positive side to them. But after a bit of experience, especially during the last few years, people gradually recognized that price subsidies produce two types of effects.

The positive effects of price subsidies during China's socialist stage of development may be summarized as follows.

1. Where the price structure is not completely rational, subsidies provide an important condition for the realization of social reproduction. In real economic life, the prices of some commodities that are needed by society are too low, so sales revenue falls below production costs, thus causing losses and rendering continued production of these goods impossible. In such cases, price subsidies enable enterprises to maintain production and to continue to meet social demand for these goods.
2. When commodities cannot obtain an exchange of equal value at their real worth, price subsidies provide an important means by which to stabilize the market. Sometimes the state will make appropriate increases in producer prices for industrial goods and in purchase prices for agricultural produce in order to stimulate growth in production. But to avoid the chain reaction that this move might cause and to maintain market-price stability, the state does not make corresponding increases in selling prices. Instead, the state provides subsidies to cover the resulting gap between purchase and selling prices and the administrative deficits thus engendered. In this fashion, market-price stability can be maintained, and production and exchange of these commodities can proceed smoothly.
3. For a certain period of time, price subsidies play an important role in distributing and redistributing national income. To restore and expand production, we occasionally must readjust irrational prices. In such cases, however, subjecting important commodities that affect the national economy and the people's livelihood to planned price readjustment would lead to increases in the purchase and the market sales prices for these goods, necessitate wage raises for workers and staff members, increase costs and market prices generally and create a vicious circle. But if price subsidies are employed, the purchase prices for these goods can be increased without raising market sales prices and wages for workers and staff members, the state can provide subsidies to administrative departments to cover the reverse gap between purchase and selling prices and thus the effects of

purchase-price increases can be limited, the procedure can be simplified and we can facilitate both growth in production and price stability.

4. To a certain extent, price subsidies assure basic stability in the masses' standard of living.

Besides these positive effects, there is also a negative side to price subsidies, which currently evince the following defects.

First, price subsidies increase the state's financial burden. Some subsidies are included in the state's financial expenditures, while others are deducted from tax receipts and profits remitted by enterprises and thus do not show up as financial expenditures. Consequently, increases in subsidies are fiscally reflected as increases in outlays, not as reductions in revenue. In recent years, the steady rise in the money amount of subsidies has led to a continual decline in the state's revenues relative to the size of the national economy. If this situation persists, the state's financial burden will grow increasingly heavier.

Second, if certain limits are exceeded, price subsidies will retard economic growth and lead to price rises. Subsidies are employed primarily to cover consumption expenditures, and given the limits on revenues in any particular year, an increase in the ratio of outlays devoted to subsidies will inevitably reduce accumulation, thus limiting investment in agriculture, industry, national defense and scientific research. And if industrial and agricultural production and research do not improve, this will exacerbate the state's financial difficulties and increase the deficit. If allowed to continue, this situation might lead to inflation and price increases.

Third, subsidies reduce the leverage that prices wield in the economy. Subsidies provide partial compensation for commodities whose prices fall below actual value, and thus to a certain extent subsidies conceal these commodities' real costs, values and relative worth with respect to other goods. The price of subsidized commodities does not reflect their value, and thus it is impossible to evaluate the economic efficiency of the enterprises, industries and sectors that produce such goods. Furthermore, long-term use of subsidies prevents prices from exerting their full leverage--encouraging the advanced and prodding the laggard--and is bound to aggravate the irrational price structure and create greater difficulties for further economic development. Meanwhile, deficits caused by irrational prices are often confused with and indistinguishable from losses that result from poor management, and in real life all losses are usually subsidized. This could lead to protection for laggards and encouragement of wastefulness.

When one gives general consideration to the positive and negative effects of price subsidies, he should note that subsidies are the inevitable result of an irrational price structure and must be retained as long as the price system is not fully reformed. For example, grain is a basic necessity in people's lives, and thus we must continue to subsidize the fixed amount of grain that is supplied for the people's domestic use, or else living standards will be severely affected. Of course, we must study the current subsidy system, eliminate irrational and

unnecessary subsidies, retain those that are reasonable and necessary and reduce all subsidies to the lowest possible, necessary limit. Meanwhile, we must create proper conditions and limit the negative effects and make full use of the positive side of subsidies. In the long run, with advances in the reform of the price system and the gradual rationalization of the price structure, subsidies can be partially or fully eliminated so that the law of value and price levers can be allowed to perform their proper functions.

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FINANCE AND BANKING

HUBEI PEASANTS SET UP TOWNSHIP ENTERPRISES

Wuhan HUBEI RIBAO in Chinese 26 Oct 84 p 1

[Article: "Hubei Peasants Gather 100 Million Yuan in Capital to Set Up Township Enterprises in A Big Way"--Resting Assured in Expanding Reproduction and Striving to Open Up A New Road to Riches]

[Text] According to incomplete statistics by departments concerned, peasants throughout Hubei province have since the beginning of this year collected a total of 136.85 million yuan in capital in setting up more than 48,700 new township enterprises. This amount is equivalent to nearly 10 times the total sum of 14 million yuan which the state has been giving to Hubei yearly in support of the township enterprises.

Since the CPC Documents Nos 1, and 4 and the 10-point decision of the provincial CPC committee and the provincial government on certain questions of economic policies in agriculture were handed down this year, the broad masses of peasants have further eliminated their worries about "leaking out their riches" and thus "attracting too much attention and inviting trouble," and, one after another, used the surplus money in their hands to set up various types of township enterprises. By so doing they have found an outlet for the idle and scattered capital and also solved the hardship caused by the lack of funds for developing the township enterprises. In Huanggang and Yichang prefectures where more funds were collected, the amount has exceeded 50 million yuan and 30 million yuan respectively.

Most of these enterprises financed by the peasants are run in the forms of labor leading capital, capital leading labor, partnership management, ensuring interests and drawing dividends, this way is conducive to running the enterprises, gaining material benefits readily, developing the enterprises quickly and further arousing the peasants' enthusiasm in gathering up the funds. Daqi hamlet of Baihu village in Yingcheng county has collected 100,000 yuan and set up the "Chunguang" thread factory employing more than 110 workers and staff members. In 6 months after putting into operation, this factory's output value came to 470,000 yuan, the profits amounted to 60,000 yuan and the monthly wages for employees averaged over 50 yuan and the highest came to over 100 yuan. In keeping with the needs after developing the thread factory, this hamlet again gathered up funds and set up a paper fuse factory and a plastic packing and printing factory with an annual output value of over 150,000 yuan. The people said: It is good to set up a factory by gathering up funds because a single household can lead a crowd and a single industry can enrich a whole hamlet.

FINANCE AND BANKING

PRICE, VALUE SCISSOR DIFFERENCES' DISTINCTION REJECTED

Beijing JIAGE LILUN YU SHIJIAN [PRICE THEORY AND PRACTICE] in Chinese No 5,
20 Sep 84 pp 21-22

[Article by Jin Xizai [6855 0823 0961]: "Incorrect Concepts--A Brief Discussion on 'Scissor Difference in Prices' and 'Scissor Difference in Value'"]

[Text] In studying the question of price parity in the exchange of industrial agricultural commodities in recent years, some people have treated "scissor difference in prices" and "scissor difference in value" as two different concepts. They hold the view that since the founding of the People's Republic, while the "scissor difference in prices" between industrial and agricultural products in commercial transactions has been reduced, the "scissor difference in value" has been increased. Others disagreed with this view, but accepted the interpretation of "scissor difference in prices" and "scissor difference in value." In my opinion, this arbitrary division and interpretation of the scissor difference concept is unscientific for the following reasons:

First, they have confused the original meaning of the scissor difference concept. Stalin was the person to introduce this concept. Some comrades argued that Stalin never specifically mentioned whether scissor difference actually refers to the deviation of price from value or to a comparison of current prices with the prices of previous years. This view does not conform to facts. Stalin distinctly pointed out: "If we interpret 'scissor difference' as the difference between the prices of agricultural products and the prices of industrial products in terms of production costs, then the situation surrounding 'scissor difference' will be as follows: Undoubtedly the selling prices of our industrial products will be a little higher than the prices of products sold under other conditions. ...This situation has created the difference between the prices of industrial and agricultural products and put the peasants at some economic disadvantage." ("Collected Works of Stalin" Vol 10, p 195) Thus in Stalin's views, scissor difference is not only the difference between prices, but rather the concept of a situation which symbolically illustrate the exchange of industrial and agricultural products at unequal prices which are linked with the production costs. It refers to the scissor-shape difference formed by the prices of industrial products which are higher than their value, and the prices of agricultural products which are lower than their value. The division of this special concept into "difference in prices" and "difference in value" does not basically correspond with what Stalin had in mind.

Second, the division of scissor difference into "difference in prices" and "difference in value" and the arbitrary severance of the innate relations between price and value are inconsistent with Marxist theories on labor value and commodity prices. Without price, there can be no value to speak of and the question of price parity in exchange does not arise. Similarly, value, as the crystallization of ordinary human labor, cannot manifest itself, since value must be expressed in terms of price. Severance of the innate relations between price and value in fact rejects Marxist theories on labor value and prices. It cannot accurately describe either price or value, not to speak of an accurate interpretation of scissor difference.

Third, from the standpoint of real economic life, the concept of "scissor difference in prices" without value as the foundation can hardly be tenable. If we will for the time being leave out the relations of value and independently analyze the changes in the price ratios between industrial and agricultural products, can we positively assert that the scissor difference in the exchange of industrial and agricultural commodities has been increased or reduced in our country since the founding of the People's Republic? The answer is negative. In the statistics table, the changes in price ratios are usually shown by price indices. To do this, we first take the prices in a certain period (the base period) as the base figures, and compare these figures with the prices before and after the base period. Then we show their rise or drop in percentage. However, base periods are chosen at random, and there is no way to show whether scissor differences exist in the base period, and, if so, the extent of differences. Therefore, it would be impossible to determine the extent of changes in the scissor differences during the reporting period. It can only show the margins of increase or decrease in the price parity during the reporting period compared with the base period. Furthermore, in real economic life, there is a difference between industry and agriculture in labor productivity as well as other factors leading to the changes in the amount of commodity value. Therefore, the trend of changes in price ratios alone cannot reflect the real situation of scissor difference. Let us suppose that in a certain period, the unit value of agricultural products has risen and that of industrial products in exchange has dropped without, however, any change in these prices. Under such conditions, the scissor difference is increased, and such an increase cannot be reflected in the price ratio.

Some comrades concluded that the "scissor difference in price" has been reduced since the founding of the People's Republic and based their conclusion entirely on an analysis of the changes in price parity. In my opinion, such a conclusion cannot be arrived at on the basis of an analysis of the price parity changes, if the value factor is not taken into account. The following data will prove my point. If the average prices in 1930-1936 were taken as the base period figures, then in 1957, the so-called "scissor difference in prices" had been basically eliminated. For this reason, starting from 1958, the price parity in the exchange of industrial and agricultural commodities would show a "counterscissor difference." In other words, the prices of agricultural products were higher, and the prices of industrial products were lower than those in the base period. If the prices in 1958 were used as base figures, the situation will be even more obvious. After 1958, the increase in the price index of procurement prices for agricultural products was much faster

than in the retail price indices of industrial products. Compared with the base period, the reporting period did not show any "scissor difference in price," while what actually happened was the trend of a "counterscissor difference in price." From this analysis, we can see that without taking into consideration the relationship between price and value, we cannot see the trend of changes in the scissor difference and therefore cannot explain the law of changes in the price parity in the exchange of agricultural for industrial commodities. Thus we can see that the so-called "scissor difference in price" is an unscientific concept which lacks a firm theoretical foundation.

Concepts reveal the essence of matters. People usually understand and grasp the essence of matters on the strength of concepts. Therefore, preserving the identity of concepts as well as a unified understanding of concepts are very important issues. Since we have a completely scientific concept of scissor difference, we should abandon the unscientific ones.

The question of scissor difference is a very important one concerning price parity for the exchange of agricultural and industrial commodities. We must deeply explore the law governing the changes in such a price parity and study the question of scissor difference. I do not agree with the "scissor difference in prices" and "scissor difference in value" theories, but this does not mean that I oppose the study of price parity in the exchange of agricultural for industrial commodities based on the movement of prices. On the contrary, we should not overlook the need for such study because the trend of changes in the movement of prices can reflect the law of movement of the rate at which agricultural products can be exchanged for industrial products. Study in the scissor difference is inseparable from the study in the relations between price and value. In fact, the study in the movement of prices should be combined with the study in the changes in value.

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FINANCE AND BANKING

IMPORTANCE OF BUILDING COST IN CONTRACT SYSTEM STUDIED

Beijing JIAGE LILUN YU SHIJIAN [PRICE THEORY AND PRACTICE] in Chinese No 5,
20 Sep 84 pp 29-30

[Article by Chen Qi [7115 3823]: "Great Importance Should be Attached to Building Cost in the System of Public Bidding"]

[Text] Premier Zhao Ziyang pointed out in his Report on the Work of the Government delivered at the Second Session of the Sixth NPC: "The building industry can be the first of the urban trades to carry out reform across the board. Reform of the building industry should focus on shortening the construction cycle, reducing costs, improving quality and increasing the returns on investment. The key task is to institute a system of investment responsibility and a system of public bidding." Institution of a system of investment responsibility and a system of public bidding inevitably involves the question of building cost.

Building cost occupies an important place in the price structure of the national economy. Such cost, first of all, determines the level of production cost and depreciation charges in various national economic sectors. In terms of value, the products of building construction amounts for approximately 60-65 percent of all fixed assets in the national economy, and even more in the heavy industrial branches. The ratio of value of these products in the nonproductive fixed assets is even higher--more than 80 percent. Therefore, building cost has an important bearing on the level of depreciation charges to be accounted for in the production costs of fixed assets. Rational building costs will not only help in the normal growth of the building industry, but also promote the planned and proportionate reproduction of fixed assets among various national economic sectors and thereby accelerate the progress of the four modernizations.

A special feature of building construction is that it has a large variety of products, each with its own unique design and structure. Even though the blue-prints used are the same, the construction sites and the effects of climatic, geological, and other natural and social conditions can still add some special feature to each project. Each construction job produces a single product. The labor consumption and accumulated value of each product are different from those of others, and the prices cannot be the same. Therefore, the building cost of each construction project must be calculated according to its own individual production cost.

We have always said that planned socialist prices should be based on the average social production cost under normal conditions of production and management. Then how are we to explain that the building costs in construction projects should be calculated individually? Since the building industry produces individual products of many varieties, the building costs must be calculated individually. However, if we will study further, we will discover that the individual calculations are based on the amount of work for each subproject, and the budgeted unit prices of these subprojects are subject to the state's unified standards of consumption. These standards are in turn based on the average conditions and average levels in each locality. The overall building cost worked out this way can still reflect the social cost and the amount of socially necessary labor required. Therefore, the value of the project is consistent with the definition that price is the monetary expression of value.

The building cost in our country is likely to continue its upward trend. The unit cost of various construction projects are now about 50 percent higher than in 1962. The main causes of the cost increase are as follows: 1. One of the important causes of higher building cost is that the standards of construction are higher. In the past several years, the increase in the amenities of daily life and the adoption of antiseismic measures have increased the building cost by 15-30 percent. 2. All buildings naturally consist of construction materials, and the cost of materials account for 70-75 percent of the building cost. In the past several years, the prices of construction materials have changed greatly, and many of these changes were the result of a chain reaction to the changes in the prices of mineral products and energy. For example, the price of Tianjin's red bricks now is 50.2 percent higher than in 1970. This inevitably affect the building cost. 3. the change in the standards of fee collection also directly raises the building cost, and this change is a fairly prominent factor. On the one hand, the original standards of fees have been raised in varying degrees; on the other hand, many new fees, including some unreasonable ones, have been added to further raise the building cost.

Of these three causes, the first two should be studied by the construction units and the supplies units so that measures can be worked out to retain whatever is reasonable and to eliminate whatever is not. The third cause touches on the question of fees to be collected by the contracting units, and this is the very problem in urgent need of solution when we adopt the contracting system.

Before 1958, the building cost included profits. In 1959-1979, it was felt that since the building industry basically handles the state's capital construction investment, the inclusion of profits could only mean an increase in capital construction investment. Thus, the profit margin was eliminated from the cost which was then made up of three fees--direct fees, indirect fees and independent fees. For more than 20 years, profit was not considered and the budgeted cost substituted for the building cost. This brought about serious problems, because many fees in different names and with every conceivable justification could be added to the cost. Whenever the building units spent any money, they would approach the construction units for reimbursement, and

the cost including the various fees turned out to be even higher, although no profit was included. This system of reimbursement for actual expenses, under which profit was not used as a means of assessing the business results, also gave rise to the idea of "eating from the same pot" in the building industry. This practice was largely responsible for the slow development and improvement of the building industry for some time in the past. In 1980, the state adopted the method of adding a profit margin to the budgeted cost. However, since the profit margin was limited by law to only 2.5 percent, the inclusion of fees still continued, and not much improvement could be made. It is true that many real problems did exist. For example, according to the state's financial system, nonoperation expenditures should be paid out of the construction enterprises' profits. A huge number of workers retired in the building industry in recent years, and the retirement fund is quite enormous. There would certainly be difficulty if it has to come out of the 2.5 percent profit. In the past, fees were included in place of the profit margin. Now fees are included in addition to the profit margin. As a result, the building cost has to be raised, thus adding to the burden of the construction units with adverse effects on the investment returns. This situation must be changed.

In the future, the system of contracting through public bidding will be adopted in construction building. In appearance, the solution of all problems with the inclusion of fees and profit in the building cost seems easy enough. However, the substance of contracting through public bidding in construction building is very complex and cannot be summarily interpreted as a matter of "contract to the lowest bidder." Bidding is essentially a question of building cost calculation. The construction unit must determine the lowest possible bid on the basis of a reasonable building cost, and verify all the bids accordingly. The high bids should of course be excluded, but those that are too low should be carefully scrutinized in order to determine their feasibility. If such feasibility is uncertain, these bids should not be accepted. For the construction units, the important consideration is whether the project can be completed on time and according to the quality and quantity norms laid down in the contract. They must not count on receiving compensations from the contracting units. Therefore, all units, either submitting or inviting bids, should in the future attach great importance to the question of building cost. It is necessary for us to further explore the composition of building cost theoretically, and study the basis, principles and methods of working out this cost in practice so that a common understanding can be reached and some standards set up to facilitate the smooth progress in the work of inviting bids on construction building.

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FINANCE AND BANKING

PRICE REFORM DISCUSSED BY TIANJIN INDUSTRIAL ENTERPRISES

Beijing JIAGE LILUN YU SHIJIAN [PRICE THEORY AND PRACTICE] in Chinese
No 5, 20 Sep 84 pp 39-41

[Article by Survey Office of Tianjin Municipal Price Administration Bureau:
"Expectations by Some Tianjin Industrial Enterprises from Price Reform"]

[Text] On 9 July, Tianjin Municipal Price Administration Bureau and our editorial department invited the representatives of some local industrial enterprises to a symposium on the current price reform. Below are excerpts of the speeches (arranged by categories and not yet reviewed by the speakers):

Zhi Gang [6736 0474] (Chief of Tianjin Municipal Price Administration Bureau): This symposium is convened by the Municipal Price Administration Bureau and the editorial department of JIAGE LILUN YU SHIJIAN. Recently, the Standing Committee of Tianjin Municipal People's Congress held an enlarged meeting mainly for the purpose of implementing, in the spirit of party rectification, Comrade Deng Xiaoping's important directive concerning further opening to the outside world and Premier Zhao Ziyang's Report on Government Work. The meeting also studied the arrangements for party rectification, for speeding up the urban reform, and for further opening to the outside world. All departments, units and enterprises in the municipality are now acting in accordance with the spirit of this meeting. Our departments in charge of comprehensive price reform should coordinate their work closely in the course of reform. The main purpose of inviting you here is to have the opportunity to hear your views and suggestions concerning the price reform.

Zhao Xinghan [6392 5281 3352] (Chief editor of JIAGE LILUN YU SHIJIAN): One of the tasks for JIAGE LILUN YU SHIJIAN is to promote the work of price reform. Tianjin is a large industrial city. The current trend of urban reform is toward the delegation of power to the lower levels, the invigoration of economy, and the further expansion of decisionmaking power for the enterprises. In accordance with the spirit of Comrade Zhao Ziyang's report, and in light of the various problems of prices, we would like you to discuss in what aspects should the enterprises have more decisionmaking power and how should the work of pricing be adapted to the current situation.

Wang Qufu [3769 0637 3187] (Deputy chief of Tianjin Municipal Price Administration Bureau): Since the beginning of this year, the municipal price

administration bureau has conducted some research, exploration and experimentation in price reform in accordance with the policy of the central authorities. However, we are still far behind the requirements of the Party Central Committee and the Municipal Party Committee as well as the objective realities. We would like everyone to air his views freely so that we can further improve our work.

I. The Question of Enterprises' Authority in Setting Prices

Xu Yicai [1776 3015 2088] (Responsible person of the marketing section, Lisheng Pharmaceutical Plant): Before the Third Plenary Session of the 11th Party Central Committee, the state monopolized all purchases and marketing, and the plants were only concerned with production, leaving the prices to be set by the companies and commercial departments at the higher levels. We did not pay much attention to whatever prices were set. After this Third Plenary Session, the policy was changed, and state monopoly no longer existed. However, price administration remained over-rigid as it had been before. For example, if the package of some drug is changed from large to small, is it possible for some policy or rule to be laid down for the enterprise to set the price before reporting its action for record at the higher levels? Now requests for such actions have to be submitted to the company and approved by the bureau. Some of the regulations are too rigid and unrealistic. In the case of Anchajian [1344 5420 7769], for example, the Pharmaceutical Bureau set the price only for 100-tablet packages. If we are to produce smaller 10-tablet packages, it should be proper for us to add a small-package differential. However, this was never approved. If the small packages are still sold at the same price as the 100-tablet packages, the enterprises will incur loss. In this and similar cases, can the enterprise be authorized to set the price, while the higher authorities take care of the principles and regulations?

There are also some minor commodities which have long been unprofitable because of the prices. They have been out of stock for a number of years. Is it possible for the enterprises to set their own prices based on the state's principles? The prices of raw materials for calcium tablets, for example, have brought losses to the industrial departments which have consequently discontinued their production for several years. If the price is set too low, it will affect both production and marketing and ultimately hurt the consumers.

Li Hui [2621 2547] (Deputy director of Tainjin No 2 Cotton Textile Mill): Price reform should promote the development of new products and new varieties. However, the control over the prices of new products and new varieties is too rigid. Our fabrics made of recovered cotton is quite good in quality and attractive in design. People in other places like them. However, according to regulations, the price of substandard goods cannot be more than that of standard goods (0.80 yuan per foot). As a result, the price was set at 0.77 yuan. People in other places said: We would buy them even at a higher price. Now the supply cannot catch up with the demand. For new products, new varieties and new designs, is it possible for the enterprises to have the authority of setting prices? Furthermore, our grey sheetings are now of

better quality, thanks to the imported advanced technology. After the second stage of work, they become brand-name products of the knitted goods mill which has now won a reward. However, no reward has been given to those responsible for the first stage of work, and this is very unfair.

Jin Anmin [6855 1344 3046] (Accountant of Tianjin Soda Plant): The State Council recently issued a document whereby more power is delegated to the state-own enterprises, and the enterprises can set their own prices for the means of production produced outside the plan to be sold by the industrial departments themselves, provided the prices are raised or lowered within a 20 percent margin. This document is not specific enough and should be further supplemented. Recently, the higher authorities ruled that prices can be readjusted after consultation between the parties representing supply and demand. They also stipulated that if the raw materials are bought at higher prices, the products can also be sold at higher prices. We should find out exactly how this should be interpreted.

II. Good Prices for Good-Quality Products

Jin Anmin: The caustic soda of Red-Triangle Brand, produced by our plant has been all along a brand-name product. On three occasions since 1979, it has won the state's gold medal. According to regulations, we should be able to increase the price within a certain limit. However, our request has not yet been approved, and we cannot be rewarded for these good-quality products.

Xu Yicai: At present, some drugs of good quality cannot bring good prices. Our Three-Fish Anodyne is a brand-name product, but we lose money on it. We cannot afford to produce it even though it is badly needed in the north-east, northwest and northern China. In fact, some slight price increase should not be too much of a problem, not to mention that this is a brand-name product. Besides this, our plant designed a new product which won a science and technology price from the State Economic Commission. We should have obtained our patent rights, but as soon as this product appeared, it was reproduced in other places. As a result of the reproduction and the "regional" blockades, this new product, which costed a lot of intensive efforts did not bring any benefit to the design unit. There can be no incentive for the enterprises to conduct research and to manufacture new products.

III. The Use of Various Price Differential Policies to Promote Production, Enliven Business Operation

Li Hui: At present, the "water storage tanks" for some products have been dumped into the industrial enterprises, and particularly the enterprises producing raw materials. In our textile trade, the principal work sequences are spinning, weaving and dyeing. Now neither the commercial nor the weaving and dyeing units are willing to store raw materials for fear of paying interest. This is particularly true of those products sold seasonally. Some of these products should be produced the whole year round but can be sold in only certain seasons. We should study the inclusion of a seasonal differential in the prices or lower the bank interests as a solution to this problem.

Xu Yicai: There is only one price throughout the country for one drug. This is disadvantageous to production, circulation and supply. At the national pharmaceutical conference, the stocks in the first- and second-level stations has decreased because nobody is willing to keep a large stock. What shall we do if something happens unexpectedly? This problem must be solved.

Li Jiazhen [2621 1367 3791] (Sales manager of Tianjin Bicycle Plant): The control over the prices of different bicycles is too rigid, since none of these prices can be changed. The present prices have remained basically unchanged for decades. Some of them are too high; others, too low. Can some adjustments be made of the general price level. If not, it will be disadvantageous to production and circulation. Some products are irrationally priced. For example, if more money is spent on some parts, this extra outlay cannot be compensated from the retail prices and the plant has to take the loss. This is unreasonable. (Editor's note: On 2 July, the State Council approved the report submitted by the State Economic Commission concerning the prices of bicycles to be set according to quality.)

IV. Problem of Increase in Raw Material Prices

Xia Jiuchen [1115 0046 2052] (Deputy chief of finance department, Tianjin Steel Plant): All plants are now required to improve their economic results, but the increase in raw material prices is too much for the plants to bear. Sometimes, good materials have to be used on cheap products. Some iron, for example, does not require any addition of manganese, but other places insist on this addition for the iron to be sold at a higher price. In the first half of this year, the high-price raw materials we bought increased our outlay by more than 10 million yuan, but we could not increase the prices of the finished products at all. The production cost of our billets was 350 yuan per ton, but the selling price was only 310 yuan. This problem, if not solved, will affect the enterprises severely.

Jin Anmin: The cost of diesel oil used by our plant has increased from 240 yuan to 330 yuan per ton, but the Ministry of Finance would not recognize any reduction in profit caused by any increase in raw material prices unless such increase has been approved by the State Council. In fact, the increase in prices of some raw materials do not as a rule require State Council approval. This can only add to the plants' real problems.

Xu Daoyuan [1776 6670 6678] (Sales manager of Synthetic Detergent Plant): The prices of many raw materials for detergent powder have gone up. The cost of Glauber's salt has gone up from 120 yuan to 180 yuan per ton. Sometimes, we could not buy it at even 200 yuan per ton. The cost of caustic soda was originally 200 yuan; now it is up to 300. There are also increased prices or negotiated prices for coal, water, electricity and petroleum, all adding to our production cost. However, the higher authorities insist that these increases be absorbed by the light industry. If the increases are so many, how can they be all absorbed. We feel that while protecting the consumers' interests, some consideration should also be given to the plants' real difficulties. The prices of the means of industrial production should be

controlled; otherwise it would be difficult to maintain the price stability of consumer goods.

V. Price Reform in Foreign Trades

Li Hui: Now all export products that bring great losses, either real or unreal, must have their prices reduced; otherwise, they are not allowed to be exported. The cost of important polyester fibers is low, only 4,400 yuan per ton. However, when they are supplied to us as products for domestic consumption, they cost 7,000 yuan per ton. For the processing of imported raw materials, it would be proper for the state to be concerned with the overall situation. However, for our accounting purpose, high raw material costs will also raise the production cost and lead to great losses. Such losses are actually unreal losses. It would be unreasonable to prohibit the exports or to restrict the plants' profits because of unreal losses.

Li Jiazhen: The prices of bicycles which have been diverted from the external to the domestic market are very chaotic and we are quite helpless about them. First, such bicycles do not carry any warranty and thus affect our goodwill. Some of them are substandard goods for foreign trade, because they have deteriorated in quality from long storage. Yet they have to be sold as substandard goods. Second, the prices are high. Since the bicycles diverted from the external to the domestic market have to go through many links in the country, their prices have been correspondingly raised, thus causing dissatisfaction among the consumers.

Zhi Gang: Because of the limited time, many comrades have not been able to express their ideas fully. We will hold another symposium when there is an opportunity. In future, we hope you will contact us directly to express your views. We are also prepared to visit the plants to solicit their views. Some of your views concern problems of a local nature. We will do our best to solve them. As to those which do not belong to this locality, we will relay your views to the higher authorities. We take a serious view of the problem of work style in the price administration bureau itself and will work out a solution while the party rectification is in progress. As to those problems not connected with commodity prices, we will report them to the departments concerned. While the urban reform is now in full swing, and conditions are not quite ready for an all-round reform of the price system, there are still many local and minor reforms to be carried out. We must act in accordance with the spirit of Comrade Zhao Ziyang's report and the enlarged meeting of the standing committee of the municipal people's congress and further improve the work in commodity prices.

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FINANCE AND BANKING

NEW INDUSTRIAL, AGRICULTURAL OUTPUT INDICES PROPOSED

Beijing JINGJIXUE ZHOUBAO [ECONOMICS WEEKLY] in Chinese No 44, 29 Oct 84 p 1

[Article by Yu Guangyuan [0060 0342 6678]: "Indices of Gross Industrial and Agricultural Output Value 'In the Region' and 'Belonging to the Region' Should be Used Simultaneously"]

[Text] I have come up with an idea advocating the simultaneous use of two sets of indices in our statistics to replace the current index of "gross industrial and agricultural output value." The two sets of indices are: the index of "gross industrial and agricultural output value in the region" and the index of "gross industrial and agricultural output value belonging to the region." To my knowledge, the current index of "gross industrial and agricultural output value" does not clearly define whether it "belongs to the region" or it is "in the region." In these circumstances, it is irrelevant if consideration is not given to differentiate the index of "gross industrial and agricultural output belonging to the region" from the index of "gross industrial and agricultural output in the region" when economic cooperation between various provinces and cities is still underdeveloped. However, once the economic cooperation between various provinces and cities has developed, when a certain province or city will invest in another province or city (independently or in a joint venture) as the case may be, it will be incompatible with the current needs if no differentiation is made between the gross industrial and agricultural output value "in the region" and that "belonging to the region." Therefore, I propose that these two sets of index be adopted simultaneously as soon as possible.

Let me briefly explain the meaning of these two indices:

When province-city A invests and operates a certain industrial or agricultural enterprise in province-city B, the output value from this undertaking will be included in the "gross industrial and agricultural output value belonging to province-city A" and the "gross industrial and agricultural output value in province-city B" respectively but not in the "gross industrial and agricultural output value in province-city A" or the "gross industrial and agricultural output value belonging to province-city B."

In this way, the output value, whether the "gross industrial and agricultural output value in the region" or the "gross industrial and agricultural output

value belonging to the region" will not be duplicated in calculations. As far as each province-city goes, the "gross industrial and agricultural output value in the region" and the "gross industrial and agricultural output value belonging to the region" are not equal on a national scale, however the sum total in these two sets of indices are equal and both are equal to the same gross industrial and agricultural output value.

There is an advantage in using these two sets of indices simultaneously, that is, the output value of the investment and operation in province-city B by the economic organizations of province-city A can be included in calculations in the output value belonging to itself so that its operations can be reflected in the index of output value in terms of statistical figures. This will help fulfill the task of quadrupling the province-city output value. In the meantime, province-city B can also obtain statistical figures to show the "gross industrial and agricultural output value in the region."

This is the main purpose of my proposal here.

Of course, judging from the present situation, the difference between these two sets of indices in terms of value is not too great because the production belonging to the region is seldom carried out in other provinces-cities and production in this region is also seldom done by people coming from another province-city. But this situation may change after the cooperation between various provinces and cities is developed. Because the economic development in various provinces and cities in our country is progressing unevenly and with the expansion of cooperation between the developed and underdeveloped regions, the difference in relation to these two indices will become bigger and bigger. The difference between these indices, therefore, can be used to measure the degree of development in cooperation between the developed and underdeveloped regions in our country.

This is another function of adopting these two indices simultaneously.

This proposal was first submitted in Shanghai in May 1984 and was published in the Shanghai JIEFANG RIBAO. This short article is a supplement to my original idea.

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FINANCE AND BANKING

RULES GOVERNING FLEXIBLE FOREIGN EXCHANGE SPENDING PLANNED

Shanghai SHIJIE JINGJI DAOBAO [WORLD ECONOMIC HERALD] in Chinese 29 Oct 84 p 6

[Article: "Bank of China Is Drafting Rules To Relax Use of Foreign Exchange"--Using the State's Accumulated Foreign Exchange Well and Flexibly, Bank of China Has Begun to Transform from a Foreign Exchange Bank of International Account Settlement to That of Capital Development And Economic Guidance]

[Text] It is learned by a reporter recently that the Bank of China is studying the drafting of relevant measures on relaxing the use of foreign exchange to make proper and flexible use of the State's accumulated foreign exchange in the next several years so as to turn this money into live forces of production as quickly as possible and promote a rapid growth of the national economy during the "Seventh 5-year Plan" period.

China's foreign exchange reserve has increased yearly over the recent years creating very favorable conditions for national construction. However, excessive stocks of foreign exchange in the hands of the state can also be disadvantageous. On the one hand, it has tied up a large quantity of goods and materials in storage overseas that our country can use effectively thereby creating a gap in the supply of goods and materials at home; on the other hand, it has taken up an enormous amount of funds in Renminbi and exerted pressure on the domestic market to the extreme disadvantage of developing large-scale economic construction. Concerned quarters held that the stockpiled foreign exchange should be used as quickly as possible on technical transformation projects that require less investment but can achieve quick results and high profits with new technology so that the old enterprises and old industrial bases can swiftly raise their productive capabilities and technical level, the stockpiled foreign exchange should be used particularly on the renovation of enterprises related to foreign trade export and on the improvement and updating of their products so as to give play to the foreign exchange reserve immediately. This way will not only solve the shortage of construction funds to some extent and invigorate the economy but also open up a way to make money and bring about a beneficial economic cycle.

The Bank of China is a state bank specializing in foreign exchange dealings, to cope with the reform and the situation of opening to the outside world, it is now transforming from a foreign exchange bank handling international

accounts settlement to that of capital development and economic guidance; changing from singularly handling the state's foreign exchange receipts and expenditures and international account settlement to actively and reliably participating in international credit activities in support of domestic economic construction; gradually changing from borrowing and repaying under a unified state plan to independently and with the initiative in the bank's own hand handling loans to and investment in departments and enterprises.

Specifically speaking, the Bank of China will reform certain existing rules: One, simplifying procedures and speeding up the use of foreign exchange. Changes will be made on the single practice of limiting discussion only on the loan [repayment] when a loan application is involved, to including active participation in the planning of items to be imported, external negotiations, counselling and signing of contracts and in coordinating with departments and enterprises to speed up the use of foreign exchange and the progress of projects. Loan procedures will be further simplified; examination and approval of loans for projects using the state's stockpiled foreign exchange may be done at an earlier date in order to speed up the progress of using foreign exchange so long as they are determined by the State Planning Commission, the State Economic Commission and the local planning and economic commissions, as long as they have the ability to repay and as long as their letters of proposal on the projects are approved. Two, flexible loan methods must be used in keeping with the multiple needs of enterprises. The forms of loans in foreign exchange handled by the Bank of China will be changed from the single method of borrowing in foreign exchange and repaying in foreign exchange used in the past to many and varied forms such as borrowing in foreign exchange and repaying in foreign exchange, borrowing in foreign exchange and repaying in RMB, and borrowing in RMB and repaying in foreign exchange; other varied forms are also used such as extending package loans in RMB, borrowing in RMB and repaying in RMB and composite use of various types of loans. When necessary, the bank may participate in investing in projects or invest in the form of a loan. With regard to the forms of repayment, the loans may be repaid by the borrowing enterprises themselves or they may be paid back comprehensively by the trades or departments concerned. As for the specific form of loans for the projects, the planning commission and the economic commission will decide on specific measures based on the source of repayment and after consulting with the bank and enterprises. Three, various types of services will be provided to domestic enterprises in the fields of selecting the types of equipment, asset and credit investigation of customers, market forecasting, selection of currencies, foreign exchange rate fluctuations, drawing up of feasibility studies and forecasts of economic results by fully utilizing the extensive contacts of the overseas branches of the Bank of China with their counterparts and industrial and commercial accounts and the easy access to collecting data on international economic, financial and market trends. In the meantime, domestic enterprises may be organized, through agencies and overseas branches and offices, to go abroad on a tour of investigation so as to ensure that the projects will have a fast and precise start and that the foreign exchange will be used properly and flexibly to bring results into play as quickly as possible.

FINANCE AND BANKING

QUESTION OF RAISING FUNDS FOR HUMAN DEVELOPMENT DISCUSSED

Haikou HAINAN RIBAO in Chinese 31 Oct 84 p 3

[Article by Pan Zhengqiang [3382 2973 1730]: "On the Question of Calling for Capital and Raising Funds in Hainan"]

[Text] Raising funds from society through the issuance of certificates of stock has been a new thing that emerged from the current four modernizations drive. Is this way of raising funds applicable to Hainan? The answer naturally is affirmative.

The development and construction of Hainan is entering into a new historical period and the first hardship encountered at present is the lack of funds. According to statistics, the amount of investment and loans for capital construction which the state and the bank extended to Hainan in 1982 came to about more than 180 million yuan, yet based on the estimate of reaching the strategic target of "comparatively well-off level" by the turn of the century, Hainan will have to increase its investment in capital construction by an average of more than 2 billion yuan annually within the next 10 years. It is obvious that there is a tremendous gap between the amount of funds needed for Hainan construction and the amount of funds available. To thoroughly solve the shortage of funds needed in capital construction on Hainan, I am of the opinion that in addition to increasing state investment, bank loans and utilizing large amounts of foreign capital and overseas Chinese capital annually, another important way that should not be overlooked is to establish an investment and trust corporation early to issue certificates of stock and start raising funds among the masses.

Hainan's call for capital and raising funds is not only of actual needs but also of possibilities. Since the 3d Plenary Session of the 11th CPC Central Committee, the living standards and income of peasants and workers and staff members in cities and towns have increased considerably as a result of faster economic development on Hainan. According to statistics, the total agricultural output value (not including farmland reclamation) in 1978 accounted for only 497 million yuan and the peasants' average annual per-capita income amounted to over 50 yuan. The total agricultural output value in 1983 came to 1.108 billion yuan which was 611 million yuan more than in 1978 or an increase of 123 percent; peasants' average per-capita income came to 301 yuan, nearly five times greater than that in 1978. Comparing with 1978, the wages of workers and staff in cities and towns had also registered

a bigger increase. It is found that all these incomes have been basically used for consumption funds, aside from the amount used for purchasing consumer goods, most of the money has been left unused. For various reasons, this portion of unused currencies has not been deposited in the banks. Besides, as a result of the more open policy being implemented by our administrative district to the outside world, the amount of idle money that flowed into the island from abroad and Hong Kong and Macao and overseas Chinese remittance has increased continually. In this circumstance, transforming scattered, fragmentary and temporarily unused consumption funds from inside and outside the island into funds for production by means of issuing certificates of stock is not only compatible with the needs of Hainan's development and construction but also in keeping with the fundamental theory of Marxism.

However, the call for capital and raising funds in our district is progressing at a slow pace. This is primarily due to the lack of correct understanding about the issuance of certificates of stock. Stock certificates are a kind of negotiable securities issued by a joint stock company in raising funds. Holders of stock certificates may periodically draw dividends from the stock certificates but may not draw on the capital stock. The stock certificates can be transferred, bought or sold freely. The certificate of stock is an inevitable product of the development of the commodity economy and is not a unique way of raising funds in the capitalist countries. The development of commodity production demands the separation between proprietary rights and the right of use of funds, the funds bear a transferable character and can be institutionalized as securities. But the certificates of stock can precisely satisfy this type of objective demand arising from the development of the commodity economy. The certificate of stock is a most flexible instrument among the negotiable securities that appears in the stock exchange to absorb idle capital in society. Thus it is not only being universally used by the capitalist countries but by the developing countries and socialist countries also. It should be pointed out that in issuing stock certificates under the socialist system, efforts should be made to give play to the advantage of raising funds quickly and in large sums and at the same time to guard against all kinds of evil practices engendered in capitalist countries. To this end, in calling for capital and raising funds in our district, the following measures may be adopted: One, a clear aim and orientation of fund-raising should be established. The orientation and the amount of funds to be raised should be determined in accordance with the requirements of the overall plan for social and economic development on Hainan. Fund raising in our district should be orientated toward communications, energy, housing, growing of tropical crops and processing, technical transformation of old enterprises and urban public facilities. Two, the legitimate rights and interests of stock certificate holders should be guaranteed, in addition to specifying comparatively generous and stable dividends, the legitimate rights and interests of the investors should be protected by the constitution of the state and other pertinent laws and regulations. Overseas Chinese who subscribed to shares should enjoy all the preferential treatments the state extended to enterprises established on Hainan district. Three, Supervision over fund raising should be strengthened. In addition to undergoing examination and approval

by the Hainan industrial and commercial administrative departments and receiving a business permit as required, enterprises undertaking fund-raising and issuance of certificates of stock must report to the bank at a higher level for approval before engaging in financial operations. Financial and banking institutions should guide and coordinate the business activities of fund-raising enterprises through various principles and policies and financial activities.

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FINANCE AND BANKING

QUESTION OF PRICE REFORM NOT CAUSING PRICE HIKE DISCUSSED

Wuhan HUBEI RIBAO in Chinese 1 Nov 84 p 4

[Article by Feng Quanmin [7458 0356 3046]: "Why Price System Reform Will Not Cause A General Price Rise"]

[Text] Because the law of value was long neglected and because of other historical reasons, our country's price system has remained in a serious and irrational state. In spite of some readjustments made over the past several years, the question remains basically unsolved. The 3d Plenary Session of the 12th CPC Central Committee pointed out that measures must be taken from now on to gradually redress this situation, reform the price system and solve inadequate price differentials. Some people worry that reform may undermine price stability, bring about a general and spiralling price rise especially the price of daily necessities and lower the people's living standards. We are of the opinion that such worries are groundless. For a long time, under the influence of "Leftist" thinking, price stability has been construed as "price fixed" and looked upon as one of the advantages of socialism. Such a comprehension runs counter to the theory in Marx's Political Economy about price fluctuation around value and is one-sided. Price stability does not mean immobility under a consistent system over several decades but stability in dynamic state without violent upheavals and sharp rise and fall. This kind of stability can be preserved in the course of reforming the price system and the people's living standards will not be adversely affected.

One, a general and spiralling price rise will not take place on the strength that the individual value of commodities will not change or diminish. As we know, the basis of price is value and the amount of value in commodities is in direct proportion to the needed labor time in society embodied in the commodities and in inverse proportion to labor productivity. As the amount of value contained in the commodities changes, corresponding changes in prices will sooner or later take place, this is the objective demand of the law of value.

That we have to reform the price system now is primarily because the current price is either too high or too low in relation to value thereby seriously violating the law of value and not because of the general decrease in labor productivity. As seen from the progress in production by material production

departments in our country in recent years, while social labor productivity is increasing steadily, the individual value of most commodities is gradually dropping. This way, instead of a general spiralling price rise, the price will eventually drop also.

Two, developed production and the ever greater abundance of goods is the reason that there will be no general price rise. Besides determined by value, the commodity prices are also influenced by the relation of supply and demand. When the supply of a certain commodity falls short of demand, its price may rise and may possibly exceed the value; conversely, the price may drop and even be below the value. In the course of the price reform, superior quality commodities whose supply falls short of demand should be allowed to adequately raise the price as this will make it possible to arouse the enthusiasm of producers and stimulate development of production; on the other hand, oversupplied and overstocked commodities may adequately reduce prices to help dispose of overstocked goods and restrict the production of these commodities. This will help ease the contradictions between supply and demand. Since an overall shortage in the supply of daily necessities in our country is impossible, then a general and spiralling price rise will also be impossible.

Three, socialist competition is an important factor that curbs a general and spiralling price rise. By giving enterprises certain powers to set the price of products, will it lead various enterprises to seize the chance to hike price or hike price in disguise thereby stirring up a gust of price-hike wind? This also is impossible. Besides the above two reasons, price is also restricted by competition. In our country, the great majority of products are not being handled exclusively, with the exception of individual commodities, the entire market for consumer goods is basically a "buyer's market" in character. Under this circumstance, enterprises handling commodities of the same categories will inevitably start competing to speed up the sales of their commodities. If an enterprise sets the commodity prices too high, it will lose numerous consumers and in the end has to lower the price to make the sale. Even for exclusively handled products, the situation in which the price is much higher than the value will not last too long. Under the circumstances when enterprises can independently choose their own forms of operations and make arrangements for production, funds in society will inevitably flow toward those new and developing sectors where the supply of products falls short of demand. With the increase in the number of operators, the growing abundance of commodities and the easing of contradictions between supply and demand, the price of this type of product will drop, and the price drop of black and white television sets made in China has reflected this point.

Four, state supervision and regulation are an important guarantee against a general and spiralling price rise. A look at the result of commodity price readjustment in recent years shows that because the ideological level of enterprise operators varies, individual units at times have disregarded the interests of the state and consumers and seized price readjustment as a chance to raise prices at will or hike prices in disguised form, if this phenomenon is unchecked, it will cause a chain reaction, bring about a great

upheaval in prices and throw the entire economic life into confusion. The party and government, long anticipated this happening, have adopted and will adopt strong measures to guard against it. From an overall point of view, our country's economy is a planned economy and not an economy with a completely free market. Any act of seriously violating the state price policy and leading the consumers into a trap will be strongly opposed by the broad masses of the people and strictly sanctioned by the state economic laws and regulations.

Five, Marked increase in income is a reliable guarantee for the elevation of the people's living standards. People's living standards are primarily determined by two factors, income and commodity price. When income increases, even the price rises to some degrees, the actual living standard will continue to rise provided the margin of price rise is smaller than the income increase. However, the income will grow even faster under the party policy of making the people rich and when production develops at a high speed. The average wages of urban workers and staff members have increased about 40 percent, the increase in peasants' income is quite impressive, many families' income has doubled and redoubled. Therefore, the people's actual living standard will still be greatly raised after deducting the factors causing the price rise. Each and everyone can experience this personally with regard to clothing, food, housing, transportation and consumption.

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FINANCE AND BANKING

ORIGIN OF, OUTLOOK FOR SPECIAL DRAWING RIGHTS

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 5,
Sep-Oct 84 pp 26-31

[Article by Ye Caiwen [0673 1752 2429]: "The Origin of and Outlook for
Special Drawing Rights"]

[Text] Special Drawing Rights (SDR's) are special rights to use funds and have been allocated to member countries of the International Monetary Fund (IMF) since 1 January 1970. They cannot be exchanged for gold and they are not real money; they are merely units of accounting. However, they can stand side by side with gold and the U.S. dollar as a new international reserve asset for keeping accounts of international balance of payments among governments and as a liquidity to supplement the original global reserves. In order to pay off international payments deficits, member countries of the IMF have established an SDR account for each country to exchange for equal value foreign exchange with other countries designated by the IMF and to use payments of international payment deficits or economic agreements to redeem their own currencies held by other countries. Currently the SDR accounting system is regarded by the capitalist world as a major measure to collectively regulate monetary and financial relations among nations, and the major reform plan of international monetary and financial relations have been closely linked to SDR's. Therefore, understanding the future of SDR's will help us to understand and keep abreast of the new trends in the reform of the international monetary system and the development of the international money market.

I. Origin of Special Drawing Rights

A. The So-called Bernstein Plan

In the 1960's and along with frequent crises of the U.S. dollar, the capitalist world monetary system centering around the dollar was buffeted continuously. Confidence in the dollar among various countries began to waver, and because of the needs of international balance of payments, international liquidity was inadequate. Consequently, to deal with the question of reform of the international monetary system, the first step was creating a new international reserve asset to supplement international liquidity. At that time reform plans were numerous and they aroused heated debate among major Western countries. Of the various reform plans the impact of the so-called Bernstein Plan was

significant. The plan was proposed by Edward M. Bernstein, who had been a senior official of the U.S. Treasury Department and the IMF. Bernstein believed that since the growing world demand on currency reserves would far exceed the normal increase in currencies and gold, other means must be found to solve this problem. The best way to meet the need for increased reserves in the future would be to go through the IMF. Bernstein pointed out that the holding of dollar reserves by central banks of various countries should not continue to increase and that the new international reserve currency should be carefully designed and newly created international reserve assets, or "reserve unit." This reserve unit cannot be used to exchange for gold but should possess the same function of gold as an international reserve currency, particularly the ability to pass off international debts. The creation of this new reserve asset should be backed up by the currencies of some major countries and a certain value of gold should be used as a guarantee. Each participating country should deposit a certain amount of its own currency with the IMF as a guarantee and exchange it for corresponding amounts of reserve units. Bernstein pointed out that the currencies of the United States, Britain, France and West Germany and other major Western industrial countries (namely, the 10 member countries of the "Paris Club" plus Switzerland) can be used as reserve units, commonly formed according to specific ratios based on their importance as reserved currencies and in international trade and investment. The issuing of reserve units should meet the growing need for them internationally, but excessive increase would be inadvisable. These reserve units could be used by themselves to pay off international debts but they could also be used together with gold and the dollar.

Other major plans that were concurrently popular with the Bernstein Plan were the so-called Triffin Plan and Rueff Plan. The Triffin Plan was proposed by the Yale University professor Robert Triffin. He believed that a system with the U.S. dollar or the British pound as the primary component of currency reserves was no longer realistic. He argued that the dollar should not be used as an international reserve currency and that world liquidity should be improved. For this reason, Triffin proposed to change the IMF completely into an international central bank which would combine the international reserve assets of all member countries and create a new international reserve currency on this basis. Because this proposition would alter the IMF Agreement, it was of course negated by the U.S. government. The Rueff Plan was proposed by the noted French economist Jacques Rueff. He was the leading proponent of the revival of the gold standard and believed that the international monetary system centering around the dollar should undergo thorough reform. For this reason, he proposed to increase the official price of gold based on the dollar and permit the central banks of various countries to exchange all of their dollars for gold from the United States. International payments deficits in the future could only be cleared off by gold, and the dollar should not continue to be used as an international reserve currency. Rueff's proposition was a reflection of the attitude of the French government at that time. However, as long as the major world reserve currency--the dollar--did not collapse completely, this proposition could not possibly be realized.

Judging from its basic substance, the Bernstein Plan would not fundamentally affect the role of the dollar as a major international reserve currency. On the contrary, Bernstein's proposition was no more than a supplement of the capitalist monetary system centering around the dollar; it essentially wanted to safeguard the dollar as the most important international reserve currency.

B. The Emergence of Special Drawing Rights

The first post-war crisis of the dollar broke out in October 1960. At that time the United States was in the midst of an economic crisis and there were large deficits in its international balance of payments so that confidence in the dollar began to shake. There was an outflow of large amounts of short-term funds from the United States, and the London gold market panicked to sell the dollar and purchase gold so that the price of gold skyrocketed to \$41.50 per ounce or 20 percent above the official price. At that time, the United States had no choice but to agree to supply gold to the Bank of England for sale at the London market in order to curb the panic that inflated the price of gold.

At the annual meeting of the IMF in 1964, France first put forward the plan to reform the international currency system. The French minister of finance d'Estaing vigorously attacked the United States' longtime use of the dollar as the international reserve currency and its reckless issuing of currency to compensate for its international payments deficit. He formally proposed to establish a reserve currency unit based on gold as a substitute for the dollar. Naturally the French proposition was firmly opposed by the United States, which basically did not agree to alter the role of the dollar as the international reserve currency.

By 1968, the United States had changed its attitude toward the issue of reforming the international currency and had shown willingness to study a new "international currency unit" to "supplement" the dollar. The United States explained this position at the IMF annual meeting of that year. At the meeting, after heated debates with the United States and France diametrically opposed to one another, the IMF finally charged the Group of Ten with the task of studying the issue and submitting a report.

After the Group of Ten accepted this task, it carried out 2 years of heated internal debates. One side consisting of the United States and Britain, which wanted to free the dollar and the pound from difficulties and to halt the outflow of gold from the United States, advanced the theory that the international circulation was inadequate and advocated the creation of a "new reserve currency" to supplement the dollar, the pound and gold in order to suit the needs of expansion in world trade. On the other side, west European countries headed by France believed that payments were not inadequate in world trade and the world economy at that time, but it was the United States that used the dollar as the major reserve currency to compensate for its international payments deficit without any restraint thereby causing overflow of the dollar and currency surplus. Therefore, a new currency simply should not be set up before the United States could eliminate its international

payments deficit. Both sides were diametrically opposed to one another and there was no progress whatsoever.

In March 1968 the dollar crisis broke out once more. Because the panic to sell the dollar and purchase gold was extraordinarily vigorous, within just a half month \$1.4 billion were drained from the American gold reserve. Struck by a serious dollar crisis, the United States could no longer maintain the official price of gold on the London free market. On 15 March the panic to purchase gold forced the London gold, foreign exchange and stock markets to close. With the exception of Paris, most of the gold markets in Western Europe also halted transactions at that time.

The London gold market reopened on 1 April that year. At the 24th annual meeting of the IMF on 28 September 1969, the International Monetary Fund Agreement which was ratified in 1944 underwent its first revision and the provision establishing SDR's was added. Only then was the plan to set up SDR's officially approved.

To summarize the above, the setting up of SDR's was undertaken with the intervention of the United States against a historical background of continual worsening of the dollar. The Bernstein Plan which was proposed as early as the first part of the 1960's was the theoretical basis for SDR's. The reason described by that plan was to solve the inadequacies of the international reserve asset and international liquidity of IMF member countries. However, it was in reality a measure to alleviate the dollar crisis. This was because SDR's were allocated proportionally according to the share ratios of member countries within the IMF. The greater the share, the greater the allocation. The United States had the largest share which could therefore greatly reduce the presence of exchanging dollars for gold and could reduce the outflow of U.S. gold reserves.

II. Outlook for Special Drawing Rights

Created as an international reserve currency supplement, SDR's were unable to solve the dollar crisis and the crisis of the capitalist monetary and financial system. Historical experience has demonstrated that the former capitalist gold-exchange standard which was linked to the pound and the dollar was not a stable and permanent currency system. It was widely believed in world economic circles that in the future the international monetary system could never again be built on the basis of supremacy of the currency of a particular country. At the meeting of the IMF on 30 June 1974, member countries reached an agreement that in the future international monetary system, SDR's would be used as the standard of valuating world currencies and the principal international reserve asset. At the IMF meeting in Jamaica in January 1976, the IMF Agreement was again revised and member countries were called on to work in concert to make SDR's the principal international reserve asset in the international monetary system. Nevertheless, in order to make SDR's the principal international reserve asset in name as well as in reality, the following issues are still outstanding.

A. There are irreconcilable contradictions in the relationship among the number of SDR's issued, the method of allocation and the "surplus" of dollars in the world.

1. The number of SDR's issued is limited. Although a total of 21,433,000,000 SDR units have been allocated since allocation began in 1970, they merely constitute about 7 percent of the total amount of international reserves (excluding gold); moreover, this proportion is decreasing progressively. Obviously this quantity can hardly satisfy the actual needs in international accounting. Moreover, for many years the share of the dollar in the world's foreign exchange reserve has always been maintained at around 75 to 80 percent. It is very clear that if SDR's are to be used as a major measure to increase global liquidity in the future, their quantity issued must be increased. Under the present circumstances the likelihood of this is not great. On one hand, from the standpoint of the growth of international liquid assets, objectively there is no necessity to increase the issue of SDR's. On the other hand, the issue of SDR's has no actual material basis whatsoever, and excessive issue is bound to intensify inflation.

2. The question of increasing the issue of SDR's is also faced with the sharp contradiction of how SDR's should be allocated. Since SDR's are a supplement to international reserve assets, to a certain extent it makes it easier for countries with international payments deficits to obtain a certain currency credit. Therefore, developing countries advocate that the allocation of SDR's should be related to the giving of development aid. They hope that through this connection they can automatically obtain more of the fund assistance from the IMF, that is, obtaining more SDR's to be spent on the needs in economic development. At the same time, they request that the allocation of SDR's should particularly consider the needs of the most under-developed countries. However, some Western industrial countries headed by the United States have rejected this reasonable request. They believe that this would only reduce the trustworthiness of SDR's. They maintain that the creation of international liquidity and development aid serve different goals and that the allocation of SDR's cannot be linked to development aid. In the reform of the international monetary system and the north-south economic talks, the question most concerned by developing countries has not been given adequate attention and discussion.

3. If SDR's are used as a substitute for the dollar as the principal international reserve asset, it would be necessary to remove the surplus of dollars in the world today. Moreover, the handling of existing dollar debts particularly needs to be resolved. We know that if we ignore the problem of hundreds of billions of dollars and merely rely on SDR's to replace the dollar, only the United States would benefit. If we allow these hundreds of billions of dollars unguaranteed by gold to float around in the world, the stability of the value of SDR's will suffer. How do we handle such a huge amount of "surplus" dollars? So far it remains an issue which is hard to resolve. To be sure, these dollars were dispersed around the world by the U.S. government and no doubt it should be responsible to retrieve them with gold or other valuable materials. But this is easier said than done. The United States knows that its government's gold reserve is far less than the

dollar debts. If these debts are to be cleared up, the government would have to employ an extremely severe fiscal retrenchment and credit policy. The consequence would be a crisis in domestic production and inability to repay the liability. In this situation, governments would lose most of their dollar reserves because of failure of the United States to pay off its liability, and they would also in turn adopt a fiscal retrenchment and credit policy which would lead to a crisis. This way, payments would cease between governments and between enterprises which would lead to a chain reaction. This would result in an overall international monetary and financial crisis and economic crisis. Historically, the lesson of the disaster caused by the devaluation of the pound in 1931 is profound for various countries. Not only is the United States unwilling to clear up its dollar debts, but even some Western industrial countries do not insist that the United States clear them up lest the crisis spread to their own countries.

B. It Is Difficult To Stabilize the Value of SDR's.

When SDR's were first created they were linked to the dollar with a specific gold content of 0.888671 grams of fine gold per unit, or equivalent to the official gold content of the dollar, so that 1 SDR was equal to \$1. Later, having devalued twice, the official gold content of the dollar was reduced to 0.818513 and 0.736662 grams of fine gold respectively. However, as an independent reserve unit, the gold content of SDR's remained unchanged. Therefore, the SDR exchange rate with the dollar was increased to \$1.0857 and \$1.20635 per unit respectively. The exchange rates between SDR's and other currencies were based on the exchange rates between the dollar and these other currencies.

After March 1973, the major currencies in the Western world adopted floating rates and it was no longer necessary to use its gold content to reflect the fluctuation of the exchange rate between the dollar and other currencies. Therefore, the exchange rate between SDR's and the dollar could only be temporarily fixed at \$1.20635 per unit while the exchange rates between SDR's and other currencies could only change with fluctuations in the exchange rates of the dollar. This obviously damaged the independence of SDR's and an increasing number of countries were dissatisfied. Finally, on 1 July 1974, the IMF announced the abolition of the SDR relationship with gold and the dollar and that SDR's would be reevaluated with the currencies of 16 Western industrial countries.

Let us now analyze the stability of the value of SDR's which are not linked to gold and the dollar but valued with 16 currencies. On the surface, stability of the value of SDR's is maintained by the "basket" currencies formed by the currencies of the 16 major Western countries, each of whose export trade was above 1 percent of the total world export. Since there are stronger and weaker currencies among the "basket" currencies, when there are changes in the exchange rates among them, the value of SDR's will not be greatly affected because of the mutual compensation by changes in the exchange rates among these currencies. From this viewpoint, the value of SDR's is a little more stable than the value of the currency of any of the major Western countries. Nevertheless, there is considerable limitation to

this stability because the value of SDR's is truly stable only if the value of these 16 currencies are stable. But in fact, because of existing inflation in all capitalist countries and disequilibrium in the international balance of payments, it is very difficult for their currencies to maintain stability of the exchange rate, so that it is also very difficult to safeguard the stability of the value of SDR's.

Along with the decline of confidence in the dollar as an international reserve currency, the role of SDR's in the realm of international finance is increasingly important. To further give play to its role and expand its scope of use, in April 1980 the IMF Interim Committee at the Hamburg meeting proposed to simplify the 16 "basket" currencies into 5, namely, the U.S. dollar, the Deutschmark, the French franc, the Japanese yen and the British pound. The five countries whose currencies were chosen were the five countries with the highest average export value in world commodities and services during 1975-1979. Moreover, SDR interest rate was calculated on the basis of the interest rates of these five "basket" currencies. The "basket" currencies of simplified SDR valuation enabled the unification of the two "basket" currencies. The proportions of the five currencies in the currency basket are: dollar 42 percent, Deutschmark 19 percent, franc 13 percent, yen 13 percent and pound 13 percent. The value of SDR's determined by these five currencies is easier for ordinary investors to understand and it has also made it possible for banks to quickly analyze the proportions of the various currencies in an SDR document. Moreover, these five currencies have futures markets which facilitate assurance of value over time and increase the possibility for transacting SDR's in the money market, thereby opening a way for the business application of SDR's. However, for the same reason mentioned in the above analysis, the valuation method of the five "basket" currencies also cannot resolve the stability of the value of SDR's. Particularly when there is a serious crisis in the international balance of payments in any of the five countries, the stability of the value of SDR's will be threatened. Consequently, as a compound currency unit made up of the five currencies, SDR's are not an ideal valuation standard and international reserve asset for the currencies of various countries.

C. The scope of application of Special Drawing Rights is limited.

After "basket" currencies were used to value SDR's, particularly since the simplification from 16 to 5 currencies in the "basket" currencies in 1980, because the exchange rate and interest rate of SDR's have correspondingly become more stable and fluctuation and risks lessened, SDR's have become increasingly popular as an accounting unit (or a basis of accounting units) in private contracts and international agreements, other international organizations and regional organizations (such as the Arab Monetary Fund, Economic Commission of West African States and Investment Bank of Northern Europe) and paying off private debts. In the stock markets of the West, SDR's have begun to be used to issue corporate bonds of considerable amounts, and international clearance banks and numerous commercial banks in various finance centers of the world accept SDR valued currency deposits. According to the figures, in 1981 there were 16 transactions of group bank loans, bond issuance, and deposit permits using SDR units in the international fund market

with a total of 1.55 billion SDR's. The commercial application of SDR's had developed considerably. But by 1982 this kind of business suddenly vanished. According to analysis, this is mainly because the dollar continues to be strong, which reduces the attractiveness of SDR's in the areas of interest rates and exchange rates.

Let us once more analyze the functions of SDR's. Since 1 April 1978, the IMF announced the abolition of the function of gold as a currency and the use of SDR's as a substitute for gold as the valuation standard of the currencies of various countries, and to replace the dollar as the principal world reserve currency. It looked as though a new capitalist world monetary system based on SDR's was about to be built. Yet, to realize this goal the functions of SDR's must be expanded. In other words, SDR's should not only be the valuation standard of various currencies and an international reserve asset; even more important, it must be made a principal measure in the international balance of payments. So far, SDR's are still a new liquidity of international reserve and a supplement to existing international reserve assets, mainly restricted to use among member countries of the IMF and not a measure in international circulation and payments. Because SDR's still do not possess all the characteristics a credit currency should have, credit currencies such as the dollar are still used in handling specific payments and receipts in international trade and non-trade areas.

To summarize the above, SDR's are a new international reserve asset using "basket" currencies as the standard for valuation. Although they are used as an "official currency" in the business transactions among IMF member countries, they have not been developed as a new world currency that can also be used in private business transactions. To a certain degree they can be used effectively to regulate temporary damage to international balance of payments among IMF member countries, but they are not suitable for making up long-term deficits, that is, taking the functions of gold or credit currencies in international accounting. In recent years, the scope of the use of SDR's has been expanding day by day but their rising position is limited. Because the allocation and issue of SDR's have no material basis whatsoever, it is only a made-up international liquidity. Therefore, it will be highly difficult to turn SDR's completely into an international reserve asset and a new and real currency in the near future.

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DOMESTIC TRADE

ELECTRICITY PRICING REFORM URGED

Beijing DIANLI JISHU [ELECTRIC POWER] in Chinese No 11, 5 Nov 84 pp 2-4

[Article by Lei Shuxuan [7191 2685 5503]: "Electricity Rates, Long Depressed, Should Be Adjusted"]

[Text] In his report on the work of the government presented to the second session of the 6th National People's Congress, Premier Zhao Ziyang pointed out that "in speeding up urban reform, we should begin by tackling the relations between the state and enterprises, and between enterprises and their workers and staff. We should coordinate the various reform measures whose time has come and carry them out simultaneously." He added, "We must first sort out the relations between the state and enterprises, striking a balance between ensuring stable and growing revenues for the state and ensuring a definite measure of financial power and managerial autonomy for the enterprises." Because pricing reform covers a large area and is a complex and sensitive issue, it is still in the study and preparatory stage but is expected to be inevitable once conditions become more favorable. Now that pricing reform has been put on the back burner temporarily, and rightly so, we have gained time to examine and explore the direction electricity pricing reform should take and draw up a reform plan. Electricity rates make up a component of energy prices. But energy, among other things, is curbing China's economic growth. Hence the tremendous significance of reforming the energy pricing system to boost the development of the energy industry and the electric power industry and promote electricity conservation. It is therefore both practical and urgent that we explore where electricity pricing reform is going.

1. Electricity Pricing Reform Is Closely Related to the Development of the Electric Power Industry

From the viewpoint of Marxian political economy and in the context of reproduction theories, electricity pricing is not an isolated pricing issue but a vital link in the reproductive process of an enterprise which tries to recoup its investments through commodity prices so that it can renew (and expand) the reproductive process. The price of a commodity like electricity is closely related to its value, that is, the socially necessary labor time. Naturally, it is also closely related to the costs of electricity generation, the prices of coal and petroleum, and to materialized labor (the fixed assets of

generating facilities).. As a result, electricity rates are intimately related to accumulation in the electric power industry and the source of funds needed for reproduction expansion.

For 35 years, China's electric power industry has failed to meet the needs of national economic development. At present electricity output often falls short of demands by 15 percent. There are many reasons for this gap but the most important one is that the scale of reproduction expansion in the industry has not been able to keep pace with the growing electric demands of our national economy because the state has been reducing its investments in the industry. The total amount of taxes, revenues and profits that the industry has turned over to the state over the past 35 years exceeded by a wide margin what the state has invested in it. The difference was slightly larger than the amount of plant investments we now need to close the gap between supply and demand. Since the electric power industry is a public utility, the state should not consider it a main source of revenue, like a light industry. Our long-standing electricity shortages result exactly from this failure of the state to plow back into the industry most of its funds, minus the small amount which rightly goes to the state as taxes. Moreover, 35 years after liberation, electricity prices have basically been kept at their original levels. Because of the numerous preferential rates and changes in the mix of electricity consumption, the average price of electricity nationwide has dropped by one-third compared to the immediate post-1949 period. Meanwhile, the prices of oil, coal and transportation charges have all gone up several times, with a severe impact on the costs of electricity generation. The marked decline in the profit rate of the industry in recent years, which is now lower than the average for all industries, mirrors the fact that electric rates are on the low side.

The above facts demonstrate that with its considerable capacity for development, the electric power industry can meet the needs of the national economy. However, our continued use of an accounting system which integrates revenues and expenditures and a planning system which is excessively centralized and has no room for the regulating effects of the pricing mechanism, has severed the continuity of expanded reproduction in the industry and failed to "ensure a definite measure of financial power and managerial autonomy for the enterprises." This is exactly one aspect of the dual problem Zhao Ziyang was referring to when he said that "we must sort out the distribution relations between the state and enterprises." In future urban reform, we must follow the principle of "striking a balance between ensuring stable and growing revenues for the state and ensuring a definite measure of financial power and managerial autonomy for the enterprises." Through tax and pricing reforms, electric power agencies should do a good job in managing the relations between the state and enterprises so that the two "ensurings" are actually achieved. Only in this way can the electric power industry gradually develop to the stage where it can meet the needs of national economic growth. This is the most valuable lesson in management and administration for the industry over the past 35 years and the first point we should bear in mind when we study electricity pricing reform.

2. Electricity Pricing Reform Should Go Hand in Hand with Energy Pricing Reform

The Central Committee has for long realized that energy problems are restricting China's economic growth and has taken many measures to solve them as quickly as possible. Among these measures, the special tax on petroleum and the variously labelled charges on coal have already had some effects. Nevertheless, electric rates have basically not been changed; in fact, some electricity consumers are still enjoying concessionary rates. The result is a worsening electricity shortage. Meanwhile, newly developed rural towns are consuming more and more electricity at a time when the state can sink only so much additional investments in the electric power industry. The industry may borrow low-interest loans from the government or pool its resources, in which case it would have to consider its ability to repay the debt. The rising prices of coal and gas, which make up 75 percent of the costs of electricity generation, have pushed up such costs in recent years, thus reducing the industry's capacity to repay its debts. The way things now stand, the industry would be hard pressed to pay a capital construction loan within 15 years. And the longer the industry remains unable to borrow, the more tricky it will become for it to get loans from the electric power agencies. The industry's lack of construction funds in the past resulted in its losing one-fourth of its productive capacity, which translated into an annual loss in national income of over 10 billion yuan. Consequently, it is both necessary and proper that electricity rates be adjusted at the same time as adjustments in coal and petroleum prices so that the electric power industry can maintain its ability to borrow and repay a loan. This is what most countries in the world do. In economic activities involving the exchange of commodities of equivalent value, not to adjust electric rates would only lead to greater waste because electricity would then be regarded as "cheap" and more severe shortages. In addition, the negative impact on the national economy would inevitably be doubled, resulting in incalculable economic losses.

Furthermore, electricity rates make up only a small percentage of the production costs of electricity consumers (with the exception of large consumers), ranging usually from 1 to 5 percent. The net rise in costs would be marginal if the increase in electricity rates can be offset by savings and conservation. Even more important, once the industry obtains funds for development, it can increase its generating capacity which, in turn, would enable us to put into operation the one-fourth of our industrial production capacity now idled by electricity shortages and increase the utilization rates of the production plants of electricity consumers, with a subsequent reduction in their costs which may partly or largely offset the rise in their electricity expenditures. Statistical data in some countries bear out these chain effects. To reduce the direct impact on people's livelihood, we can keep the rates for urban electricity (including domestic consumption) unchanged.

Let us take a look at energy pricing reform. It seems a "good" idea to use whatever income the electric power industry still gets from taxes and profits, at least on paper to "absorb" "fluctuations" in the prices of other energy

resources so as to lessen the rippling effects on other sectors of the economy. But this is actually no more than an expedient and violates the economic principle of the exchange of commodities of equal value. It produces a superficial temporary moderating effect only to create a long-term problem later. This practice is in direct opposite to the spirit of electricity pricing reform. Instead of solving an economic problem, it will only worsen it so that electricity shortages will become more and more of a limiting factor on national economic development.

By properly developing our nation's electric power industry, we can reduce total energy consumption and promote conservation. Because of the higher conversion efficiency of electricity, a greater reliance on electricity in most cases will increase the energy utilization rate, with a corresponding saving in our total energy consumption. The most obvious example is the electric locomotive, which is about four times more efficient than the steam locomotive. But the existing gap between electricity supply and demand means that consumers cannot increase their electricity consumption in a rational way and have to depend on their fuel-inefficient equipment. This situation works against narrowing the gap between energy supply and demand and creates a vicious circle. A close analogy is provided by none other than the electric power agencies themselves. Lacking new fuel-efficient generating facilities, which can save more than 10 million tons of raw coal each year, they have no choice but to continue to use small and medium-sized, fuel-inefficient generating sets with a combined installed capacity of over 12 million kilowatts.

In short, it is in the nation's long-term interest to adjust agricultural and industrial electricity rates, to take suitable measures to promote the use of electricity and speed up the growth of the electric power industry. We must reject policies that offer only temporary "relief" but create future problems. It is only logical that electricity and energy pricing reforms be carried out simultaneously.

3. Electricity Pricing Reform Should Follow the Principle of the Exchange of Equal Value

Within the electricity pricing system, there are certain aspects which have been rendered inappropriate by changing circumstances over the past 35 years. We should base ourselves on the new cost factors, integrate the characteristics of the production, circulation, distribution and supply of the electric power industry and follow the principle of the exchange of equal value. Prices should be strictly related to quality so that different categories of electricity consumers will be required to bear different electricity rates in a rational way. What merits our special attention is the two-part electricity rate system which acknowledges the fact that electricity production and consumption take place at the same time. Because of the influences of "leftist" ideas in the past, some departments and comrades who did not understand the system considered it irrational and complicated and suggested its abolition. Electric power cannot be stored in bulk. We can only maintain a certain amount of reserve generating capacity at all times to meet the sudden large demands of consumers. Since this need to keep a

reserve generating capacity has been met only with increased investments, it is only reasonable and necessary that large electric consumers thus served be asked to pay for part of the investments through the two-part electricity rate system. This system has worked well in China for more than 30 years and elsewhere and should not be abolished.

In the past, electric networks were so small that their energy requirements for generating electricity could basically be met from local sources. Even when local supplies fell short, the amount that had to be transported remained insignificant. Consequently, a uniform price structure has come to prevail throughout the nation south of Shanhaiguan, with the exception of northeast China. After three decades' development, however, the energy supply situation has undergone fundamental changes. The coastal area now suffers from a severe shortage of energy resources, and it is expensive to haul coal or oil or to deliver electricity over long distances. It is imperative for us to set differential electricity rates for different regions based on the diverse generating conditions of different regional networks. By so doing we not only comply with the principles of the exchange of equal value, relating price to quality and of equal burden, but also facilitate the rational planning of large electricity consumers in accordance with the existence or otherwise of energy resources needed to generate electricity. This would lead to greater social and economic results.

Electricity used for lighting is at present more expensive than electricity used in agriculture and industry. But this is so only because the latter has been set at very low levels. The solution, therefore, is to reform electricity pricing by abolishing the various preferential rates enjoyed by agricultural and industrial consumers, gradually increase their electricity charges, reduce the disparity between them and domestic users, and stabilize the current domestic rates for an extended period to come (with the exception of domestic rates in the northeast where electricity for lighting purposes is extremely cheap).

Different electricity rates may be set for mountainous regions, valleys, dry areas and places which abound with water resources. But we must not rush headlong into this task. Our goals are practical results and reasonable burdens. We must take into account the varying conditions in different localities, conduct pilot projects and then enforce the rate systems gradually.

If the reform of the urban economic system is anything to go by, pricing system reform is just around the corner. It is hoped that reformers concerned with the electric power industry, particularly those comrades interested in studying electric pricing reform, will join together to explore the direction the reform should take and exchange research results and information.

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DOMESTIC TRADE

VIEWS ON SOCIALIST ECONOMIC LEGAL RELATIONS

Wuchang WUHAN DAXUE XUEBAO [WUHAN UNIVERSITY JOURNAL] in Chinese No 4,
28 Jul 84 pp 25-29

[Article by Wang Junyan [3769 1498 1484]: "On the Object of Readjustment in China's Economic Law"]

[Excerpts] In recent years, the juristic circles in our country have discussed some questions of fundamental theory on economic law in which the object of readjustment is a point at issue. As opinions vary, no unanimous conclusion can be drawn. I think the object of readjustment is really a very important question of fundamental theory in economic law that is necessary to study thoroughly. I am going to discuss simply certain questions relevant to the object of readjustment in our country's economic law.

III

Any law has a definite object of readjustment, reflects particular realistic requirements, stipulates explicit rights and duties, and explicates specific legal relationships. Any lawful object of readjustment is an objective existence that can not be subjectively affirmed or denied at will and can be correctly understood only by basing on objective existence and by way of scientific research. Economic law is no exception. According to our country's economic foundation in socialist public ownership and the characteristics that, guided by the state plan, many economic components exist simultaneously, many economic structures overlap and many circulation channels connect. I think, contrary to the argument that there is no unified object of readjustment, China's economic law, to unite the reality of economic legislation and economic jurisdiction, has a definite object of readjustment. Putting it briefly, China's economic law is the summation of legal standards which readjust economic relationships occurring from the economic activities of planned commodities in the course of national economic management, among various economic structures and within economic structures. There are three specific objects of readjustment as follows:

1. Economic relations occur in the course of national economic management.

What is called national economic management is that the state uniformly conducts organizing, guiding, supervising and regulating the production,

circulation and other non-production sectors, including agriculture, commerce, transportation, construction, foreign trade and finance, etc. Management and coordination are under way through the economic levers of planned directions, utilization prices, costs, profits, taxes, credits and rewards, and through economic accounting, economic contract, economic system of job responsibility and economic measurement. These are mainly the vertical relations involved mostly in macroeconomic administration and coordination. The principal contents in economic law to regulate these vertical relations are: the national economic management systems; the legal status and rights and duties of different departments in charge of economic affairs at central authorities, localities, enterprises, and staffs and workers; the basic principles and methods of national economic management; the relations, forms and scopes of planned and marketing adjustment; the economic and legal responsibilities of national economic management systems and various economic structures, etc.

2. Economic relations arising from the economic activities of different economic structures.

The so-called economic structures chiefly refer to enterprises, also including some institutions. These economic structures possess the status of legal persons; in other words, they have independent property or budget, conduct independent production management activities, practice independent economic accounting, assume sole responsibility for their profit and loss, unify planning and integrate duty, power and benefit. These economic units, established according to law, include industrial enterprises, commercial enterprises, transportation businesses, construction businesses, finance businesses, people's communes, production brigades and production teams, etc.

The relations arising from the economic activities among economic structures are those of sharing the work and cooperating with one another, being formulated in the extensive production of socialization. These relations are primarily expressed by their coordination and linkage in production and sales, in commodity exchange and in contract and transportation. And the coordination and linkage must be done by way of statutory means, reflecting the bilateral and multi-lateral economic rights and duties. The enterprises' economic coordination and linkage are parallel relations, also called horizontal economic legal relations. Although the horizontal economic legal relations continue to use the civil law's principles of equality and mutual benefit and compensation for equal value, they are prerequisite to the projected state regulations, dominated mainly by the principle of planned adjustment and subsidiarily by the principle of marketing adjustment, and restricted directly and indirectly by the national economic plan and the country's mission. Therefore, the relations are not like those of ordinary traditional civil law.

Along with the growth of national economy, the economic relations of the economic structures will also continuously expand; economic cooperation and coalitions emerge among different sectors, areas, professions, affiliates and ownerships. In the links of production, circulation, exchange and distribution, newly united economic forms, i.e. economic associations, emerge. This new type economic relation ought to be also readjusted by economic law.

3. Economic relations arising inside the economic structures.

What is called economic relations within an economic structure is chiefly the economic management within the institution; the primary contents involved are: the authorities and duties of economic structures, administrative organs and leading systems, the rights and obligations of staffs and workers, rewards and punishments to the staffs and workers, etc. They include the economic relations between the leading bodies of economic structures and their subordinate departments, main enterprises and branches, functional departments, production units, and production units with other departments. These economic relations are generally stipulated by the economic system of job responsibility and the formation of internal economic contract; some business administration regulations aim to readjust this kind of economic relationship. Here there are internal relations as well as horizontal relations; they often interlock. The economic relationships within an economic structure belong to microeconomic administration.

IV

Legal relationships are the standardization of social relationships; any lawful relationship is determined by the legal object of readjustment and presupposed by relevant legal provisions. Since economic law has a specially designated object of readjustment, it has specific legal relationship. Economic legal relations refer to the rights and duties of the state organizations, the economic structures and inside the economic structures which are readjusted according to law and provided with the substance of production management and administration. Compared with civil law relationships, the economic legal relationship has several notable characteristics.

1. The particularity of the subject of economic legal relations.

Economic legal relations occur in the course of economic activities by the state in national economic management and by various economic groups. Hence the subject of economic legal relations is primarily the state economic management organizations which, according to law, engender the relations of rights and duties in the exercise of vertical economic administration and also show the state's functions of guiding, organizing and managing the economy. The rights and duties that reflect the implementation of the state's will cannot be casually transferred and arbitrarily abandoned. The economic legal relationship may come into being only by the expression of the subject's desire which stipulates the action criteria and individual action for the other side. For example, a plan drafted and issued in accordance with the law by a state organization has the lawful effect and the other side receiving the plan has the obligation to fulfill. The state organizations, one subject of the economic legal relationship, lawfully enjoy economic rights; as a result, they bear corresponding duties, having the power to enforce directly compulsory means and sanctions against another subject that doesn't carry out the duties ordered by the state. This particularity of the subject shows the specialty of the economic legal relationship.

2. The complexity of the economic legal relationship.

The economic legal relationship is a kind of legal relationship incorporated vertically and horizontally and combined reciprocally. Socialist economic relations are incorporated vertically and horizontally; the principal and subordinate management relationships between state economic management organizations at all levels and various economic structures is one aspect of economic legal relations; the other aspect is the horizontal economic legal relationship existing among different sectors of economic groups. Horizontal economic legal relations differ from vertical ones. Their relations are equal and involve compensation at equal value. The vertical and horizontal economic legal relations are often crisscrossed and interlinked, making the relationship complex. The complexity produces diversification with respect to the principles and methods of handling a dispute concerning the rights and duties between the subjects of vertical and horizontal economic legal relations. Normally the state organization will first settle the contention in accordance with administrative procedures. If unsuccessful, then the economic judiciary will resolve it.

3. The principle restraint amidst economic legal relationships.

No matter how complex the economic legal relationship, it is restricted by a particular principle--the plan. China's socialist planned economy decides that the economic legal relationship is the legal relationship produced on the basis of the state plan. The economic legal relationship links planned adjustment with marketing adjustment but gives priority to planned adjustment. In vertical economic legal relations, the requirements of the state planned principle are immediately shown; in horizontal economic legal relations, the directions of the state plan are imposed among different economic groups, while any economic group must strictly execute the state plan and take the unified plan as the internal standard. Therefore, the economic legal relationship is to integrate two adjustments and gives priority to planned adjustment.

4. The unanimity of goals within the economic legal relationship.

The content of the economic legal relationship is management and administration; the public ownership of means of production is the economic foundation of the socialist society; the power to govern the public property must be defined through statutory procedure. Authorized by the state, the economic structures owned by the whole people to carry on managing and administering activities have the rights to possess, utilize and dispose of the properties which they are assigned to supervise. The economic structures owned by the whole people have the proprietary rights of means of production and supervisory rights of independent management. Although the economic relations arising among various economic structures have their own purposes of management and administration, but the prerequisite for all is to create and increase socialist wealth so as to meet the constantly growing needs of the people in material and cultural life. The economic legal relationship, therefore, has the nature of socialist coordination with unified bases, identical interests, common missions and goals. Their relations are equal and mutually beneficial and friendly. The consistency of purposes amidst the economic legal

relationship demands that every party involved must not damage the national interests and must protect the national interests as the basic criterion. The object of readjustment in economic law determines the economic legal relationship which, conversely, reflects the object of readjustment in economic law. They are closely integrated, showing no difference to each other. The economic law has its own particular object of readjustment and economic legal relationship, hence it ought to be an independent legal sector.

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DOMESTIC TRADE

FORMULATION OF BANKRUPTCY LAW SUGGESTED

Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 11, 15 Nov 84 pp 42-46

[Article by Cao Siyuan [2582 1835 3293]: "Suggesting Formulation of a Bankruptcy Law"]

[Text] I recommend formulation as soon as possible a "Law Governing the Disposition of Cases of Enterprise Bankruptcy" (hereafter, for short "bankruptcy law"). I shall discuss in the following my views on some relevant problems in this connection.

I. The Need for an Enterprise Bankruptcy System

Commodity production is bound to result in profits and losses. If serious losses are incurred by the manufacturer of commodities, his debts may come close to or even exceed his assets; he may lose his ability to repay his debts and as a consequence fall into bankruptcy. Bankruptcy and the elimination of backward enterprises is the inevitable result of the functioning of the law of values, as it is also one of the necessary conditions for high efficiency in commodity production. It is a common phenomenon of societies with commodity production. It is this way with capitalist commodity production, as it is without exception the case with socialist commodity production. In the present world it is not only the Western countries that have highly developed bankruptcy laws, but Poland, too, during its recent economic reform began to apply a bankruptcy law for state-operated enterprises. Also Hungary, Yugoslavia and other countries have rules governing the disposition of cases of bankruptcy of enterprises. The view that a bankruptcy system is only a peculiarity of capitalism and cannot be suitably applied to socialist state-operated enterprises does not conform to historical facts.

In China there is no lack of enterprises that have accumulated losses which in total exceed their fixed assets. In 1982, such enterprises numbered 49 among 780 large and medium industrial enterprises that were incurring operating losses, and the number is even larger in the case of small-scale state-operated enterprises. Such enterprises with assets insufficient to meet their obligations have in fact already long ago fallen into a state of bankruptcy, but up to now we have theoretically never acknowledged the possibility of bankruptcy for state-operated

enterprises. It was our policy that the state treasury would guarantee payment for any losses, and as to the method of disposing of such cases, we would only rely on administrative measures, ordering them to remedy their state of incurring losses. For those enterprises that showed themselves unable over a longer period of time to remedy their unprofitable operations, we order their closure, suspension, merger and retooling. If the losses of these enterprises are not written off by the state treasury with one stroke, they will have to be shouldered by the enterprises they are "merged" into, and the employment problem of their staff and workers will be taken care of by the state. Salaries and wages will be issued as usual, even bonuses paid as usual. Although procedures of this kind for a time reduce the number of enterprises operating at a loss and the amount of losses in the account books, it is in actual fact a practice fraught with many evils.

Since there is no bankruptcy law, there is no responsibility to admit bankruptcy, even if losses keep increasing further. Any amount of losses would, therefore, never pose a genuine threat to the enterprises. Some enterprises with long-term chaotic management conditions can still go on, although they have been operating at huge losses continuously for over 10 years. In all the history of commodity production, this is a fantastic situation, too disgusting to contemplate! It damages the image of socialism, adds heavy burdens to the state's finances and most adversely affects our efforts to raise economic results throughout the whole nation.

Since there is no bankruptcy law, those enterprises that employ backward technologies and manufacture obsolete products feel no sense of crisis, therefore no urge to adopt new technologies or develop new products. There is no economic stimulus for the continued existence and development of any enterprise. This is one of the principal reasons why China cannot forge ahead in big strides in these days of a new technological revolution in the world. As a remedy for the situation it would be ineffective to rely merely on propagating the importance of technological progress.

Since there is no bankruptcy law, many disputes over economic contracts cannot be properly resolved. On the one hand, creditors and the judicial departments are at their wits' end, have no laws to go by and have no way out in cases of enterprises that are heavily in debt or repudiate their debts. On the other hand, making good these losses incurred by state-operated enterprises will finally be shifted on to the accounts of the state treasury, the enterprises themselves will in actual fact not bear any large economic responsibilities and not feel any pain. The penalty provisions in the economic contract law and in other economic laws and regulations are, therefore, having not much of a restrictive effect on enterprises, especially state-run enterprises. In this sense, it will not be possible without firm enforcement of a bankruptcy law to ensure the authority of whatever economic laws and

regulations there are, to ensure fulfilment of all obligations and enjoyment of all legitimate rights of creditors and debtors, and to safeguard the proper order of the socialist commodity economy.

Since there is no bankruptcy law, the situation is even more unfavorable in problems of compensations involving foreigners. Foreign firms always demand that our government bear unlimited joint responsibility for debts by any state-operated enterprise. Faced with the problem of bankruptcies or compensation in cases of Chinese-foreign joint ventures or self-financed enterprises of non-Chinese citizens, China finds itself in the unfavorable position of a complete lack of legal provisions to go by.

The second stage of the shift from profit-delivery to taxation that is now under way has as its principal objective the adjustment of the relationship between state and enterprises, and to have the enterprises at the earliest possible date conduct business operations independently with total responsibility for their own profits and losses. However, to truly enforce the responsibility of enterprises for their profits and losses, it is necessary to resolve the problem of what to do with enterprises that over long periods of time incur serious losses in their operations. Otherwise, the enterprises will inevitably continue to eat out of the big pot of the state, a burden that the treasury will find unbearable and that will prevent any substantial progress in our reform of the state-owned economic system. A system regulating enterprise bankruptcies is, therefore, an indispensable support project for the overall reform of our economy.

In the same way as enactment of a criminal law certainly does not mean that we want anyone to commit a crime, we, of course, do not want all enterprises to go bankrupt by our enactment of a bankruptcy law. Bankrupt enterprises are a very small minority, but the proper disposition of this minority of cases will exact necessary pressure on the great majority of enterprises and will spur them on to exert all the energy that we naturally expect in enterprises engaged in commodity production.

II. Outline of Tentative Plan

Enactment of an enterprise bankruptcy law does not mean that we will indiscriminately adopt all the bankruptcy laws of Western countries. According to the present specific conditions in China, it is our idea that we should allow enterprises on the verge of bankruptcy to make determined efforts to save themselves, thus integrating bankruptcy with efforts at consolidation, integrating a system of enterprise bankruptcy with the establishment of a system of sound social relief. That is to say, when the business losses (or debts) of an enterprise reach a certain limit, it must be declared "on the verge of bankruptcy," but an enterprise declared on the verge of bankruptcy must not be immediately closed down and dissolved, rather, it must be given an opportunity for a last ditch fight, that is, to effect a consolidation and avoid bankruptcy within a

period generally not to exceed 1 year. Enterprises that have been able through a consolidation to effect a turnabout in their state of business losses shall be pronounced restored. Enterprises that have not been successful by the end of the set period, shall be pronounced bankrupt and shall be dissolved, their assets liquidated and their creditors compensated. All staff and workers (including leadership personnel, so also in the following text) of an enterprise on the verge of bankruptcy, or bankrupt and being dissolved, shall, according to certain rules, receive a bankruptcy relief allowance to cover their basic necessities of life.

III. Scope of Application

The bankruptcy law shall apply to all independently operated enterprises, enterprises responsible for their own profits and losses, including state-operated enterprises responsible for their own profits and losses, enterprises in collective ownership, individually owned enterprises, jointly financed or managed Chinese-foreign enterprises, enterprises self-financed by non-Chinese citizens, all forms of collective capital, jointly owned or operated enterprises as well as contracting enterprises.

People will generally accept easily the idea of applying the bankruptcy law to other than state-operated enterprises, but will have some difficulty when it comes to state-run enterprises. Some comrades say that since the means of production of state-run enterprises are owned by the whole people, the enterprise has no right to use them to repay its debts, and that state-run enterprises should be exempted from the enterprise bankruptcy system, a system that should apply only to other than state-operated enterprises. I do not believe this is right, for the following reasons:

1. If in otherwise identical cases of assets being insufficient to satisfy all debts, bankruptcy could only be pronounced against other than state-operated enterprises and not against state-run enterprises, it would violate the principle of all juridical persons being equal before the law. This would be unreasonable and also unworkable in judicial practice.
2. The state-operated enterprises have only business management rights and no property rights with regard to the means of production used by them but owned by the whole people, that is, management rights and property rights are separated. However, not only is this not an obstacle to the application of the bankruptcy law, but it is precisely one of the important foundations on which the application of the bankruptcy law is based when it comes to state-run enterprises with responsibility for their own profits and losses. Abroad, the separation of a joint-stock company's management rights and property rights has been a very common phenomenon for a long time. Shareholders are not necessarily managing the company. If bad business management or other reasons lead to the

bankruptcy and closing down of a joint-stock company, even though not directly due to failings of the shareholders or workers, the workers will still lose their jobs on this occasion due to the failure of management, and the shareholders will lose their investments because of their failure to elect a more competent management. Under the historical conditions of a commodity economy, this state of affairs is absolutely logical. In the past system of state-run economy practiced in China, we combined the ownership of the means of production with the business management right in the hands of the state leadership organs. The enterprises had no ownership rights and also no management rights, all profits were collected by the state and all losses were made good by the state, so that the state-run enterprises could not possibly bear any responsibility for bankruptcy. Through our economic reform, many enterprises now practice the separation of ownership and management rights, that is, the state is the owner, but the enterprise manages its business, profit-delivery has been changed to taxation and independent accounting and responsibility for their own profits and losses are accepted. Since these state-run enterprises have the right of self-determination in their business operations and also their own economic interests, there is nothing theoretically untenable in saying that they are bearing responsibility for their own losses and are subject to the restraints of the bankruptcy law. If it happens that a state-run enterprise responsible for its own profits and losses is beyond help, pronounced bankrupt and to be closed down, the plant director and management are dismissed, the state as owner will lose its property in the enterprise (to be used to offset debts) and the entire body of cadres, staff and workers will lose with the collapse of the enterprise their opportunity to work with these means of production, will become persons awaiting reemployment and will have to seek work opportunities elsewhere.

3. According to the law of value, the state-run enterprises, in the same way as all other enterprises, have no right to repudiate their debts. If the assets of a state-run enterprise become insufficient to pay its debts, there are only two alternatives to handle the situation: either a bankruptcy procedure is followed, all assets are used to compensate its creditors and a limited responsibility is thus assumed, or the state treasury allots funds as a subsidy and assumes unlimited responsibility. In both cases the state's wealth is at stake, but why be overmuch concerned with the means of production where the state's wealth is in the form of actual things and not allow them to be bought and sold, and be so little concerned with subsidies that the state treasury would pay where the wealth of the state is in the form of currency and where it would be allowed to flow into a bottomless pit? In the latter way, the bankruptcy problem of state-run enterprises would be concealed, the state would waste more of its money, the enterprises would lose all sense of responsibility, and it would all be pursuit of false appearance while actually inviting real disaster.

4. In many documents published by the state in recent years, the status of juridical persons of state-run enterprises has been affirmed from various different angles. For instance, in the "Provisional Regulations Governing State-Operated Industrial Enterprises," Document No 54 of 1983, Chap 1, Art 8 stipulates: "Enterprises are juridical persons; the factory director represents the juridical person. The enterprise has the right of legitimate possession, use and disposition regarding the state property which the state assigns to its management and shall have self-determination rights in its production and business activities, bear the responsibilities determined by the state and shall be empowered to file action in court or respond to court action in full independence."

Since a state-run enterprise as a juridical person has the right of disposition regarding its property, there is, of course, not the slightest doubt that it has also the right to repay its debts from its assets. Moreover, when a bankrupt enterprise sells its assets, it not only solves the problem of repaying its debts, but also effects the transfer of that portion of material wealth from the hands of persons who could not make effective use of it to the hands of persons who can make effective use of it, and it thus solves the problem of rational circulation of these means of production, an action which benefits the entire society and is nothing to be fearful of.

IV. On the Problem of Enterprise Bankruptcy Resulting from External Causes

People often talk about losses in certain enterprises being brought about by external causes. Would it not be unfair to let enterprises fall into bankruptcy due to such causes? This line of questions must be subjected to a concrete analysis.

1. When losses are brought about by causes of a policy nature, the organ that approved the policy in question which brought about the losses is responsible for the payment of a subsidy. Such losses will, therefore, not lead to the bankruptcy of the enterprise. However, if the enterprise incurs losses in excess of the plan, it must be subjected to certain economic sanctions and will also have to be consolidated and reorganized.

2. If prices for raw materials in certain branches of industry are particularly high, while the prices for the products are particularly low, the profit margin of that industry will be very low, or even result in losses. Unless these cases involve losses due to policy decisions, they have to be dealt with according to the bankruptcy law, because the problem of raw materials and prices exists for all enterprises of the same branch of industry. Why should then some enterprises be able to make a profit and some incur losses? The explanation is that there must be also a problem of business management quality. Competition and elimination within sectors is still necessary. If the local conditions of certain enterprises are unfavorable, but there is a special necessity

that a certain product be manufactured locally, it should be regarded as losses due to policy decisions and a subsidy should be paid by the local treasury, but the plan providing for the subsidy must be appropriate, merely sufficient to balance the external conditions and must not cover up any internal problems of the enterprise.

3. Property damage caused to an enterprise by unforeseen disasters is to be taken care of by property insurance and will not lead to enterprise bankruptcy.

4. If an outside unit violates a contract, violates rules and regulations, or the leading body infringes on the self-determination rights in business operations that are enjoyed by the enterprises and in disregard of the opposition officially voiced by the enterprise, issues wrong orders that cause economic losses, the following steps must be taken to dispose of such cases: First step, the original unit must bear the losses; if it approaches the borderline to bankruptcy, the situation must also be dealt with according to bankruptcy procedures. Second step, to ensure its continued existence, the enterprise may, and actually should, file a suit in law court demanding compensation from the unit in question or the leading body. On the legitimate demand for compensation by an enterprise on the verge of bankruptcy, any unit must make payment as a priority obligation. In case payment is refused, the law court must issue a ruling, notifying the bank where the said unit has its account to make payment out of that account and in addition impose a penalty of 5 percent. If the government organ that bears responsibility has no funds of its own to pay compensation, the public finance department must allot funds to settle such cases. The leading cadres concerned must bear administrative and to a certain extent economic responsibility. Third step, if an enterprise during the period of its consolidation through bankruptcy recovers compensations and basically improves its financial condition, it may be declared restored according to prescribed procedure.

5. If there are changes in the market situation; for instance, a product that used to sell well suddenly turns difficult to sell and causes losses, though the staff and workers possibly work as hard as before, the enterprise, being unable to adapt to the changes, will finally go bankrupt. Where the bankruptcy of an enterprise is due to this kind of an external cause, the problem is basically still one of a lack of flexibility and competitiveness of the enterprise itself. Under conditions of commodity production, paying close attention to market information, improving and updating products, raising one's ability to adapt to changes in external conditions are all responsibilities that must be borne by any enterprise engaged in independent business operation and responsible for own profits and losses. The elimination of manufacturers of products that do not conform to the needs of the market is a matter of course and must not be blamed on anybody else.

V. Administrative Organs for Bankruptcy Affairs

Judicial procedures dealing with enterprise bankruptcy affairs are the responsibility of the law courts. Accepting applications for bankruptcy and investigation of such applications, declaring an enterprise to be "on the verge of bankruptcy" or rejecting bankruptcy applications, declaring restoration of an enterprise that has consolidated its affairs or declaring bankruptcy and closing down of an enterprise, these are all undoubtedly functions to be performed by the law courts. However, we still have to explore how to set up a specific administrative organ for the entire bankruptcy procedure. In other countries there are commissions for the liquidation of bankrupt enterprises, supervisory committees, bankruptcy executors, creditors' meetings, etc. According to the specific conditions in China, we may simplify this and have one organ only, namely, a supervisory administrative commission [SAC]. This organ will combine supervisory and administrative functions. Its principal task during the period of consolidation through bankruptcy of an enterprise is supervision. If consolidation proves unsuccessful during the prescribed period, the commission's main task becomes one of direct management, with the responsibility to liquidate and deal with the assets and debts of the bankrupt enterprise that is to be closed down. The initial period of supervision can serve as preparation for the subsequent management, former and latter periods linking up, thus ensuring continuity and unity. If an enterprise manages to turn around its condition by consolidation through bankruptcy and is pronounced restored, the SAC may be dissolved ahead of time, which is of course an event that would make everybody happy.

The handling of an enterprise bankruptcy involves the work and interests of a certain number of departments and units, for instance, the departments in administrative control of industry and trade, credit departments, public finance departments, departments in charge of economic affairs, banks and other creditors. The SAC should, therefore, be constituted from among the mentioned departments and units. In a certain sense the SAC is in fact a joint committee of the above-mentioned departments and units, a meeting in one office of a multiple of offices. The daily work of the SAC must be handled in the first place by the administrative bureaus at various levels in charge of industry and commerce. In case of need, a small working staff, such as accountants and others, may be employed. If demanded by the SAC, the debtor must attend the meetings of the SAC and actively cooperate in its work.

VI. The Borderline of Bankruptcy

Legally, bankruptcy means that an enterprise is unable to pay its debts. This comprises two conditions: one, that the obligations of an enterprise exceed its assets, and two, that an enterprise, while still having more assets than debts, cannot immediately convert them to cash to pay its debts. The second condition can be made the minimum borderline

for an enterprise to be declared "on the verge of bankruptcy." Though its debts (or losses) may already be rather serious, it may still be possible to rescue the enterprise in consideration of the fact that its assets still exceed its indebtedness. It may under these circumstances be declared "on the verge of bankruptcy" and a consolidation of its affairs may be carried out to prevent it from deteriorating to the extent that its indebtedness will exceed its assets. This is one of our new ideas to be incorporated in the future bankruptcy law. According to China's national conditions, it is necessary to fix the borderline of bankruptcy by three conditions. If only one of these conditions is present, it shall be possible to declare an enterprise to be "on the verge of bankruptcy."

1. The enterprise cannot make payment on due date of an obligation or of any other amount owed. To clearly establish the borderline represented by this condition, it is assumed that a debtor who ceases to pay a debt on due date is unable to pay, i.e., has lost the ability to pay his debts. This is a general rule included in the bankruptcy laws of all countries a provision that will prevent argument on this point. The JINGJI RIBAO of 20 August 1984, p 4, reports that the Songzhan Labor Insurance Daily Necessities Factory in Zhaodong County, Heilongjiang Province, is a profitable enterprise, but has delayed for 3 years repayment of a loan of over 14,000 yuan to the Baoshan Youth Clothing Plant of Fengcheng County, Liaoning Province, for the reason that "there was no money." The creditor had several times demanded payment, but without any result at all. If there had been a bankruptcy law, the creditor could have applied to the law court to declare the debtor bankrupt. If the debtor were still to have refused payment, the law court could have followed the rule that "refusal to pay is to be assumed as an inability to pay" and could have declared the debtor who defaulted on his debt as "on the verge of bankruptcy," then taking compulsory measures for bankruptcy and repayment of the debt.

2. If the total amount of business losses (or total indebtedness) reaches 60 percent of an enterprise's actual production funds (including--apart from loans--circulating capital and fixed assets at net value). In case of real difficulties in assessing production capital, its amount shall be arrived at by conversion from the capital mentioned in the official application for registration by the enterprise.

3. Even if losses have not yet reached the borderline of the second condition, but losses have been incurred for 2 consecutive years, the enterprise shall be treated as one being "on the verge of bankruptcy."

In the first of the above three conditions, it is mainly the parties to the indebtedness (particularly the creditor) who will file application with the court, but in the latter two conditions, it is not only the creditor or debtor, but also the government bureaus in charge of industry and trade, the audit departments, public finance departments and

departments in administrative charge of the particular trade involved who can file application with the courts, and the law court may on its own initiative, on the basis of its investigations and study, declare an enterprise "on the verge of bankruptcy."

VII. The Question of Readjustment Through Bankruptcy

As soon as an enterprise is declared "on the verge of bankruptcy," its period of readjustment through bankruptcy begins, and those having originally made appointments (staff and workers representatives meetings, board of directors or the higher authority in charge) shall select by a method they regard as appropriate a new leadership for the enterprise. The old leadership team may be reappointed or elections could take place; the old leadership team may also be reelected or others may be recruited. In individual enterprises there is no problem of electing another leader, but it would be permissible, if the owner wishes, to employ a new manager or adviser.

Under the new leadership, the enterprise must immediately sum up the lessons from the past, seek out the main causes that have brought the enterprise to the verge of bankruptcy, draw up a plan for the comprehensive readjustment and reform of the enterprise, which, after approval by the SAC, shall immediately be put into action. The readjustment and reform plan may comprise such items as the reform of the business patterns and methods, rules and regulations, organizational structure and disposition of work force, restructuring the items of business, changing the trend of products and technological lines. In the transformation of the enterprise, the realities of the situation must be the starting point; one must guard against going in for grandiose and multifarious projects. All measures of readjustment and reform must center on the principal objective: to turn around within a limited period of time the unprofitable situation, strive to achieve survival of the enterprise and restore its solvency.

Funds for the readjustment and reform must mainly be raised by the enterprise itself. It may sell a part of its nonessential means of production and may also borrow special funds from a bank, using any of its fixed assets that exceed the amount of indebtedness as collateral. However, these funds must under no circumstances be used for the payment of salaries and wages or other livelihood consumption expenses. Violations shall be prosecuted according to law.

There may be enterprises whose readjustment and reform plan requires fairly large funds and also more than 1 year to be effective. Even if such plans are technically and economically reasonable, they should only be approved after obtaining sufficient investment guarantees from parties concerned. At the same time, an appropriate extension of the time limit for the readjustment through bankruptcy shall be approved, but such extension not to exceed 1 year.

During the period of readjustment through bankruptcy, the entire production and business activities of the enterprise must be placed under the supervision of the SAC, which entails in actual fact a certain restriction of the right of self-determination. However, the SAC need not interfere in the normal business decisions of the enterprise, as long as the enterprise does not harm the interests of the creditors by disposing of bankruptcy assets.

VIII. Restoration of Enterprises

If an enterprise is able during the set period through readjustment through bankruptcy to turn around the situation of working at a loss and attains the profit norm prescribed in its readjustment and reform plan, thus becoming able to start repaying its debts, the enterprise itself or the SAC may submit a report, on the strength of which and after due investigation, the court may pronounce the said enterprise restored. It may then enjoy the former complete self-determination in its business operations, and the SAC may also be dissolved.

During the period of readjustment through bankruptcy, all debts of the enterprise are actually frozen, analogous to a compulsory settlement or moratorium. After the restoration of an enterprise, it must immediately start repaying its debts according to plan. Creditors must obtain full payment and interests, they will incur a certain loss only as far as the time of repayment is concerned. This loss may be considered the inevitable price paid for carelessness in selecting their business partner.

IX. Handling Bankruptcy and Closing Down of Enterprises

As far as enterprises "on the verge of bankruptcy" are concerned, they are afforded only a one-time opportunity for rescue. Theirs is a last-ditch fight; victory means life, defeat means death. The creditor must not be made to wait long to recover the fruits of his labor. Society wants to forge ahead and cannot be long burdened with enterprises that incur losses. Once the period of readjustment through bankruptcy is over, and the enterprise has still not yet attained the norms of profit laid down in the readjustment and reform plan, the enterprise will have to be pronounced bankrupt and be closed down by the law court. Generally speaking, it is only a small minority within the minority of bankrupt enterprises that finally will still have to be closed down after a period of readjustment through bankruptcy.

After an enterprise has been declared bankrupt and is to be closed down, the SAC will immediately take over the entire management of the enterprise. Through the first stage of investigation and preparation, the SAC should within 2 months complete its work of accounting and verification of the assets and debts of the bankrupt enterprise and

submit a plan for the distribution of the assets, which shall be carried out after approval by the court. Before distribution, the SAC may sell the assets, but to reduce waste, the assets (or the whole set of the means of production within the assets) should as far as possible be sold in one lot. If it is difficult to sell them in one lot, they may be sold piecemeal. Members of the bankrupt enterprise or creditors have priority in buying the assets, so as to encourage them to organize a new enterprise. State-operated enterprises have priority in buying the assets of a bankrupt state-run enterprise as a special consideration to units in ownership of the whole people. However, this must be the only consideration, as any further consideration would violate the general law of commodity economy.

According to the principle of equal rights, I suggest that all creditors of a bankrupt enterprise shall distribute the assets of the bankrupt enterprise equally according to the proportion of their claims in relation to the total amount of claims. The portion remaining unpaid after distribution is to be considered canceled according to law, and the bankrupt firm is no longer obliged to pay it. If the bankruptcy assets exceed the total indebtedness, the excess belongs to the original owner of the means of production and are left to him to dispose of.

Contracting enterprises that are independent juridical persons, though also obliged to observe the provisions of the bankruptcy law, may include specific arrangements in their contracts as to the distribution of mutual economic responsibilities in case of a bankruptcy.

The bankruptcy law is a law that actually helps creditors and debtors get out of a difficulty according to a procedure laid out in law. Both parties involved suffer certain losses in line with the responsibilities they bear, but if there were no such law, the losses would be even greater, leading to a vicious circle that would offer no possibility of clearing up the situation.

X. Bankruptcy Relief System

Enforcement of the bankruptcy law will of course break iron rice bowls. We should, therefore, simultaneously build up a sound system of social relief, a part of which should be the bankruptcy relief system.

The ideal bankruptcy relief system that we envisage will be similar to the method of cooperative and mutual health insurance. All enterprises (including those operating with profits) shall normally and periodically turn over 5 percent of the basic salaries and wages as labor insurance to form a bankruptcy relief fund which is to be centrally administered by a special labor insurance bureau. Once an enterprise is declared "on the verge of bankruptcy," it may receive bankruptcy relief from the bankruptcy relief bureau. The ratio of relief allowance to the original pay to staff and workers is, for short, called the relief ratio.

For half a year after declaration of "on the verge of bankruptcy," the relief ratio should be 90 percent, later 75 percent. During the period of readjustment through bankruptcy, salaries and wages at normal rates should be resumed as soon as the enterprise regains sufficient operational income; bankruptcy relief will then be stopped. If the readjustment through bankruptcy proves unsuccessful during the set period and the enterprise is closed down, all cadres and workers shall as a body receive training and seek employment opportunities elsewhere. During this period the relief shall be uniformly reduced to 60 percent.

As an item helping to settle an economic problem, bankruptcy relief allowances must be issued strictly according to a uniform ratio and must not be increased arbitrarily. Considering the fact that our salaries and wages are comparatively low, those families that would suffer particular hardship in their livelihood during the time they are on bankruptcy relief, may receive additional assistance from the civil administrative departments according to a certain procedure.

The time of readjustment through bankruptcy is critical for the very existence of the enterprise. The whole body of cadres and workers must be galvanized into action with unprecedented intensity to ward off the dangerous situation. Anyone who refuses without justifiable reason to work at his assigned post shall be considered as having voluntarily given up his job and shall receive no further bankruptcy relief. Any staff or worker of a bankrupt enterprise who has entered employment elsewhere (including taking up work on his own) shall also receive no further bankruptcy relief.

Some comrades may perhaps ask: Why should part of the workers pay be deducted in case of an enterprise going bankrupt, since it is no fault or responsibility of the common worker?

We reply: It is not a question of someone "deducting" workers' wages, but when an enterprise goes bankrupt, there is simply no more money to pay wages. Income from business operations is the only source of wealth of enterprises engaged in commodity production, which includes state-operated enterprises that have changed from profit-delivery to taxation, that operate independently and that are responsible for their own profits and losses. Their ability to pay wages depends completely on their income from business operations. In other words, an enterprise must "earn" its wages; they cannot be provided by the state. Our economic system of the past established the extensive practice of the state having to pay every month all wages, so that all workers could receive pay, whether the enterprise earned money or not. This not only lowered economic performance, but also seriously corroded the workers' determination to be masters of their own affairs. The economic reform that we are now engaged in makes it absolutely necessary to do away with the practice of having the state provide all wages of state-run enterprises. Once an enterprise is bankrupt, there is the possibility

that severe penalties will be meted out to factory directors and other highly placed responsible personnel, but it is still unavoidable that the common worker will also suffer economic losses, because the sources of the enterprise for paying wages will have dried up, and the whole body of cadres and workers will have no alternative but to share the fate of the enterprise and live on relief. Relief cannot taste as sweet and be as filling as what came from the great big pot. Desires for a life of plenty can only be fulfilled by depending on all cadres and workers to do a good job of revitalizing the enterprise, being conscious of "all sitting in the same boat" and working by pooling the wisdom and efforts of everyone.

If it is said that the enforcement of an enterprise bankruptcy law will generate a certain pressure on all debtors, we cannot but conclude that this pressure is absolutely justified. We believe, moreover, that this pressure will once more stimulate the spirit among all workers of being masters of their own affairs. Concern for their own personal interests of all staff and workers will extend to concern for the business management of their enterprise, and they will actively launch struggle against anything that is detrimental to the reform and improvement of the management of their enterprise. We will then be able to bring about a very solid foundation for the democratic management of our enterprises that we have advocated for many years.

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DOMESTIC TRADE

SOCIALIST ECONOMY IS PLANNED COMMODITY ECONOMY

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[Article by He Jianzhang [0149 1696 4545]: "The Socialist Economy Is a Planned Commodity Economy"]

[Text] The "Resolution on Questions of the Reform of the Economic System" adopted at the Third Plenum of the 12th CPC Congress points out: "The reform of the planning system must first of all break through the traditional concept of considering the planned economy and the commodity economy as two antagonistic opposites and must clearly and definitely recognize that the socialist planned economy, which must consciously be based on and apply the law of value, is a planned commodity economy resting on the foundation of the public ownership of the means of production." This is an important breakthrough, overcoming the traditional theory on a planned economy and a theoretical foundation for the transformation of our economic system, including our planning system.

The Socialist economy is a planned economy; this is beyond the slightest doubt. However, do commodity-currency relations exist within the socialist economy? If they exist, how are we to understand correctly the relationship between the planned economy and the commodity economy? These are questions that have been argued for a long time by scholars of political science and economics, which is true for both foreign countries and China.

Before the victory in the socialist revolution, almost all Marxists predicted that socialism would abolish the commodity-currency relationship. After their victory in the socialist October Revolution, the Russians took measures to abolish the commodity-currency relationship, especially in the period of war communism. Later, practice proved that this could not be done under the conditions of poorly developed productive forces and the existence of a variety of economic components. During the period of the New Economic Policy, Russia was compelled to restore the commodity-currency relationship within a certain scope and to a certain degree. After entering the phase of socialist construction, it even proved absolutely necessary to retain this relationship. However, in the Soviet Union many scholars of economics have for a long time regarded the commodity-currency relationship as a relic of the old society and as a dissenting force opposed to socialism, a force, therefore, that must be energetically repulsed. Even less acceptable to them was the recognition that the law of value must be afforded a regulatory function in the socialist

economy. What grew up under this type of theoretical guidance was an economic management system that was highly centralized in the hands of the central authorities and a management that almost completely relied on administrative methods, with such special characteristics as an indivisible identity of government administration and enterprise management, sharp division of various competencies, much too much and too rigid state control of enterprises, neglect of commodity production, of the functions of the law of value and market regulation and a serious prevalence of egalitarianism. The reason for this was a denial of the relatively independent interests of enterprises and the relatively independent position of the manufacturers of commodities, making enterprises into appendages of the state's government organs at all levels. All activities of the enterprises had to be carried out according to the orders of the higher level administrative authorities. As a result the enthusiasm of the enterprises in their business management was stifled. This unavoidably plunged the entire national economy into a state of paralysis, which in turn led to technological stagnation, deterioration of productivity, imbalances between production and marketing and dislocation in the proportions of economic development. Actual economic life demanded a reform of this kind of economic system.

In actual fact, shortly after the 1950's, not only the Soviet Union, but also other socialist countries with similar systems of government, instituted some degree of reform, one after the other, and at the same time engaged in renewed inquiry into the commodity-currency relationship in the economy. This was not accidental, because the essence of the reforms was the effort to conduct affairs according to the laws of economics, which comprises efforts to conduct affairs according to the laws of commodity economy. Viewing the experiences of the various countries, we see that due to the differences in their concepts regarding the positions and functions of the commodity-currency relationship in the socialist economy and the different economic patterns adopted by them, the results were also different. In China, following the designation of our task of reforming the economic system put forward by the Third Plenum of the 11th CPC Central Committee, our scholars of economics also launched a lively debate on the topic of the commodity-currency relationship in the socialist economy. By far most of our comrades acknowledged that commodity production and exchanges on a large scale exist in the socialist economy. However, quite a few comrades would not dare say that there is commodity economy even in the socialist economy. They would consciously or unconsciously place the planned economy and the commodity economy into an antagonistic position of opposites, and in laying out the pattern of our planning system, they would still consciously or unconsciously place planning and market functions into the position of antagonistic opposites, without ever being able to free themselves of the fetters of traditional concepts and of the traditional system, thus making it impossible to forge ahead in large strides. If we, therefore, realistically sum up the positive and negative experiences of China's socialist construction, and also draw lessons from the experiences of foreign countries, if we clearly and definitely recognize that China's socialist economy is a planned economy as well as a commodity economy, that it is a planned commodity economy, it is bound to have a far-reaching effect on the reform of our economic system.

Reasons for the Experience of a Socialist Commodity Economy

According to the teachings of Marxist political science and economics, social division of labor is the foundation of the commodity economy, and the difference in the ownership of the means of production and of the products is a condition for the commodity economy. Precisely in conformity with these principles, Stalin expounded that in the socialist society, under the conditions of coexistence of the system of ownership of the means of production by the whole people and collective ownership, the production of commodities is a necessity. However, he did not admit that the products (means of production) exchanged between the various economic units in an economy of ownership by the whole people are commodities. His main argument was that the means of production of economic units in an economy of ownership by the whole people all belong to the same owner--the state. He even went so far as to deny that product exchange relations existed between enterprises in ownership of the whole people, but regarded the transfer of means of production between enterprises as merely a relationship of reallocation of things, that, therefore, the problem of a commodity-currency relationship and of a function of the law of value are completely out of the question. He expressed it this way: "First, the means of production are not being 'sold' to the buyer, also not 'sold' to the agricultural collectives, but merely distributed by the state to its own enterprises. Second, the owner of the means of production, the state, hands over the means of production to a certain enterprise without in the least losing its ownership right, on the contrary, the state fully maintains its ownership right. Third, when the enterprise manager receives the means of production from the state, he not only will not become owner of these means of production, but on the contrary, is merely recognized as being entrusted by the Soviet state with the use of these means of production according to the plan transmitted to him by the state. This shows that under our system of government the means of production must under no circumstances be conceived as falling into the category of commodities."1 He also said: "... within the field of domestic circulation, the means of production lose their character of commodities; they are no longer commodities and are, furthermore, removed from any possible effect of the law of value. They merely preserve the outer shell of commodities (computed value, etc.)."2 Since the economy based on ownership by the whole people occupies a dominant position in the socialist economy, a commodity-currency relationship does not exist in it. The socialist economy can, therefore, not be said to be a commodity economy, the most one can say is that certain residues of the commodity economy are still retained in the socialist economy. Stalin believed that only consumer items and agricultural products sold by the agricultural collectives to the state were commodities. The law of value exercises to a certain degree a regulatory function regarding commodity circulation, but has no regulatory function in the field of production (including the production of the agricultural collectives), but can at most have a certain influence in this field. As already mentioned earlier, in an economic system built up under the guidance of this theory, there are many flaws and actual practices indeed proves that this theory is wrong.

Where then are the errors in this theory? The crucial point, in my opinion, is that it lumps together ownership by the whole people and the direct

management of enterprises by the state, and as a result lumps together ownership of the means of production and ownership of the products.

Everyone knows that the complete ownership relationship comprises the right of owning (or possessing), the right of disposal and the right of use. The latter two are commonly referred to as management rights. Historically, all these aspects of the ownership relationship were combined together in the very beginning, and ownership of the means of production and ownership of the products were not separated. For instance, the independent small producer owned his own means of production, used and disposed of these means of production, and the products he manufactured were also completely owned by him personally. The landowner engaged in production on his estate, using slave labor or the labor of tenant-peasants, exercised management himself, and all products belonged to him, the landowner. The industrial capitalist had a certain quantity of means of production and labor, while he himself exercised supervision and management, and the products, of course, all belonged to the capitalist. In all these instances, the ownership right, the right of use and the right of disposition are all combined together, so that no problem arises as to a separation of the ownership of the means of production and ownership of the products. Later, following the development of the commodity economy, especially the capitalist commodity economy, the various parts of the ownership system gradually separated. The small producers developed into two different classes, a smaller group of them grew rich and became capitalists and the majority became impoverished and were reduced to the proletarians. In this process, some people rented the means of production from others for continuous use. In this way the ownership (possession) of the means of production became separated from the use right and right of disposition, and the owner and user became two persons. This type of producer, who rented the means of production of others for their operations, had to pay a certain rent (in kind or in currency), but had complete ownership of their products. The capitalist society produced a class of people subsisting on interest, completely divorced from production, namely the financiers. The development of the capitalist joint-stock company had the effect of even more widespread separation of ownership and management rights. Marx said: "As joint-stock companies developed, together with credit institutions, a certain trend set in, namely, generally speaking, management of labor as a kind of function more and more separated from the ownership of independent capital or invested loaned capital."³ The capitalist who loans an investment only collects interest and the shareholder only collects dividends. As to the management of the business or the disposal of its products, that is completely a matter for the industrial capitalist or the managers to take care of.

What then are conditions under socialism? Under the present system of organization, the state is not only the owner of the means of production, but also directly uses and disposes of the means of production; that is, the state is direct manager. The whole society is like one big factory, and the state is chief manager. Each single production unit is a workshop, to which the chief manager issues production directives. The output of all workshops becomes property of the factory and is later allocated among the various workshops by the general manager according to technological principles. Between the workshops, there are only product allotment relations, no so-called exchange

relations. This is a system in which the state exercises direct management and is centrally responsible for all profits and losses, a system of eating out of the big pot, a production and business pattern similar to that of the small producer in whose hands are both ownership and management rights. This system is incompatible with socialized production and the nature of socialist production relations. Socialized production demands that the decisionmaking right for socioeconomic activities shall, on the one hand, be concentrated in a unified leadership as far as the macroeconomic aspects are concerned, but, on the other hand, that there be decentralized management as far as its microeconomic aspects are concerned, as the only way of coping with the complexity of social division of labor and with the ever-changing needs of society, and all matters, big and small, must not be monopolized and taken on by the state. Under the precondition that the state maintains ownership of the means of production and has overall control over economic activities as a whole, the enterprises must be endowed with self-determination in business management. It means that large affairs must be firmly and effectively administered, while small affairs must be left free and left to more enlivened activity. Although the means of production in socialism are owned by the whole people, labor is the individual person's means of making a living. Society has to tacitly acknowledge that unequal labor capabilities are "natural privileges," has to acknowledge the material interests of the individual, and as a consequence has to acknowledge the collective material interests of the workers joined together in an enterprise. These individual and collective material interest relations determine that in the entire process of production, exchange, distribution and consumption, it is necessary to carry out overall economic accounting, strict calculation of the quality and quantity of labor contributed by each individual worker, strict accounting of the economic results gained by each enterprise from the use and disposition of the means of production belonging to all the people, and furthermore to establish a direct link between the remuneration for labor that is to be received by each worker and the collective interests of the enterprise and the results of the business management of the enterprise. Thus, since the enterprises have self-determination in their management of business operations and as there is, furthermore, a direct link between their interests and the results of their business management, they have full ownership of their own products, and the state or any other enterprise cannot gratuitously carry out allocations of their products. Mutual transfer of their own products between enterprises must observe the principle of exchanges to be effected at equal value, a principle generally observed in all commodity exchanges. In general exchanges, both parties are compensated according to value, receive a substitute according to use value, and social reproduction is thus smoothly carried out. This exchange, which is closely linked to the interests of the individual and the collective interests of the enterprise, has characteristics generally common in commodity exchanges and is thereby also a kind of commodity exchange relationship. In short, the socialist economy with its system of ownership of the whole people and the socialist economy in overall perspective is a commodity economy.

Of course, the socialist commodity economy is different from the commodity economy of other societies. It is built on the foundation of the public ownership of the means of production and does not regard labor as a commodity.

Under socialism the development of the commodity economy serves the interests of the entire society. All this differentiates it from a simple commodity economy, particularly from the capitalist commodity economy.

Development of Planned Economy by Conscious Use of the Law of Value

Since the socialist economy is a planned economy as well as a commodity exchange, how are we then to correctly view the relationship between the planned economy and the commodity economy? In essence, how are we to correctly view the relationship between the principle of planned and well-proportioned development of the national economy and the basic law of the commodity economy, namely, the law of value?

The principle of planned and well-proportioned development of the national economy demands that there be a planned distribution of social labor between all the various production sectors. Marx said: "Time economy and the planned distribution of labor time among different production sectors is still the major economic principle for a collective-based society."⁴ Marx also once said that some sectors over a long period of time continuously take away means of production and means of livelihood without providing any useful products, and that some sectors that continuously take away means of production do indeed continuously provide useful products. Society must compute in advance how to avoid too fast a development of the former, a development that would harm the latter. For instance, in railways and large heavy industry items, investment is generally large, construction time long and economic results slow in coming. Over a long period of time they require continuous investments, their construction workers require large quantities of materials for their livelihood, but are unable to produce useful products. The opposite is the case with light industry construction. A harmonious development is only possible if appropriate proportions are maintained between the two. The lesson we can draw from our past is that our actions frequently ran counter to this demand, that in our construction projects there was impatience for success, projects were begun without clear awareness of our actual capacities; steel was considered the key link, and heavy industry was one-sidedly given priority, creating a situation in which heavy industry was too "heavy" and light industry too "light," with agriculture remaining hard pressed, so that a serious imbalance came about between accumulation and consumption, and in the proportionate relationship among agriculture, light industry and heavy industry. In the end it was inevitable to have to carry out a readjustment, which entailed serious losses and much wastage.

How can a rational distribution of social labor among all production sectors be achieved? Do we have to resort for support to the law of value? Because the law of value is first of all a law of determining value, namely, to the effect that the value of a commodity is determined by the labor time required by society to produce it. "The law of value of commodities is determined by how much time out of all labor time at its disposal a society can use to produce a particular commodity."⁵ Planning without basis in the law of value can only be subjectivist planning, which in the end leads to an imbalance in proportions. This shows that fulfilling the demand for planned and well-proportioned development and the rational distribution of social labor among

all sectors or production cannot be achieved without the law of value. Not only that, under the conditions of a commodity economy, in order to achieve a development that fulfills the demand for planned and well-proportioned development, we can also not do without the law of value. Supposing that the plan we have drawn up is scientific and that it truly incorporates the demands for planned and well-proportioned development and the demands of the law of value, the critical question of whether the plan can be smoothly carried out is whether the price relations among the various products are reasonable, i.e., whether prices have been determined according to value or production costs, whether all social labor consumption is being compensated and whether the interests of all producers is being given consideration. Only if prices basically conform to value and production costs, will they be helpful in promoting the realization of the plan. Of course, under special conditions, in order to regulate supply and demand relationships of certain commodities, and within a certain period of time, it might become necessary to raise or lower the prices of certain commodities above or below their value or production costs. This is also one way of consciously employing the law of value to achieve the demands of the plan. The present price system in China (the price relations between the various commodities) is very irrational. The prices of many commodities seriously deviate from their value or production costs. Prices for fuel, raw materials and especially for mining products are particularly low, while prices for processed industrial products are particularly high. This situation seriously impedes the development of the fuel and raw materials industries and stimulates indiscriminate development of processing industries, thereby aggravating the shortages in the supply of energy and raw materials. On the one hand, this price system cannot reflect the actual labor productivity in the various sectors and, on the other hand, also cannot function as a regulator of supply and demand; it runs counter to the demands of the state plan. The cause for the confusion in the price system is, apart from the political turmoil which for a long time had an adverse effect on economic planning, including the normal conduct of commodity pricing work, mainly that in theoretical respects the planned economy and the commodity economy were placed in antagonistic opposite positions and that the regulatory function of the law of value in production and circulation was not recognized, that people had been incapable of utilizing the law of value to accomplish demands of the plan and rather only relied on administrative measures. In times when commodities were in short supply, it was customary to freeze commodity prices, and "planned allotment" and "planned supply" was enforced to restrict demand and consumption. As a result, prices and value or production costs further separated to a serious extent, and the contradiction between supply and demand became more acute. Besides, our commodity control system is excessively centralized, enforcing a uniform price system. The prices of all important products are uniformly determined by the state. For all other commodities the state has also drawn up a uniform pricing system, furthermore, the pricing and price adjustment for each commodity must be examined and approved by various levels of authorities with much wastage of time and great delay. In order to have the law of value play its role in promoting production and regulating supply and demand, we must, therefore, effect a readjustment of our irrational system of pricing, also reform the commodity price control system, which is so highly centralized and too rigid, bestow on the local authorities and enterprises certain pricing rights, gradually reduce the

scope of centralized pricing by the state, appropriately broaden to a certain extent the scope of floating prices and free pricing. We must carry out a multiple pattern of pricing, planned pricing, floating prices and free pricing in order to enable prices to reflect in a very sensitive way the social productivity and the changes of supply and demand in the market, and to more effectively cope with the demands of the socialist planned economy.

Taxes, profit margins and wages are components of product value. Changes in these components have an effect on the distribution and redistribution of the net income of an enterprise and also an effect on the interests of the state, the collective and of the individual, as well as on the interests between the enterprises. They are, therefore, important levers for the regulation of production and circulation. Using the law of value in the service of the socialist planned economy also comprises learning and mastering the flexible application of these economic levers. Under the present conditions of our irrational price system, the assessment of different regulatory tax rates for different commodities and enterprises could alleviate the situation of great disparity in profits between enterprises that has arisen due to irrational pricing, and could bring about more or less equality in the level of profits that enterprises may retain. However, this may complicate tax collecting work and may easily lead to the malpractice of "flogging the diligent ox." If the tax rate is not uniform, it often happens that the fairly high net income which some enterprises deserve due to improvements in their business management by subjective efforts and by lowering their production costs, will all be taxed away, a fact that will certainly dampen the enthusiasm in the enterprises. After the readjustment of prices and after arriving at a more rational system of pricing, it will be necessary to gradually effect a transition to a uniform tax rate, i.e., to tax the same commodity at the same tax rate. Simultaneously we should levy a natural resources tax and capital fund tax from enterprises with very favorable natural conditions and from those that have highly developed technological equipment invested in them by the state. In this way, advanced enterprises that are truly well managed will consume less specific labor time for the manufacture of their products than the labor time generally required in society, and will earn above-quota profits. Backward enterprises will not be able to earn average profits and may even incur losses. This will in future be effective in promoting efforts in all enterprises to continuously improve their business management, to employ new technologies, to raise productivity and as a consequence promote the continuous development of social productive forces. Interest rates for bank credits must fluctuate, and banks must be given powers to adjust interest rates in a flexible manner in the light of the state plan and actual market conditions, to guide enterprises in the conduct of their business operations according to the demands of the state plan and the needs of the market. After expansion of their self-determination, enterprises have the power to determine the employment of labor and the way of paying wages and bonuses. From the past ways of controlling the personnel complements in enterprises and the total amounts of wages, the state must gradually shift to determining only the general method of increasing wages, bonuses and productivity according to a certain proportion, and the rates of taxes to be paid to the state. Under the precondition of absolutely guaranteeing a rapid increase in productivity and of ensuring the larger share of profits for the state, the salaries and wages

of staff and workers may also be rapidly raised, while at the same time levying a progressive tax on salaries and wages (including bonuses) on salaries and wages in the high brackets. This will in future effectively eliminate egalitarianism and greatly raise work enthusiasm among staff and workers.

Bringing Market Mechanism Fully into Play

Socialist economy is a planned commodity economy, which entails the problem of how to deal accurately with planning as against market functions. We must resolutely discard the traditional view which regarded planning and market functions as two antagonistic opposites, and we must discard the traditional planning methods. Under the conditions of a commodity economy, the needs of society, which comprise the needs of production and of livelihood consumption, are mainly expressed through market activities. Planning that is done by high-ranking leading organs behind closed doors away from the supply-demand conditions of the market is bound to be planning divorced from reality. We must, therefore, effect a complete turnabout in the original planning system and its procedures, and carry out a new method that integrates bottom-to-top with top-to-bottom procedures. The enterprises must first draw up their plans of supply, production and marketing, in line with the supply-demand situation in the market and should, furthermore, sign economic contracts between one another. The higher authority should then collect these plans, effect an overall balance and according to the basic economic laws of socialism, the demands for planned and well-proportioned development of the national economy, and in line with the political and economic tasks of the party and the state at that particular time, institute appropriate adjustments. A plan drawn up in this way is, on the one hand, complying with the market situation; but, on the other hand, not completely regulated by spontaneous market influences. It is precisely planned economy, which means a planned commodity economy and not that type of market economy that is completely regulated by the market."

Implementation and materialization of the plan is also effected through the medium of the market, one way being a "not-directly-planned market." That is what the "Resolution" refers to when it points out: "Sectors for which production and exchanges are completely regulated by the market are mainly the sectors of agricultural and sideline products, small commodities of daily use and the activities of service and repair trades. They play only an auxiliary role in the national economy." The scope of this market is also delineated in a planned manner, but it is only that no specific plan directives are decreed for it. I call it a "not-directly-planned market." Another kind of market is the "directly-planned market," which comprises markets conducting exchanges according to plans that have either the nature of directives or the nature of guidelines. In case of the former type of market, the market mechanism is consciously allowed to exercise regulatory functions spontaneously. In case of the latter type of market, there is the demand that the market mechanism be consciously employed to promote the materialization of the plan. The "Resolution" points out: "Plans of a guiding nature rely principally on the role of economic levers for their materialization; plans of a directive nature simply must be carried out, however, attention must also be paid to the law of value." As mentioned before, prices as the applicable

forms of the law of value, are the most important economic lever. In the market, the price lever is of direct significance for the profits of enterprises and influences their enthusiasm for fulfillment of the plan. Prices exert an important influence not only on the materialization of plans of a guiding nature, but also to a certain extent on plans of a directive nature. If prices are particularly low, the enterprises will not be too eager to fully carry out the plan. If prices are particularly high, enterprises will frequently exceed the plan norms, and this excessive production will not always be to the benefit of society. This shows that the market mechanism exercises a regulatory function, to varying degrees, on plans of both guiding and directive nature, the only difference being that the regulatory function has certain limitations, which the state consciously utilizes.

Bringing the market mechanism fully into play demands, furthermore, that the scope of plans of a directive nature be reduced and that the scope of plans of a guiding nature and spontaneous regulation by the market be extended, that production and demand are as far as possible brought into direct contact, that users and consumers are allowed to select, test and assess commodities, so as to promote increases in the variety and design of commodities, improvement of quality and reduction in costs, thus better to satisfy the needs of society. The "Resolution" clearly and definitely points out: "Practicing planned economy does not amount to giving priority to plans of a directive nature; plans of directive nature and those of a guiding nature are both specific forms of planned economy." Plans of a directive nature must only be limited to a small number of products of great importance for the national economy and the people's livelihood, which have to be allocated and distributed by the state, and that, furthermore, have a bearing on major economic activities in the overall situation. In the past, the scope of plans of a directive nature was very wide. Apart from conceptional deviations and errors, those methods were mainly continuations of those that had to be employed to restrict capitalist enterprises at the time of the socialist transformation of capitalist industrial and commercial enterprises, or had been necessary because of the commodity prices and shortages of supplies and the imbalance in the proportionate development, or to ensure key construction projects and to ensure the basic livelihood needs of the people. Now that a fairly successful balance has been achieved in the main proportions of the national economy and goods and materials have become comparatively abundant, it is necessary to greatly reduce the scope of the plans of a directive nature. This does not mean rejection of planned economy, because the essential demand of a planned economy is the conscious and regular maintenance of a balance in the principal proportionate relations of the national economy to better satisfy the needs of the society. Experience has proven that in the past, when the scope of our plans of a directive nature was very wide, and these plans were placed in a position of antagonistic opposition to market influences, while the utilization of market functions was rejected, enterprises only cared to produce for the sake of the plan, and did not care whether their production suited market demands. As the result of losing all supervision, testing and assessment by users and consumers, the variety and designs of products did not increase, but rather decreased over a long period of time, and the quality of many products was not improved for 10 and 20 years, or was even allowed to deteriorate. Because some products were unsuitable, of bad quality or priced

too high, much overstocking and wastage resulted. We must, therefore, not place blind faith in plans of a directive nature and believe that they are the only way to achieve a balanced development of our national economy. As long as our strategy for economic development is correct and we control the important economic activities that have an impact on the overall situation, reduce plans of directive nature, expand the scope of plans of a guiding nature and of spontaneous market regulation, make more and more conscious use of the market mechanism, our economic development will certainly be able to proceed in a unified direction, as it will also satisfy in a flexible way the demands of the market. The development will then more effectively ensure the planned and well-proportioned development of the national economy and enable the socialist modernization to forge ahead full of vitality.

FOOTNOTES

1. Stalin, "Questions of the Socialist Economy in the Soviet Union," People's Publishing Co, 1961, Vol 4, p 41.
2. Ibid.
3. Marx, "Das Kapital," Vol 3, in "Collected Works of Marx and Engels," Vol 25, p 436.
4. Marx, "Introduction to ~~the~~ Critique of Political Economy" (Draft), first part, People's Publishing Co, 1975, p 112.
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FOREIGN TRADE AND INVESTMENT

CURRENT PROBLEMS IN SINO-JAPANESE TRADE DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 11, 27 Nov 84 pp 16-19

[Article by Li Jianguo [2621 1696 0948]: "Open New Prospects for Sino-Japanese Economic Cooperation"]

[Text]

I

When mankind is about to enter the 21st century, the establishment of a stable and long-lasting relationship of economic cooperation between China and Japan is the common task for the two peoples. They will set a good example of cooperation between countries of different social systems and at a different stages of economic development.

The establishment of such a relationship is in the basic interests of Chinese and Japanese peoples, since it is an important question of whether or not these two great nations can live in harmony and work for common development and prosperity.

The establishment of such a cooperative relationship is necessitated by the following considerations:

1. Whether a stable and long-lasting relationship of economic cooperation can be established has not only a direct bearing on the stability of Sino-Japanese political relations; it also affects the peace and stability of Asia and the world. And peace provides the only way to prosperity for both nations.
2. The war and the self-imposed blockades of the past brought great harm to both peoples, and we must never let this historic tragedy be repeated.
3. The establishment of a stable and long-lasting cooperative relationship is necessary to the economic development of both countries. The rapid economic development of the Asian-Pacific region, on which men will place their hope in the 21st century, will certainly further cement the Sino-Japanese economic relationship.

II

However, we must recognize the arduous nature of this task. First, the social and economic systems of the two countries are different, and we must make every effort to overcome the difficulties usually encountered under such circumstances. Second, the two countries are at different stages of economic development, and we must make every effort to solve the problems usually encountered in the south-north relationship. Finally, there are fairly great differences between a continental and an island country with regard to history, geography, national traits and customs. All these differences may bring certain difficulties and complex problems to our economic cooperation.

For these reasons, the establishment of a stable and long-lasting relationship of economic cooperation between two countries of different social systems and at different stages of economic development can pose a historic challenge. However, we are full of confidence in meeting this challenge, in view of the many unique favorable conditions for the two countries.

1. We have had a long history of friendly cultural and economic intercourse, and both peoples love peace and value friendship. This is the most solid foundation for Sino-Japanese economic cooperation.
2. The heads of state of both countries have frequently exchanged visits and the four principles of Sino-Japanese friendship provide a reliable political backing to the economic cooperation.
3. China's firm open-door policy and the widespread economic restructuring from the countryside to the cities have opened a bright vista for intensive Sino-Japanese economic cooperation.
4. Along with the development of the new technical revolution in the world, Japan's domestic industrial structure will soon face an in-depth readjustment. This situation will facilitate technical cooperation between the two countries in various forms and under a rational system of international division of labor.

III

To open new prospects for Sino-Japanese economic cooperation, we should jointly explore and set up some type of combined operations of technology and foreign trade and a new model for the exchange of technology for market.

This model should have the following features:

1. Economic cooperation may take many different forms, but the main one should be that of technology transfer. In addition to the transactions of common commodities in various flexible forms, there will also be large-scale direct investments in the forms of cooperative production, joint venture and enterprises with Chinese and Japanese capital or exclusive Japanese capital.

2. One of the features of cooperation will be the exchange of technology for the market. Our leaders have recently reiterated that if the joint ventures or the wholly-owned foreign enterprises can use their really advanced technologies to produce the goods that are suitable for the domestic market, China will let them sell part of their products on the domestic market and guarantee the remittance of their profits.

3. The ultimate objective of this form of cooperation is a horizontal division of labor on an international scale among the industrial branches producing accessories and spareparts. At present, the economic and trade structures of the two countries are designed basically for a vertical division of labor or the exchange of natural resources for industrial products. Through various forms of combined operations of technology and foreign trade, we should perseveringly readjust our export commodity mix on the basis of the readjusted domestic industrial structure of other countries and strive to form a more rational cooperative relationship based on equality, mutual benefits and cooperative division of work.

4. Cooperation is based on both close relationship and independence. The close relationship refers to the economic cooperation based on a sound industrial structure within each of the cooperating countries and a relationship of mutual reliance, mutual supplement and mutual promotion. We will not be in the same position as South Korea, Taiwan and some other regions whose cooperative relationship with Japan is merely one of one-sided reliance.

IV

To further develop Sino-Japanese trade, we will first adopt a form of combined operations of technology and foreign trade. We must conduct some active research to find out if in the year 2000, the total volume of Sino-Japanese trade can be increased to \$40 billion, or possibly a little more. The idea behind this target is not merely a quest for money, but rather a careful study of the potential for developing Sino-Japanese trade.

If we will compare the serial tables [lian huan biao 5114 3883 5903] of 1981 with that of 1970, we can see that in Japan's industrial structure, the ratio of 44 trades in the output value composition was on a downward trend, although the ratio of imports rose by a wide margin. This shows that these trades had already lost their positions of advantage, and this is precisely a source of potential for China to expand its exports to Japan.

Table 1. Changes in Japan's Industrial Structure, 1970-1981

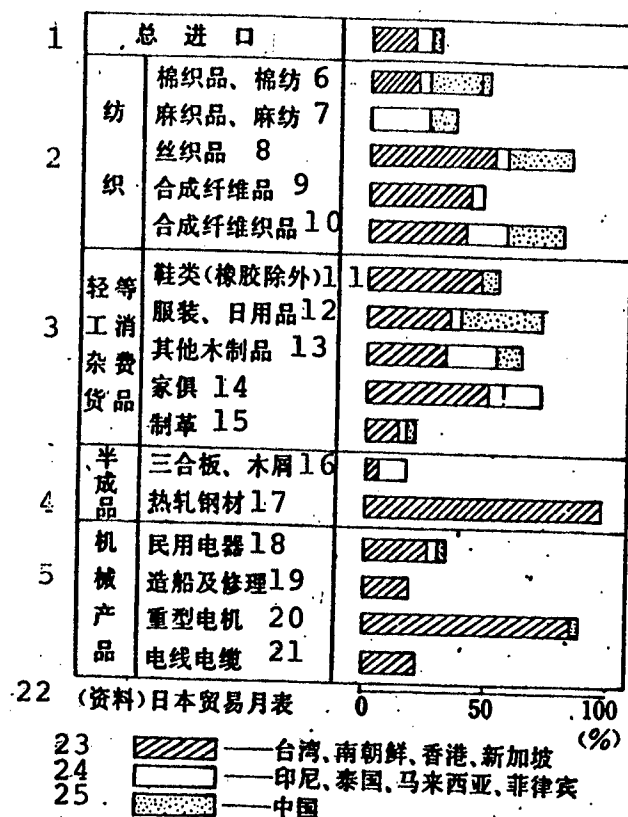
1	2	3	4	5
行业类别	进口 比率	产值构 成比	行业 数量	主要行业构成
丧失比较优 势的产业 6	上升 10	下降 11	44	纺织原料、轻工杂 货、稀有金属等 13
衰退型产业 7	下降 11	下降 11	14	砂糖、人造丝、生 铁等 14
比较优势增 强的产业 8	下降 11	增加 12	12	动力机械、普通工 业机械、办公机械 15
水平分工型 产业 9	上升 10	增加 12	22	精密机械、钟表 16

17 《日本兴业银行调查部》

Key:

1. Type of trade
2. Import ratio
3. Ratio in composition of output value
4. Number of trades
5. Composition of major trades
6. Trades having lost their positions of advantage
7. Trades on the decline
8. Trades in fairly advantageous positions
9. Trades for horizontal division of labor
10. Rising
11. Dropping
12. Increasing
13. Textile raw materials, light industrial and miscellaneous goods, rare metals, etc.
14. Sugar, artificial silk, pig iron, etc.
15. Power machinery, common industrial machinery, public utility machinery
16. Precision machinery, clocks and watches
17. "Survey department of Kogyo Industrial Bank, Japan"

Table 2. Proportion of Exports to Japan by the Countries and Regions of the Pacific Rim in Those Trades Having Increased Japanese Imports



Key:

1. Total imports
2. Textiles
3. Light industrial consumer goods and miscellaneous goods
4. Semifinished products
5. Machinery
6. Cotton knitwear, cotton textile goods
7. Bast knitwear, bast textile goods
8. Silk knit goods
9. Synthetic fiber products
10. Synthetic fiber knit goods
11. Shoes (rubber excepted)
12. Garments, daily necessities
13. Other woodwork
14. Furniture
15. Leather
16. Plywood, wood-shavings
17. Hot rolled steel
18. Electrical equipment for civilians
19. Shipbuilding and repairs
20. Heavy power machinery
21. Power wires and cables
22. (Data) Monthly Table of Japan's Trade
23. Taiwan, South Korea, Hong Kong, Singapore
24. Indonesia, Thailand, Malaysia, Philippines
25. China

From Table 2 we can see that except for cotton textile goods, China's proportions of exports to Japan were lower than those of South Korea, Taiwan, Hong Kong and Singapore, the so-called four Asian powers. China's proportion of mechanical and electrical equipment was very low indeed since Japan's market for these products was dominated by the four Asian powers. mainly for the reason that China's mechanical and electrical equipment was poor in quality and weak in competitive power.

We do not, and cannot, expect to supplant the South Asian regions and countries in these 44 trades which are now rather weak in Japan. However, we hope that those Chinese sectors whose export ratios are too low will appropriately raise them. In addition to the efforts of our own machinery industry to step up market surveys and to improve the processing techniques as a matter of policy, we also hope that Japan will provide us more technical guidance including the transfer of technology for these products. This will call for cooperation in various forms so that the transfer of technology and the expansion of trade can go hand-in-hand.

V

The most prominent problem in Sino-Japanese economic cooperation now is that the development of Sino-Japanese joint ventures is far behind the cooperation of the two countries in the trading and financial fields. This is the main weak link.

At the end of 1983, China had 188 joint ventures with foreign countries with a total investment of \$340 million. Only 14 (7.4 percent) of them were joint Sino-Japanese ventures and the amount of investment was only \$20.66 (6.1 percent), far below the number of joint Sino-U.S. ventures (20 or 10.6 percent) with an investment of \$88 million or 26 percent of the total joint investment. This situation is not commensurate with the friendly relations between our two countries. If we allow this situation to continue, the establishment of a stable and long-lasting Sino-Japanese relationship in economic cooperation may be hampered.

There are mainly four reasons why Japanese entrepreneurs are rather sparing in their investments in China:

1. To alleviate the increasing trade conflicts with the United States and the European countries and to protect their exports to the European and American markets, the Japanese enterprises are preoccupied with their direct investments in Europe and the United States, particularly the latter. Therefore, they tend to neglect their investments in China.

2. Most Japanese enterprises are not yet free from the "reduced operations" mentality. According to their business ideas, they should be more concerned with their survival than with their development as they were immediately after the oil crisis. In our opinion, however, although such a state of mind has helped Japan ride over their difficulties in the 1970's, whether such a conservative idea can help them in the 1980's is open to serious doubts.

3. Many people in Japan worry that investments in China mainly in the form of technology transfer may have "boomerang effects" (See footnote) which will bring new competition to some of their own products on the domestic market and force them to further readjust their industrial structure. Such worry is understandable. However, although certain conflicts may be caused by technology transfer in the microscopic industrial readjustment, such transfer should serve the interests of both countries from the macroscopic point of view.

4. The establishment of Sino-Japanese joint ventures is a new undertaking in their economic cooperation for which both parties lack experience. Especially because the Japanese investors have a variety of misgivings about China's environment for investment, it is necessary for us to reach a better mutual understanding in the light of what happened in the past.

VI

To establish a stable and long-lasting relationship of economic cooperation and to open up new prospects for such cooperation, we should further promote the development of Sino-Japanese joint ventures while at the same time developing various forms of economic cooperation. The following three points may be considered as the concrete methods.

1. On the basis of the four principles of friendship, we should further strengthen our mutual understanding and confidence.
2. Realistic measures should be taken to solve certain concrete problems that may hinder the development of Sino-Japanese joint ventures.
3. Both Chinese and the Japanese governments should make further efforts to promote the development of joint ventures.

First, both governments should quickly sign the "investment protection agreement." Sweden, the Federal Republic of Germany, Belgium and Romania have been ahead of Japan in this respect. Therefore, an early breakthrough should be made in the Sino-Japanese talks.

Second, with the use of Japan's overseas cooperation funds, some Sino-Japanese joint ventures run by governments and civilians should be set up at the national level to promote the development of more civilian joint ventures.

Recently, some new progress had been made in Sino-Japanese joint ventures. For example, some new projects for the manufacture of motor vehicles and the production of alloy steel are now under negotiation. We wish these cooperative undertakings early success.

FOOTNOTE

"Boomerang effects" means that after the transfer of technology from an industrial country, the products from the new productive forces of the

receiving country will compete against the same products of the industrial country on the domestic or international market, thus causing damage to the industrial country.

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FOREIGN TRADE AND INVESTMENT

CHANGE OF COMMODITY MIX FOR EXPANDING SINO-JAPANESE TRADE

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 11, 27 Nov 84 pp 19-21

[Article by Guo Li [6753 5461]: "Change the Export Commodity Mix, Expand Sino-Japanese Trade"]

[Text] China and Japan are close neighbors separated by a strip of water, and conditions are very favorable for Sino-Japanese trade. The trade between these two countries now accounts for nearly one-fourth of China's foreign trade, and Japan ranks first among China's partners and will continue to do so for some time to come. Therefore, quadrupling the volume of Sino-Japanese trade is an important condition for quadrupling our entire foreign trade, and the expansion of Sino-Japanese trade is the key to the expansion of our foreign trade. The extent of expansion of our exports to Japan is determined by the change in the export commodity mix. From the course of Sino-Japanese trade development, we can see the important role played by the change in our export commodity mix in the expansion of our exports and Sino-Japanese trade.

During the 1950's and 1960's, agricultural and sideline products were the main stems in our export commodity mix for Japan. For a long time, the ratio of grain, edible oils and other foodstuffs was the highest in our exports and up to 1971, before the establishment of our diplomatic relations, these items still accounted for 40 percent of our exports to Japan, with soybeans topping the list. The ratio of our industrial and mineral products to agricultural and sideline products was 2:8. The volume of Sino-Japanese trade in 1956, totaling \$120 million (\$60 million for exports) was the highest in the 1950's, while that of 1966, totaling \$600 million (\$270 million for exports) was the highest in the 1960's. Up to 1971, before the establishment of diplomatic relations, the trade volume was only \$870 million (\$280 million for exports). Since the volume of Sino-Japanese trade from the 1950's and 1960's to the eve of the establishment of diplomatic relations was so small in scope and value, and the adverse balance was always on our side, there must have been some political factors. At the same time, it also shows that with the low ratio of manufactured goods and industrial and mineral products in our commodity mix, our exports were lagging far behind the demand.

In 1972, diplomatic relations between the two countries were normalized, and their economic and trade relations entered a new phase. The

governments of both countries signed a number of agreements, and Sino-Japanese trade, hitherto on a civilian basis, underwent great development. The trade value, \$1 billion at the time of establishment of diplomatic relations, increased to \$10 billion in 1981. In 1982, because of our national economic readjustment and the reduction in the imports of complete plants, the trade volume dropped to \$8.6 billion. However, a steady upswing began in 1983, when the volume reached \$9 billion. It is anticipated that the trade volume between the two countries will exceed \$10 billion in 1984. A great change has also taken place in our export commodity mix to Japan. Since 1973, the exports of raw silk and textile products rapidly increased and amounted to 40 percent of our exports to Japan. Raw silk ranked first among all exports. After 1974, petroleum jumped to the first place and accounted for 36 percent of our exports to Japan. In 1983, crude oil and finished oil products accounted for 53 percent. The ratio between industrial and mineral products to agricultural and sideline products was 8:2. From this, we can clearly see that every change in the export commodity mix would lead to an expansion of exports and the development of Sino-Japanese trade.

Japan's efforts to change its export commodity mix as a means of expanding its foreign trade also illustrates this point. From 1965 to 1982, the ratio of Japan's textile products, processed nonmetal mineral products and other light industrial products in its exports decreased from 31.8 percent to 12.1 percent. On the other hand, the ratio of heavy industrial products increased from 62 percent to 85.1 percent. The increase in the exports of machinery and instruments was even greater--a jump from 35.2 percent to 65.2 percent. From the 1970's to the 1980's, the ratio of raw and semi-finished material industries (rolled steel and chemical industries) was on a downward trend, while that of processing and assembling industries was on the rise. There were also increases in the export of motor vehicles and particularly electronic, optical and scientific instruments requiring high technical skills. In 1960, Japan's export volume was only \$14.1 billion. It rose to \$19.3 billion in 1970 and then jumped to \$129.8 billion in 1980 and \$146.9 billion in 1983. Thus the change in the export commodity mix brought about a rapid increase in exports.

Although our social system is entirely different from that of Japan, we can still learn something from its successful experiences. In dealing with Japan in our economic and trade work, we should place the export strategy in the foremost position. If we want to quadruple the volume of our foreign trade, we must strive for not only a quantitative increase, but also improved quality--namely a change in the commodity mix--in developing Sino-Japanese trade.

At present, petroleum and coal are the competitive items in our exports. Along with the smooth progress in the exploitation of offshore oilfields and the development of coal, our exports of these items to Japan will further increase. However, since the scale of production among the "material industries" such as steel, cement and petrochemicals has been reduced, its energy imports will also be reduced. Furthermore, in the case of coal, supply now exceeds demand on the international market, and Japan

is unwilling to import too much of it for the time being. Even though Japan in the long run may increase its imports of crude oil and coal, the rate of increase will be reduced. Therefore, it is necessary for us to end our over-reliance on crude oil and coal and to increase the exports of raw materials. According to Japanese market demands, it is possible for us to increase our exports of agricultural produce, nonferrous metals and rare metals. We have a huge territory and rich resources. As long as we can catch up with our work, we can certainly increase the varieties of those commodities which can serve as raw materials.

We must try to make full use of the world's advanced technologies and funds. In the process of our modernization drive, we will develop our technology- and know-how-intensive industries, make every effort to increase the exports of manufactured goods and particularly the technology- and know-how-intensive products to Japan, and change the verticle division of labor to a horizontal one. Only this can we truly form a relationship based on equality and mutual benefit, and ensure the stable and long-lasting economic and trade relationship between China and Japan. Not long ago, Jinan No 1 Machine Tool Plant signed an agreement with Yamasaki Foundry of Japan and succeeded in exporting its common machine tools. This preliminary experiment should be highly regarded.

At the same time, we should further utilize our strong points in the labor-intensive industries to increase our exports to Japan. In the last several years, our exports of textile products to Japan developed very rapidly. These labor-intensive textile products, especially garments, are one of our strong points. However, despite the large volume of our exports, the grade and prices are low, and not much foreign exchange can be earned. In 1982, for example, Japan imported \$3.4 billion's worth of fiber products. Of this amount, \$1 billion went to South Korea, nearly \$600 million came to us, and the rest went to Taiwan, Italy, Hong Kong, the United States and England in that order. Europe and America mainly exported high-grade products, while South Korea and Taiwan were superior to us in delivery dates and packaging. In the future, if we will import more technologies, improve the quality, and spend more energy in updating and upgrading our products in order to increase our competitive power, we can ceratinly increase our exports and earnings by a wide margin.

Furthermore, while increasing our exports of traditional commodities to Japan, we should also continue to introduce some new commodities. We have gradually developed some new commodities in the past several years. The vegetable transactions between the two countries was something quite original. According to Japanese press reports, China's rapeseeds, garlic sprouts, cabbage and other fresh vegetables are very popular on Japan's market lately. In 1983, Jiangsu Province for the first time exported 320 tons of garlic sprouts, which were much welcomed by Japanese consumers. Japanese traders are also very enthusiastic in dealing in our vegetables. The natural conditions in Jiangsu and some other places are quite favorable for vegetable growth, and their exports can be gradually increased according to Japan's market capacity. Not long ago, Shanghai and Mitsubishi Shaoji Kaisha concluded an agreement on some projects including the reform of

vegetable seeds, the planting of vegetables, the building of canneries and some joint ventures for exports. From this, we can see that economic cooperation between the two countries can take many forms and that much more can be done to improve its outlook.

The general orientation for a radical readjustment of the export commodity mix is the adoption of new technologies to improve the quality and to raise the standards of traditional export commodities, to speed up the updating and upgrading of goods, to develop new products, and then to increase gradually the technology-intensive products, particularly mechanical and electrical equipment, for exports. We can adopt various flexible forms in, for example, the joint exploitation of resources, cooperative production, and joint ventures with Japanese traders in assembling imported parts for exports. When our open-door policy continues to produce effects, we may consider setting up special export plants and special export zones, and given them certain preferential treatment as a means of supporting exports.

From what has been said, we can see that as long as our domestic production can meet the requirements of exports and new breakthroughs can be made in the export commodity mix, and along with the continued improvement and perfection of our foreign economic and trade systems, under the guidance of the correct and effective export policy and with the use of flexible trading methods, it is entirely possible and feasible for us to quadruple the volume of our exports to Japan as well as the volume of Sino-Japanese trade.

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FOREIGN TRADE AND INVESTMENT

CUSTOMS STATISTICS OF FOREIGN TRADE IN FIRST HALF OF 1984

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 11, 27 Nov 84 pp 54-56

[Article by Statistics Section of Customs Statistics Department, General Administration of Customs: "Summary of Our Foreign Trade in First Half of 1984"]

[Text] Our All-Round Increase in Import-Export Trade (Foreign Trade)

In the first half of this year, our import-export trade totaled 48.49 billion yuan (meaning renminbi throughout this article), 26.3 percent over the same period last year with an increase of 10.12 billion yuan. This year, the situation of our foreign trade is very good, the best in our history. Export value totaled 25.05 billion yuan, and import value totaled 23.44 billion yuan with increases of 27.1 percent and 25.6 percent, or increases of 5.35 billion yuan and 4.78 billion yuan respectively, over the same period last year. Export value exceeded import value by 1.6 billion yuan this year.

Changes in Import-Export Commodity Mix

Exports:

In the first half of this year, our exports of manufactured goods totaled 13.53 billion yuan, and that of primary products totaled 11.52 billion yuan. Compared with the same period last year, the proportion of manufactured goods in the total export value dropped slightly from 56.3 percent to 54 percent, while that of primary products increased slightly, from 43.7 percent to 46 percent. The export value of manufactured goods increased by 2.43 billion yuan, and that of primary products increased by 2.92 billion yuan. The export value of light and textile industrial products increased by 2.48 billion yuan; that of mineral products and fuel by 1.45 billion yuan; that of foodstuffs by 0.72 billion yuan; and that of industrial raw materials by 0.63 billion yuan. However, the export value of heavy industrial products fell by 0.22 billion yuan.

Imports:

In the first half of this year, the import value of manufactured goods totaled 18.4 billion yuan, and that of primary products totaled 5.04 billion

yuan. Compared with the same period last year, the proportion of manufactured goods in the total import value increased by a wide margin, from 69.3 percent to 78.5 percent, while that of primary products fell from 30.7 percent to 21.5 percent. The import value of manufactured goods increased by 5.46 billion yuan, and that of primary products decreased by 0.69 billion yuan. Among the main items of the former category, heavy industrial products increased by 3.23 billion yuan, light and textile industrial products, by 1.33 billion yuan; and chemical products, by 0.89 billion yuan. Foodstuffs were reduced by 0.22 billion yuan in our imports.

Classified by Countries (Regions)

According to the statistics of the consumer countries of our exported goods and that of the producer countries of our imported goods, and among the countries and regions with fairly frequent trade contacts with us in the first half of this year, Japan occupied first place in terms of two-way trade value. Its value totaled 12.47 billion yuan, 25.7 percent of our total import-export value. The Hong Kong and Macao regions occupied second place with a total trade value of 9.45 billion yuan, while the United States occupied third place, with a total value of nearly 6 billion yuan. Among our export trading partners, Hong Kong and Macao were first, with a combined value of 7.03 billion yuan, 28.1 percent of our total export value. Japan was second, with a total value of 5.53 billion yuan, and the United States was third, with a total value of 2.49 billion yuan. Among the countries from whom we imported our goods, Japan occupied first place. The value of our imports from Japan increased from 23.2 percent of our total import value last year to 29.6 percent this year, totaling 6.93 billion yuan, an increase of 2.6 billion yuan over last year. From the United States, which was in second place, we imported nearly 3.5 billion yuan; and from Hong Kong and Macao regions, we imported 2.42 billion yuan. In addition, there is the Soviet Union, whose two-way trade value increased this year by a wide margin over last year. From its 16th place last year, the Soviet Union rose to 6th and its two-way trade value was increased from 0.34 billion yuan in the same period last year to 1.12 billion yuan, nearly a 2.3-fold increase this year. Next was Singapore, which rose from 10th place to 8th this year. Its trade value increased from 0.59 billion yuan last year to 1.03 billion yuan this year, a 75 percent increase. The trade volumes of England and France decreased by a wide margin compared with the same period last year. England dropped from 6th to 10th place, and its total trade value was reduced by 0.52 billion yuan. France dropped from 7th to 13th place, and its total trade value was reduced by 0.37 billion yuan.

Exports Classified by Countries (Regions)

In the first half of this year, among our export trading partners classified by regions, Asia was in first place with a value of 17.02 billion yuan, an increase of 3.82 billion yuan, and nearly 68 percent of our total export value. In addition to the Hong Kong and Macao regions, to which our exports increased fairly rapidly, we exported to the ASEAN countries 1.54 billion yuan, an increase of 0.54 billion yuan over last year. Our exports

to Singapore increased by 0.38 billion yuan; to Philippines, 0.19 billion yuan, an increase of 62.24 million yuan; to Indonesia, 84.16 million yuan, an increase of 46.67 million yuan; and to Thailand and Malaysia, an increase of 28.26 million yuan and 19.06 million yuan respectively. The European region ranked second with a value of 3.63 billion yuan, 14.5 percent of our total export value, and an increase of 0.19 billion yuan over last year. The increase of exports to the Eastern European countries was rapid, and the export value this year came to 1.11 billion yuan, an increase of 0.51 billion yuan over last year. Our exports to Romania, the German Democratic Republic, and Czechoslovakia also showed increases. However, our exports to the European Common Market fell by 0.37 billion yuan, to 2.22 billion yuan. Our exports to North America, which occupied third place, totaled 2.78 billion yuan, 11.1 percent of our total export value. To Africa, our export value came to 0.75 billion yuan, 3 percent of our total export value. Our exports to Algeria and Zaire totaled 0.13 billion yuan and 30.69 million yuan, an increase of 68.52 million yuan and 23.75 million yuan respectively. Our exports to Latin America totaled 0.58 billion yuan, 2.3 percent of our total export value. Our exports to Brazil increased by 82.84 million yuan over last year. To Brazil, our exports increased by 82.84 million yuan over last year. We also increased our exports to Cuba. To Oceania, our exports came to 0.26 billion yuan, 1 percent of our total export value.

Imports Classified by Countries (Regions)

In the first half of this year, Asia occupied first place among all the countries from which we imported goods. The total value of our imports from Asia came to 10.69 billion yuan, 45.6 percent of our total import value and an increase of 3.66 billion yuan over last year. Apart from Japan, Hong Kong and Macao, from whom our imports grew fairly rapidly, we also imported 0.67 billion yuan from the ASEAN countries, an increase of 85.3 million over last year. From Indonesia, we imported 0.2 billion yuan, an increase of 93 million yuan over last year. However, our imports from Malaysia decreased by 63.7 million yuan. From Europe, we imported 5.29 billion yuan, 22.6 percent of our total import value, which put it in second place, with an increase of 0.29 billion yuan. From the Eastern European countries, we imported 1.52 billion yuan, an increase of 0.34 billion yuan over last year; but our imports from the European Common Market decreased by 0.19 billion yuan down to 2.96 billion yuan. We imported from North America 4.62 billion yuan, 19.8 percent of our total import value, which put it in third place. From Oceania, we imported 1.07 billion yuan, 4.6 percent of our total import value. From Latin America, we imported nearly 1 billion yuan, 4.3 percent of our total import value, and from Brazil, we imported 0.31 billion yuan, an increase of nearly 0.2 billion yuan. From Chile, we imported 0.21 billion yuan, an increase of 0.13 billion yuan; and from Mexico and Uruguay, we imported 79.12 million yuan and 53.6 million yuan respectively, both showing increases over last year. From Cuba, however, our imports fell by 94.01 million yuan, to 0.17 billion yuan. From Africa, we imported 0.37 billion yuan, 1.6 percent of our total import value, including 66.48 million yuan from Zaire and 43.73 million yuan from Morocco, an increase of 27.47 million yuan and 14.52 million yuan respectively.

Table 1. Composition of China's Import-Export Commodities in First Half of 1984 Unit: 10,000 yuan

项 目	进 口		出 口		进 口		出 口	
	1984年上半年		1983年上半年		1984年上半年		1983年上半年	
	3人民币	%	3人民币	%	3人民币	%	3人民币	%
总 值	2,344,398	100	1,868,752	100	2,505,054	100	1,970,253	100
6 一、初级产品	504,278	21.5	573,190	30.7	1,152,467	46.0	860,938	43.7
7 食品	240,119	10.3	347,062	18.6	345,421	13.8	273,227	13.9
8 饮料及烟草	7,616	0.3	4,708	0.3	11,341	0.4	9,766	0.5
9 工业用原料	238,647	0.2	205,277	11.0	201,582	8.0	138,319	7.0
10 矿物燃料	14,445	0.6	8,413	0.4	568,203	22.7	422,482	21.4
11 其他	3,451	0.1	7,730	0.4	25,920	1.0	17,144	0.9
12 二、工业制成品	1,840,120	78.5	1,293,562	69.3	1,352,587	54.0	1,109,315	56.3
13 重化工业产品	1,475,937	63.0	1,063,015	56.9	447,516	17.9	452,434	23.0
14 重工业产品	1,090,943	46.5	767,040	41.1	349,522	14.0	372,326	19.0
15 化工产品	384,994	16.5	295,975	15.8	97,994	3.9	80,108	4.0
16 轻纺工业产品	364,183	15.5	230,547	12.4	905,071	36.1	656,881	33.3

Key:

- | | |
|--|---|
| 1. Imports | 15. Chemical products |
| 2. Exports | 16. Light and textile industrial products |
| 3. Renminbi | |
| 4. Item | |
| 5. Total value | |
| 6. I. Primary products | |
| 7. Foodstuffs | |
| 8. Beverage and tobacco | |
| 9. Industrial raw materials | |
| 10. Minerals and fuel | |
| 11. Others | |
| 12. II. Manufactured goods | |
| 13. Heavy Industrial and chemical products | |
| 14. Heavy industrial products | |

Table 2. China's Total Import-Export Value to Certain Countries (Regions)

Unit: 10,000 yuan

1984年上半年我国对部分国家(地区)进出口总值表 单位: 百万元

5 项 目	1 进出口总值		2 出口总值		3 进口总值	
	4人民币	%	4人民币	%	4人民币	%
6 总 值	48,495	100	25,051	100	23,444	100
7 其中: 20个国家和地区小计	40,802	84.1	21,075	84.1	19,727	84.1
8 日 本	12,472	25.7	5,537	22.1	6,935	29.6
9 香港、澳门地区	9,455	19.5	7,035	28.1	2,420	10.3
10 美 国	5,996	12.4	2,497	10.0	3,499	14.9
11 德意志联邦共和国	2,101	4.3	793	3.2	1,308	5.6
12 加 拿 大	1,418	2.9	288	1.1	1,130	4.8
13 苏 联	1,123	2.3	541	2.2	582	2.5
14 澳大利亚	1,083	2.2	218	0.9	865	3.7
15 新 加 坡	1,038	2.1	914	3.6	124	0.5
16 巴 西	729	1.5	418	1.7	311	1.3
17 英 国	712	1.5	332	1.3	380	1.6
18 意 大 利	693	1.4	319	1.3	374	1.6
19 罗马尼亚	686	1.4	257	1.0	429	1.8
20 法 国	613	1.3	238	0.9	375	1.6
21 荷 兰	511	1.1	328	1.3	183	0.8
22 朝鲜民主主义人民共和国	502	1.0	238	0.9	264	1.1
23 比 利 时	363	0.8	141	0.6	222	1.0
24 巴基斯坦	344	0.7	295	1.2	49	0.2
25 叙 利 亚	335	0.7	331	1.3	4	
26 马来西亚	321	0.7	186	0.7	135	0.6
27 泰 国	307	0.6	169	0.7	138	0.6

Key:

- | | |
|---|---|
| 1. Total import-export value | 13. Soviet Union |
| 2. Total export value | 14. Australia |
| 3. Total import value | 15. Singapore |
| 4. Renminbi | 16. Brazil |
| 5. Item | 17. England |
| 6. Total value | 18. Italy |
| 7. Subtotal of 20 countries and regions | 19. Romania |
| 8. Japan | 20. France |
| 9. Hong Kong, Macao | 21. Holland |
| 10. United States | 22. Democratic People's Republic of Korea |
| 11. Federal Republic of Germany | 23. Belgium |
| 12. Canada | |

- 24. Pakistan
- 25. Syria
- 26. Malaysia
- 27. Thailand

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CSO: 4006/240

FOREIGN TRADE AND INVESTMENT

MINISTRY OF ELECTRONICS INDUSTRY HEAD ON ELECTRONICS TRADE

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 8, 27 Aug 84 pp 9-10

[Article by Jiang Zemin [3068 3419 3046], Minister of Electronics Industry: "The Foreign Trade of China's Electronics Industry and Its Development Policy"]

[Text] The foreign trade of China's electronics industry began in the 1950's and already has a history of 30 years. As a result of "leftist" influence in the past, its progress was relatively slow and particularly during the decade of the "Great Cultural Revolution," export products were few and no technology was imported.

After the smashing of the "gang of four," the foreign trade of China's electronics industry developed very rapidly. In 1980 the China Electronics Import and Export Corporation which combines industry and trade was formed with the approval of the State Council as a further step to expand economic and technical interchange with foreign countries in the electronics industry. Moreover, four affiliated branch corporations were set up in Guangzhou, Shenzhen, Shanghai and Tianjin, and branch corporations which combine with local electronics industry were also set up in Beijing, Jiangsu, Fujian and Guangdong which directly manage the import and export of the electronics industry. This measure has effectively promoted the development of the foreign trade of China's electronics industry.

In 1983 the export volume of China's electronics industry increased by 55.6 percent over the previous year and the import volume by 11.9 percent. Export products developed from pocket-sized radios, electronic components and special electronic materials toward even more complete sets and up to more than 80 types. In the past, loose television and radio-cassette recorder parts were the primary import but now over 75 percent are imported manufacturing technology and complete sets or individual pieces of manufacturing equipment. In the past, export was primarily done through Hong Kong and Macao but now we are directly exporting to more than 70 countries and regions including the United States, Western Europe, Southeast Asia and Africa.

Since 1979 several hundred enterprises in China's electronics industry have imported advanced technology and equipment from abroad. In the last 3 years alone technology and equipment at a value of \$600 million were imported from Japan, the United States and Western Europe. Among these projects, whether they are technological transfers or joint ventures and compensation trade, cooperation has been well conducted to the satisfaction of both parties.

The electronics industry is a new and developing industry with extremely rapid growth; its state of technology largely determines the level of a country's technical progress and its development must be one step ahead of the rest. In order to promote the all-out vitalization of China's national economy, our government has already assigned the electronics industry an important role and has decided to accelerate its development. Our tentative plan is to increase the 1983 total output value eightfold by the year 2000, or 80 billion yuan, and achieve the world level of the late 1980's and early 1990's in our principal products and production techniques. This goal is 10 years ahead of the one set by the state for other departments in the national economy to achieve the world technical level of the late 1970's and early 1980's.

To realize this goal we will stress key construction on one hand and technological transformation on the other and accelerate the modernization of the scientific research and production of the electronics industry. By combining key construction and technological transformation we will actively utilize foreign capital and import advanced technology. Diverse forms must be adopted on the basis of investigation and study as well as central planning for all domestic production techniques which are urgently needed but cannot be solved at the moment. They must be promptly imported from abroad to strengthen the ability of self-reliance and speed up the technical progress in China's electronics industry. This is a long-term strategic policy for developing China's electronic industry and will not be changed.

In accordance with the guiding principles and policies for importing relevant technology as formulated by China's government, our overall demand is that technological import must suit the actual conditions of China's electronics industry and the technology imported must be advanced, economically rational and favorable to enhancing China's ability of self-reliance in its electronics industry. Moreover, diverse ways must be adopted and the best selected under the conditions of mutual advantage. In the future, we will also continue to uphold the principle of combining technological import and trade expansion by giving preferential trade terms to those countries and firms who give us preferential terms in the area of technological import.

Technological import for China's electronics industry has defined goals and direction. Its overall demand is to regard product as the object and its goals are to strengthen scientific and technological capability, accelerate the improvement and updating of products, lower energy consumption and economize on energy in importing suitable advanced technology

from abroad and promote production and technological transformation of scientific research units. In terms of the direction of importing technology, for now and a period of time in the future, we will mainly stress the technical transformation of microelectronics and micro-electronic computer industry as well as the realization of large-scale production of high-efficiency electronic components. But we must also have suitable arrangement for the import of modern communications equipment, electronic surveying instruments and consumer-type electronic products.

Countries with a developed electronics industry have a long history of industry; they have many of their own characteristics in their technology and are rich in management and administrative experience. This provides conditions for both parties in developing diverse forms of economic and technical cooperation in an even wider scope. In our technological import not only must we pay attention to advanced "hardware" such as individual equipment and production lines but we must pay even more attention to importing "software" including the purchase of technical knowhow, patents, technical data and manufacturing blueprints. China's patent law has already been announced; we respect the principle of international technical transfers and assure that those who cooperate with us will receive the proper benefits.

In terms of the forms of technological import, we will adopt diverse flexible forms based on the common desires and demands of both parties. We welcome foreign friends of electronics industrial circles to undertake joint ventures, cooperative production, compensatory trade, permit trade and other diverse forms of technical and economic cooperation with us and we also welcome them to set up sole-proprietory factories in China. To maintain close cooperation between both parties we hope to undertake joint ventures and joint development as much as possible. Our government has already decided to further open 14 coastal cities. Most of these cities have a certain foundation in the electronics industry and are prepared to regard the electronics industry as a key trade for accelerating development and attracting foreign capital. Even cities that are weak in the electronics industry are drawing up long-term plans to develop electronics industry thereby initiating good conditions for foreign associates and investors. Recently we have decided that we must soon appropriately concentrate our energy first on operating several jointly-managed model enterprises in open coastal cities to the satisfactory of both sides and lay the foundation for further developing cooperation with foreign countries.

In technological import, our foreign friends often worry that their markets will be affected once we have mastered advanced technology. Actually this will not happen. With rapid technological development and constant increase of international interchange, inevitably we have to keep supply each other's needs and China's products must also pass the test of the world market. Each country has its own strong points and characteristics and it is impossible for any country to take on the world market in all areas. At the same time, China has a population of 1

billion and the potential of the China market is enormous. Specifically, China has adopted even more flexible policies recently and when necessary we can give up some of the markets and permit the domestic sale of some of the products from joint ventures. I therefore think that our foreign friends should not worry.

In short, the prospects of further developing the foreign trade as well as international economic and technical cooperation of China's electronics industry are very good. We welcome our friends from international electronics industrial circles to undertake more and broader economic and technical interchange and cooperation with us.

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CSO: 4006/130

FOREIGN TRADE AND INVESTMENT

FACTORS AFFECTING PRICE CONSIDERATIONS FOR MACHINE IMPORTS

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 12, 27 Dec 84 pp 38-40

[Article by Geng Yaqin [5105 0068 3830] "Pricing Problems in Machinery Equipment Importing"]

[Text] Importing machine equipment and technology is an important measure for accelerating economic development in China. Since opening up to the outside and making the domestic economy more dynamic, China has continually expanded the range and scale of the advanced technologies and equipment that it imports from economically developed nations. The importation of machine equipment not only necessitated advanced and usable technologies but also required equal provisions, rational prices and using the least amount of money possible. I will discuss several viewpoints below.

1. Survey Research on Market Information Is the Foundation for Importing Equipment

We must concentrate on price levels that are appropriate and rational but which do not affect transactions. This requires accurate, timely and systematic survey research. Professionals involved in importing should be totally familiar with information and should always be ready to grasp changing international market conditions and even to predict future market trends in order to make use of favorable opportunities to strike bargains at rational prices.

"Market information" does not refer simply to market prices. Market prices are merely one important manifestation of market conditions. Market conditions are a summary of all types of market phenomena that involve already-formed patterns and conditions that may influence the developmental process of certain things.

Survey research on market conditions mainly involves collecting and organizing the relevant economic and market information, analyzing it to reveal the characteristics of and reasons for changes in current economies and markets, for predicting economic development trends and changes in market supply and demand and prices in the related country, and so on.

Survey research on market conditions is an important component of foreign trade work and is fundamental to equipment importing. By doing good surveys of market conditions, professionals can formulate negotiation programs for importing

equipment according to market conditions and for selecting favorable buying opportunities. Without surveys of market conditions, we would have no idea of the prices quoted by foreign businessmen and could haphazardly pressure for irrational lower prices. If we use the amount of discounts to evaluate the rationality of price negotiations, then we will only be tricking ourselves, since the foreign businessmen will raise their prices in advance and place us in a passive position.

II. We Should Be Resolutely Unified in Dealing with the Outside When Importing Equipment

Foreign businessmen may take advantage of the large number of ports in China and quote different prices at different ports. All foreign trade companies must integrate to deal with this situation and unify to set identical price levels during dealings with the outside. Often, when a type of merchandise is being exhibited, several users in China may be interested and compete to place an order for an exhibition. This will make the foreign businessmen feel they have a rare commodity and make it difficult for us to obtain an ideal price. We must be comprehensive in dealing with this situation and act as one when dealing with the outside.

Generally speaking, foreign businessmen pay close attention to items involving large sums of money but little attention to small items, especially parts purchases, making it difficult to get price reductions through simple negotiations. In such cases, we should strive to attach the parts we wish to purchase when other users are buying the primary equipment, since it often is easy to get favorable prices by purchasing parts and primary equipment together.

When two or more foreign trade companies are ordering different items from the same foreign businessman, they also should coordinate with each other for joint negotiations. This could increase the amount of money involved and permit them to try to get favorable prices that benefit all users. Industrial and commercial departments should be closely integrated and work together during user negotiations.

III. Pay attention to Overall Economic Results in Equipment Importing

A. What are overall economic results?

Briefly, economic results are the positive income derived from the differential of consumption relative to results or of expenses relative to gains. The economic results of equipment imports should include not only the economic income that the equipment brings to the enterprise but also should include the economic results for the state.

Although striving to obtain favorable prices through negotiations is an important measure for improving economic results, there also should be comprehensive analysis of the relevant economic indicators for a series of questions such as the land area covered, sources of raw materials, energy consumption, product sales, installation and startup times and so on. As an example, there could be a favorable price for equipment that may take six months to deliver

but a higher price for equipment that takes two months to deliver. The value of output over four months should be counted. Some equipment suppliers may be able to deliver quickly but the plant building of the user may not have been completed, so they should not be imported immediately. Some equipment may have favorable prices but require the importation of raw materials from abroad to be able to produce, and so on.

Overall economic results are the economic results obtained through an optimum import program derived through comprehensive analysis of all relevant factors.

B. Pay attention to several negotiation methods in overall economic results.

1. Negotiation methods for items involving fairly large sums of money:

A detailed negotiation program should be worked out for items involving large sums and should involve patient and careful negotiation with foreign businessmen. We should strive to conserve on foreign exchange and absolutely not do the job carelessly and perfunctorily.

2. Negotiation methods for importing parts:

The sums involved in parts imports may be small, but they may produce great effects. If equipment must be shut down, a day's postponement could mean losing a great deal in value of output. We should adopt dynamic negotiation patterns to finalize deals and take delivery as early as possible.

3. Negotiation methods for importing single pieces of machinery:

The importation of a single piece of equipment usually does not affect pre-production or post-production work procedures. For this reason, there should be joint research with users on the degree of urgency with which it is needed in production, on delivery and installation times, and so on. We should decide on negotiation programs on the basis of the effectiveness in production for a given period of time. Negotiations for those items urgently needed should have a faster pace, while those for items not urgently needed may be postponed for favorable opportunities.

IV. Several Questions that Should Be Considered in Setting Prices

A. Pay attention to all expenses added to the cost of the goods.

Apart from the price of the commodity itself, contract prices also should include shipping fees, packaging fees, insurance fees, and so on that form the various price provisions in international trade. We should actively concentrate on these questions when selecting price provisions.

In order to protect the interests of China's overseas shipping companies and insurance companies, we should strive to obtain agreements based on FOB prices for large and medium scale items. Some smaller items that can be supplied quickly may be transacted according to C&F prices. If the difference between sea and air shipping is not great, then we can order air shipment. We can

take advantage of items with low insurance costs to include the price in setting CIF prices. We should ask foreign businessmen to pay the insurance costs for imports of precious metals.

Apart from these expenses, there also may be advanced technology fees, training fees, and so on. These fees mainly are the travel costs, lodging costs, wages and so on of the technical personnel. These fees are sometimes recorded separately by the foreign businessmen and sometimes included in the price of the equipment.

B. Select correct currencies, predict changes and developmental trends in foreign exchange rates.

Import professionals should correctly select and use currency, strive to use soft money, and use currencies and exchange rates favorable to China. If the other side insists on using hard money, we can request that they lower prices as compensation. We not only must look at the situation of short-run variations in exchange rates, but also can survey market conditions and foreign currency banks to understand and grasp their developmental trends so as to reduce or avoid the danger of losses due to currency prices.

Moreover, we should pay attention to changes in exchange rates when we are paying accounts. We should pay quickly in currencies where there is a tendency toward rising exchange rates and strive to postpone payment as long as possible in the opposite case.

C. Pay attention to the selection of business agents, producing plants and their products.

1. Principles for selecting business agents.

Different agent companies will quote different prices for equipment manufactured by the same plant. This is due to the differences in scale, capital, managerial principles, relationship with the producing plant and other factors. Generally speaking, prices quoted by large and medium-sized companies are higher than those quoted by smaller companies. The larger a company is, the greater the amount of expenditures within the company, so they will want slightly higher profits. In order to compete with large companies, small companies will use the principle of selling more at lower profits to break into and corner markets. For this reason, we should strive to deal with small companies for trade that can be handled by either large or small companies. The capacity, capital and other aspects of small companies are limited for larger items, so it is safer to do business with larger companies when prices are rational.

Selection of a product certainly must be adapted to China's national conditions. We must consider the industrial foundation, technical levels and product development futures in China and the economy, advanced qualities and utility of the equipment, and so on.

D. Give play to the role of industrial and commercial integration.

"Industrial departments managing technology and foreign trade departments managing prices" is a division of labor in theory only. Industry and trade are inseparable in actual trade.

Industrial departments must understand the technical functions of each plant's product, set up contacts with the primary targets, do feasibility studies, and so on, and they of course must come into contact with the question of prices.

Price negotiations by foreign trade departments are based on the prices quoted by the manufacturer, but even more important and fundamental are the technical conditions of the equipment. It will be quite harmful if we just discuss superficial prices and have no understanding of technical questions.

It can be said, therefore, that the division of labor between industry and commerce is a theoretical division of responsibility, and that industry and commerce not only are inseparable in actual foreign trade, but also should be closely coordinated to consider price and technology in a unified manner.

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CSO: 4006/334

FOREIGN TRADE AND INVESTMENT

OVERVIEW OF SINO-DANISH TRADE

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 8, 27 Aug 84 p 53

[Article by He Huan [0149 2970]: "Steady Growth of Sino-Danish Trade"]

[Text] Economic and trade relations between China and Denmark have been developing so rapidly in recent years that Denmark has become one of China's most important trading partners in Western Europe. China and Denmark established diplomatic relations in 1950. Over the past 30 years, bilateral trade has been developing without interruption. According to our statistics, the average annual volume of Sino-Danish trade was only \$5 million throughout the 1950's. During the first 4 years of the 1980's, however, it has risen to \$100 million, a twentyfold increase in three decades.

Sino-Danish trade hit a historical high of \$180 million in 1982, a jump of 125 percent over 1981. Danish exports rose 237 percent over 1981 while our exports declined 5 percent. The sharp rise in our imports from Denmark is mainly accounted for by our purchases of four 64,000-ton bulk freighters, equipment for producing ice cream, and chemical fertilizers. The decline in our exports to Denmark is primarily due to the world-wide economic downturn, the recession in Denmark and restrictions imposed by that country on Chinese exports.

Bilateral trade continued to grow in 1983 and remained above the \$100 million level. Our imports dropped 61 percent while our exports rose 17 percent.

China's principal imports from Denmark are chemical industrial goods, equipment and technology. More specifically, marine equipment and spare parts, refrigeration equipment, food machinery, electronic equipment, medical facilities and chemical fertilizers make up 75 percent of our total imports from Denmark. Our main exports include textiles, chemical industrial goods, livestock, handicrafts, light industrial product and foodstuffs. Canned vegetables, canned fruit, cotton, apparels, wood and bamboo household utensils, furs, leather goods, drawnwork, special arts and crafts, various straw goods, and antibiotics account for 56 percent of all our exports to Denmark.

Both the Danish government and enterprises are very concerned to broaden economic and technological cooperation with China in order to speed up the development of economic and trade ties. Particularly since we adopted the open door policy, they have had extensive cooperation with relevant departments,

provinces and municipalities in the manufacturing of dairy products, refined sugar, beer, cement, shipbuilding, refrigeration facilities and electronic instruments. As Sino-Danish economic and technological cooperation gathered momentum in recent years, the scope of cooperation has broadened and the forms of cooperation have also been diversified. From 1980 through 1982, 15 cooperation agreements were signed, including those involving the importation of Danish diesel engine production technology, joint production of marine incinerators and refrigeration equipment, a consultancy on beer manufacturing technology and a joint venture in container manufacturing.

Interest-free loans and export credits offered by the Danish government have stimulated the rapid development of bilateral trade and economic cooperation. In April 1982, we signed an agreement for the first interest-free loan extended by Denmark. Valued at 125 million krone, the loan has been used to finance the purchase of dairy products, refined sugar, sour milk and construction materials. In January 1983, we concluded another cooperation agreement which gave China a loan for 300 million krone. Last April, a Chinese delegation visited Denmark and signed a 4-year loan agreement with the Danish government which would ensure the development of bilateral economic and trade relations.

Trade relations and economic and technological cooperation between China and Denmark have chalked up an encouraging record and are headed for new achievements. We are now exploring the possibility of extending cooperation to other areas. A bright future awaits us.

12581
CSO: 4006/151

FOREIGN TRADE AND INVESTMENT

BANNER TO RESTORE TRADE WITH MONGOLIA

SK031031 Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 2 Feb 85

[Excerpt] In the course of reform, Urad Middle and Rear Joint Banner removed the barriers between areas, and opened its doors wide to other areas in an effort to change its poverty-stricken and backward situation. Located in a border area surrounded on all sides by mountains, Urad Middle and Rear Joint Banner, with its vast grasslands and abundant mineral resources, is an ideal place for the development of livestock breeding, the mining industry, and other industrial and sideline production. In the past, however, its economic results were poor because of a long-term, closed-door, unitary animal husbandry production emphasis. In order to achieve an economic leap, the banner formulated, early this year, a policy of opening to the outside world and establishing extensive horizontal economic contacts. It has adopted various measures, such as open bidding and joint operations, to encourage talented people from other areas to come and open mines and enterprises there. It also stipulated that all people, including local residents and those coming from other areas in and outside the region and from foreign countries, and including state, collective, and individually-run units, who come to enter bids, set up joint ventures and other cooperative economic organizations, and develop commodity trades, will be welcomed and fully supported. The banner CPC committee and government also sent people to Beijing, Erenhot, and Baotou to hold business discussions, exchange opinions, and hire talented people. They also decided to open a market in (Wuliji) Sumu [Township] to restore and develop the border trade with the People's Republic of Mongolia.

CSO: 4006/398

FOREIGN TRADE AND INVESTMENT

BRIEFS

COMPUTER-BASED MEASURING EQUIPMENT FROM SWEDEN--Selcom, [a firm located] in Partille, owned by Rang Invest, has sold advanced testing measuring equipment valued at 3 million kronor to China. The firm has previously won a significant market in the U.S. and Japan. General Motors in the U.S. is one of its big customers. The laser-based system [it is selling] is one of the most advanced in the world within the area of non-contact measuring. Selcom this year is expected to increase its earnings by 60 percent, to 40 million kronor. Director Lars-Bertil Ohlson stated that the order from China involves complete computer-based systems for dimension control of rubber details in automotive tire production. [Text] [Stockholm SVENSKA DAGBLADET in Swedish 13 Feb 85 p 28]

ECONOMIC PROTOCOL SIGNED--Sofia, 11 Feb (BTA)--The business talks with an economic delegation from the Chinese province of Heilongquang, led by the Deputy-Chairman of the Provincial Government Mr Gun Buinyan continued for seven days. They discussed the possibilities for cooperation in different branches of the economy including the food industry and building. Mr Gun Buinyan had talks with Mr Ognyan Doynov, minister of mechanical engineering, with Bulgarian foreign trade minister Khristo Khristov [title as received] and with other economic leaders. The delegation visited some industrial sites. Mr Marin Marinov, deputy minister of foreign trade and Mr Gun Buinyan signed a protocol today on the talks held during the visit. [Spelling of Chinese names as received] [Text] [Sofia BTA in English 1925 GMT 11 Feb 85]

CSO: 4020/120

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

ANALYSIS OF YUGOSLAVIA'S EXPERIENCE IN PRICE ADJUSTMENT

Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 10, 10 Oct 84 pp 63-67

[Article by Xue Zhongzhang [5641 0112 4545]: "Some Questions Concerning the Pricing of Agricultural Products in Yugoslavia"]

[Text] In the past 30-odd years Yugoslavia has achieved huge successes in its agriculture. In the period from 1948 to 1980, the value of Yugoslavia's agricultural output increased at an annual rate of 3 percent. Calculated at the fixed prices of 1972, the value of agricultural production had almost doubled between 1953 and 1980. However, for quite some time the increases in Yugoslav agricultural production have not accomplished the norms laid down in the plan. Especially in the last few years, the growth of agricultural development has progressively slowed down. The deficiencies in agricultural products, and in the closely related production of foodstuff, has become one of the major causes for the proportionate imbalances in Yugoslavia's economy. There are shortages in the supplies of grain and other foodstuffs, prices have risen swiftly and violently, and the proportion of the people's expenditure for food and drink in their overall living expenses is showing a change from a gradual downward trend to an upward trend. The production of agricultural products and foodstuffs is today still a weak link in the Yugoslav economy.

The problems that have arisen in Yugoslav agricultural production have social and economic causes as well as causes in natural conditions. The developmental level of a country's agricultural production and the structural conditions of its agricultural production will become reflected in the problem of prices for its agricultural products, but nevertheless the price system of its agricultural products will also have an extremely important influence on the development of its agricultural production. Furthermore, fluctuations in the prices of agricultural products will have a chain reaction effect on fluctuations in other commodity prices, and thereby also cause fluctuations in revenue and distribution. Thus, it is to a certain degree correct to say that the stability of prices for agricultural products determines stability of the market and of the entire economy. Agricultural products and items processed from them are, furthermore, important factors that directly influence the living standard of the masses. The question of prices for agricultural products is, therefore, not only an economic question but also an extremely sensitive political question.

On the foundation of autonomous socialist relations, Yugoslavia has carried out many reforms of its pricing system for agricultural products in the course of its economic development. Yugoslavia's experiences and the lessons we can draw from them may well serve us as valuable references. In the following we shall subject three problems in the Yugoslav system of pricing agricultural products to certain analyses, as these problems are well worth our study.

I. The Problem of the Relation Between Domestic Prices for Agricultural Products and Their Prices in the International Market

Yugoslavia is the first socialist country that accepted prices in the international market as standards for the determination of its domestic prices, which means that it was the first country that linked up domestic prices with prices in the international market.

In the economic life of the country, Yugoslavia's foreign economic relations and its import-export trade occupy an extremely important position. In the economic reforms of 1965, which it undertook as a measure to strengthen the competitiveness of its products in the international market, Yugoslavia adopted the prices prevailing in the international market as principal standards to determine its domestic prices and carried out a liberalization of its foreign trade. In 1967, Yugoslavia joined the General Agreement on Tariffs and Trade and accelerated its transition to liberalization of its import-export trade. At that time, prices for agricultural products were in principle freely formed according to market conditions in free exchange areas, imports were not protected by import tariffs, and no preferential prices were fixed for exports. By an adjustment of the dinar's exchange rate and a lowering of import tariffs, import and export trade in agricultural products was completely free and half of the import trade was also completely free. Prices for agricultural products on the domestic market were determined according to the prices either of imports or of exports. Prices for agricultural products that had to be imported, such as rice, wheat and cotton, were determined according to import prices and for other agricultural products according to export prices.

One of the principal aims of the economic reforms was to draw support from prices in the international market to raise domestic prices for agricultural products and to afford agriculture the same business conditions as are enjoyed by the other branches of the national economy. However, prices on the international market are not only determined by the developmental level of agricultural production, but by the price policies of the main exporting countries and the volume of agricultural products required by the principal buyers. Prices of agricultural products in the international market are not only influenced by the production costs in the producing countries, but are also affected by various political factors, such as customs barriers in the markets of certain territories, dumping of agricultural products for political reasons, etc. The opening of the Yugoslav domestic market created an ideal place for the international market to spontaneously spread its influence in free operations, but the first to be hit were Yugoslavia's agricultural products. Many foreign agricultural products flooded the

country's domestic market at dumping prices, and according to incomplete data, in the latter part of the 1960's the import prices for the principal agricultural products were far below their domestic prices. As a result, only certain foreign trade organizations and the consumers benefited from the increased imports, but conditions like these not only do harm to agricultural production within the country itself, but also have an adverse effect on the export of agricultural products to traditional markets.

The liberalization of trade and fixing prices according to prices in the international market was much more ruinous for the agricultural branches than for the other branches of the economy. This was particularly so because the developmental level of Yugoslav agriculture is low and because of the weak points in the socioeconomic structure of its agriculture; a large part of Yugoslav agriculture is privately owned, which comprises individual peasants, mixed peasant households and old peasants. They occupy over 80 percent of the arable land and own almost 90 percent of the livestock, but their labor productivity is low, and they only supply 53 percent of all agricultural commodities. Moreover, effective demand in the domestic market for agricultural products exceeds supplies, so that with the exception of only a few years there is always a large deficit in the import-export trade of agricultural products. In the last few years, exports of agricultural products made up only 30 to 40 percent of the imports, and these figures are much below the general level at which exports make up for imports in the overall foreign trade of the country (50 to 70 percent). This does not accord well at all with Yugoslavia's natural conditions and the potential of its agricultural development. In the light of all these conditions, Yugoslavia began, from 1968 on, to greatly reduce the level of its foreign trade liberalizations; it instituted certain protective measures for the benefit of its own agricultural production, and also many other import restrictions in addition to protection through customs tariffs. A permit system or quota system applies to imports of almost all major agricultural products, and a special import duty of a protective nature is imposed on the importation of certain agricultural products. In 1974, 244 types of products could be imported only after payment of this special import duty, for 122 of these items the duty ranged from 25 to 58 percent. In addition, Yugoslavia established a joint economic fund from which subsidies are paid at times of great disparity between domestic and foreign prices, so as to increase the competitiveness of domestic products in the international market.

To protect domestic agricultural production, Yugoslavia still employs the two systems of guaranteed prices and minimum procurement prices regarding the domestic pricing of its principal agricultural products. Guaranteed prices are in force for wheat, corn, rice, potatoes, hogs, cattle, sheep and chicken, all four types of livestock raised for meat, and cotton, as a subsidy toward production costs and to provide a certain accumulation. Minimum procurement prices are in force for sunflower seed, soybean, beetroot, tobacco leaf and dairy products, which will also subsidize production expenses. During the 1970's, when Yugoslavia proclaimed the so-called "green plan," even greater attention was paid to the problem of prices for agricultural products. The demand at that time was that the determination of prices for agricultural products should be based on the objective of socioeconomic

development during a certain time span, and on such factors as changes in labor productivity, the level of world prices, conditions of supply and demand and price parities between industrial and agricultural products. These demands are basically identical with the pricing standards in the new price law of 1980. With the exception of the principal agricultural products, the prices of all agricultural products can be freely set according to these factors. For the pricing of the principal agricultural products (comprising the 11 items of wheat, corn, sunflower seed, rice, beetroot, tobacco leaf, cotton, furs, fresh milk, livestock for slaughter, oil-bearing crops) the form of protective prices and producer marketing prices are employed. The protective prices must ensure a subsidy for the producers' material consumption, depreciation, his obligations by law or contract and an average income of the individual from the public ownership economy, but not including any accumulation. The marketing price of the producers is the heart of the market price fluctuations; its lower limit is the protective price. Usually the producer price will be 10 percent higher than the protective price. The production costs in the price will be calculated on the basis of the average business conditions of the agricultural labor organization of the public ownership sector and the average level of production costs under average conditions of labor productivity during the preceding 4 years.

The question that deserves study is that Yugoslavia had originally hoped to be able to set price standards by using the prices of the international market and thereby to stimulate the development of its own agricultural production, but as a result, and quite to the contrary, thereby had obstructed the development of agricultural production. This is mainly due to the negative factors that exist in the pricing on the international market and that exist in the international market itself, but, even more importantly, it is also due to the low level of development of the country's national economy itself and the lack of a powerful economy of its own. Of course, Yugoslavia is a country in which foreign trade occupies an important position, and it is an irreproachable idea to adopt international market prices as major standards and important parameters in determining domestic prices. The problem is how to accurately handle the relation between domestic prices and international market prices in a way that will guard against the adverse influences exerted by the negative forces of the international market and a way that will benefit the development of its own agricultural production. Judging by the present condition of the world market, even countries with highly developed economies adopt the necessary preventive and protective measures as demanded by the particular interests of their countries with regard to agricultural production and prices for agricultural products. As to the developing countries, it is even more necessary for them to base themselves firmly on the economic conditions of their countries and to employ in a flexible manner a policy of opening up to foreign trade together with protective measures, so as to pursue what is of benefit to their own country and evade whatever could be harmful to the effective promotion of their own agricultural production.

II. The Problem of Price Parities Between Industrial and Agricultural Products and Among Agricultural Products

Under the Yugoslav condition of a strong emphasis on market functions, the economic position and business conditions of the agricultural sector are first of all determined by the first-time distribution of income through pricing. This is not only determined by the absolute level of prices for agricultural products, but the more important factor is the need here to analyze the price parities between agricultural and industrial products as well as price parities among the various agricultural products. As to the business conditions of the agricultural sector, mainly the price parities between agricultural products and agricultural means of production, the rising prices for agricultural means of production and the increases in remuneration for peasants and agricultural workers above the increase of labor productivity, all these are factors contributing to the rising production costs of agricultural products. As to the development of internal business conditions in the various sectors, the problem of greatest impact is the price parity between grain and animal products.

An important part of the economic reforms of 1965 was the establishment of equal economic positions and equal business conditions between all economic sectors and labor organizations. As far as agriculture was concerned, the raising of prices for agricultural products and thereby placing agriculture on an equal footing with the other sectors of the national economy was an extremely important measure. As early as in the early years of the 1960's, Yugoslavia emphasized this question in its constitution and resolutions, so that even before the economic reforms of 1965 prices for agricultural products were repeatedly increased by large margins. For instance in 1961 and 1962, the procurement prices for agricultural products were raised by around 15 percent, and in 1964 by 24 percent. At the time of the economic reforms of 1965, at the end of July of that year, there was a one-time increase in those prices that showed disparities, in an effort to solve the problem of inequality of prices and of the unequal distribution of hardships and rejoicings between the various sectors of the economy. At that time the overall price increases were at the average rate of 25 percent, prices for agricultural products were raised 33 percent and prices for industrial products 14 percent. However, in actual fact the prices for agricultural products were raised 43 percent, which created favorable working and business conditions for the agricultural sector and brought the prices for agricultural products up to the level of "economic prices." This meant that apart from providing compensation for the changed values, the income part in the prices for agricultural products not only became consonant with income increases in the entire national economy, but also provided for the necessary accumulations that would ensure a scale of reproduction which was demanded by the development of the national economy.

After the economic reforms, the income of the agricultural sector increased, and its economic position was raised. However, by 1968 the various relations that had been established in the reforms had again become undone. There was an initial deterioration of the business conditions of agriculture, which again declined to an unfavorable position. The average income of the publicly owned part of agriculture increased quickly and gradually approached the average level of the entire national economy, but the average income of the privately owned sector, although it increased 18-fold in the 10 years

from 1957 to 1977, still stagnated at a low level. Generally speaking, the income level realized by personnel working in the agricultural sector was lower than that in other branches of the national economy. The accumulation rate of the Yugoslav agricultural labor organizations was also lower than that of the entire national economy, and the disparity was even larger if compared with the average accumulation rate in the industrial sector. Large business losses were suffered by the agricultural labor organizations. According to data for 1969, 14 percent of all labor organizations incurred losses, and 61.5 percent of all labor organizations had accumulation rates of 8 percent or less. As to individual peasants, their chances of being able to expand their reproduction capabilities were even worse.

Up to now there has been no fundamental improvement in the unfavorable position and in the unfavorable business conditions of the agricultural sector. Apart from such factors as low labor productivity, it was also low prices for agricultural products that brought about a situation in which net income created by the agricultural sector was transferred to other sectors. This point was emphatically pointed out at the 12th YLC National Congress, and the "Fundamental Principles for a Program of Long-Term Stabilization of the Economy," a programmatic document passed by the Federal Assembly, also pointed out that agriculture was being neglected in economic development, that agriculture was not regarded as on a deservedly equal footing with the other economic sectors in obtaining a part of the income, but was only regarded as a sector to ensure supplies for the population. The document emphatically called for a speedy improvement of the economic position of agriculture. In 1983, a social agreement on price policy was achieved, one of its main items being the establishment of a long-term price policy for agricultural products, in order to stabilize the business conditions for agricultural products and foodstuffs production. It was particularly emphasized that irrational disparities between various types of agricultural products as well as between the main agricultural products and important agricultural means of production were to be eliminated.

Why was it that Yugoslavia began in the 1960's to attach importance to the economic position and business conditions of agriculture, and then again at the time of its economic reforms in 1965, to employ radical measures to narrow the price differential between industrial and agricultural products, but to finally find itself still unable to this day to arrive at a proper solution?

The main reason is that agricultural products are the important daily necessities of the population or industrial raw materials, the population being particularly sensitive to changes in these products. The Yugoslav Government has, therefore, always strictly controlled the prices of the major agricultural products. Be it by using the form of guaranteed prices and minimum procurement prices, or by using protective prices and producer marketing prices, the main purpose was always to effectively control all prices by means of administrative measures. The proportion of administrative measures. The proportion of administrative interferences in these cases has always been very large, while the prices of many other products were allowed to be formed freely. It follows that when the strictly controlled

prices for agricultural products rose, the freely forming prices for other products also began to rise automatically, resulting in a situation of rising prices, just as "the ship rises when the water rises." To avoid any adverse effects on the processing industry sector and on the living standards of the population, it was necessary, conversely, to control the rise in the prices of the principal agricultural products, have the prices of the principal agricultural products remain at a low level and as a result allow the business conditions for the agricultural sector to deteriorate. For a certain period of time after the 1965 economic reforms, these conditions became evident in a very classic way. There was no change to speak of in the guaranteed prices of the principal agricultural products, such as wheat, corn, pork, beef cattle, mutton, beetroot and dairy products. There were also only certain fluctuations in the average procurement prices during this period, in line with supply and demand in the market, but there was a marked rise in the prices of the agricultural means of production (including agricultural machinery and tools, chemical fertilizer, agricultural chemicals and other means of agricultural labor). For instance, in 1965, 100 kg of mixed chemical fertilizer could be traded for 31.8 kg of wheat or 170 kg of beetroot, but in 1973 it had to be traded for 59.7 kg of wheat and 322 kg of beetroot. In the latter part of the 1970's this trend continued due to the rise in the price of petroleum. In addition the types of agricultural means of production constantly changed, followed by changes in their prices, which also partly contributed to always having favorable prices for these items. In short, these changes in the price relations raised the production costs of agricultural products, which had the effect of having all the improvements in the business conditions for agriculture appear and also disappear again. This reflects the lack of necessary coordination between the protective price system and the system of freely negotiated prices, i.e., between controlled prices and free prices, and it also explains why Yugoslavia, after instituting its income system, has still not been able to solve the problem of the chain reaction of rising prices following the increases in the prices of agricultural products.

Secondly, compared with the agricultural sector, the commercial organization is to a large extent one entity, its organizational structure is perfect, it is closely organized, its connections widespread, while agricultural production is decentralized, mostly composed of small-scale operations, and this is what shaped the monopolist position of commerce. It also is an important reason for the unfavorable pricing for the producers of agricultural products. Add to it the fact that the effective demand for agricultural products and foodstuffs is domestically very strong, which makes it possible for the commercial organizations to earn even larger profits by raising their retail prices, and that they can utilize the favorable conditions for the operation of exports to gain even larger incomes for themselves and also exert influence on the domestic prices of agricultural products.

Of course, the most fundamental reason is still the technological backwardness in agricultural production, the low labor productivity and especially the large proportion of individually operating peasants, circumstances which create a weak point in the socioeconomic structure of the agricultural sector.

The irrational price disparities within the agricultural sector also have an adverse influence on the production of the various agricultural products. For instance, in 1978 there was an irrational price disparity between wheat and fodder. A kilo of wheat cost 2.81 dinar, corn 4 dinar, and the income from growing wheat continuously decreased, which had a direct influence on the production and circulation of wheat, so that the peasants more and more turned to buying their flour and bread, and that also had the effect of a decline in the per-unit-area yield and the total production of wheat. In short, apart from the low price level, there was an irrational price disparity for products within the agricultural sector, which also hampered progress in the production of certain types of agricultural products, obstructed the specialization of production and the rational distribution of production between the different regions. This is what created the above-mentioned conditions. Apart from the influence of the seasonal factor on production, the main causes remain the lack of coordination between controlled and free prices and the weakness of the socioeconomic structure in agricultural production.

III. On the Necessity of Subsidies

Yugoslavia has made agricultural subsidies an important component of its price policy and also a principal means of interventions by the socioeconomic community (i.e., the state organizations). There are mainly three forms in which Yugoslavia's subsidy measures are applied in the agricultural field, namely: (1) rebates on the purchase of chemical fertilizer, seeds for improved varieties, breeding stock, agricultural machinery, fuel, agricultural chemicals and fodder; (2) bonuses for the development of certain products and to stimulate the export of certain products; (3) compensations to protect the living standard of the consumers, to regulate supply and demand, and to make up for the loss of income by labor organizations due to the influence of irrational prices. These measures were started at different times, the scope of their application is also not completely the same and they are, furthermore, subject to frequent adjustments and changes. However, all these measures aimed at improving the economic position of agriculture. Rebates were started in 1952 and used to encourage agriculture to employ advanced production methods and modern techniques, for instance by giving rebates on the purchase of agricultural means of production, seeds for improved varieties and breeding stock. Bonuses were instituted in 1958, first for calves and hogs, later also for wheat, cotton, soybean, hemp, tobacco leaf, sheep's wool and dairy products, to promote production when free market prices were not conducive to production. Compensation was started somewhat later. The method of subsidies was very widely used in agriculture; over 60 percent of all subsidies in the economy were paid in agriculture.

In the 1965 economic reforms, rebates were retained only for chemical fertilizer, and the subsidies were at the rate of 35 percent of the marketing prices of manufacturers. As market prices were unfavorable for the production of hogs, dairy products and cotton, their production was subsidized by the payment of special bonuses. In July 1966, following the improvement in market prices, the bonus for hogs was abolished, and during 1967-1968 the rebates for chemical fertilizer were also reduced. From

November 1971 on, bonuses were only retained for dairy products, in the case of chemical fertilizers the system was changed to one of compensations. During 1971-1972 compensations were paid for the production of flour, edible oils and sugar. During 1973-1976 bonuses were paid for sales to the state of wheat, and in 1977 it was changed to compensations being paid for flour. During 1976-1978 bonuses were paid for soybeans; during 1974-1977 bonuses were paid for beef cattle, calves and slaughter sheep and in 1975 bonuses were paid for hogs, however these were abolished soon afterward. From 1975 to 15 January 1978 compensation was paid for fresh beef, pork, mutton and poultry. From 1974 to the end of June 1978 a special-purpose bonus was established to pay awards to joint labor organizations according to regulations for the production and sale of wheat, sunflower seed, beetroot and dairy products. These bonuses could only be used to expand investments for the production of these products. In 1980, all subsidies were practically eliminated, but in 1981 subsidies for agricultural products were reinstated to stabilize the economy.

Up to the end of June 1977, all funds for the payment of agricultural subsidies were provided by the federal treasury. From 1 July 1977 payments were made by the republics and autonomous provinces. Agricultural subsidies have all along been important items in the budgeted expenditures of the federal government, the republics and the autonomous provinces. For instance, in 1960 they accounted for 8 percent and in 1970 for 5 percent of the federal government's budgeted expenditure. As the items for which subsidies were paid and their amounts changed with changing conditions, there has always been a fluctuation in the total amounts of subsidies.

The Yugoslav attitude toward subsidies is that they, on the one hand, regard their function and existence as necessary, but, on the other hand, demand their gradual reduction, so as not to have them as a heavy burden on public finances. It is our opinion that in the question of price support for agricultural products, there are two points in the Yugoslav methods that should have our approval. First, the establishment of an elastic and flexible system of subsidies, not one that is fixed and unchangeable, is a very reasonable measure. Speaking of the domestic aspect of it, due to the special characteristics of agricultural production and agricultural products, demand for them is comparatively steady and there is also little elasticity in the demand for them, but their supply is not steady at all. If the elasticity in supplies goes down to almost nil, flexible subsidies become necessary to ensure the living standard of the people and to promote agricultural production. Speaking of the foreign aspects of the situation, since there is still a large gap between the agricultural productivity of Yugoslavia and that of the developed capitalist countries, and since we have dumping of agricultural products and also protective barriers against agricultural products in the international market, these facts also make subsidies a necessity. What may serve as a lesson for us is that at a certain time it had been intended to abolish all these subsidies. The second point that should have our approval is that the establishment of a social fund through negotiations and employing a joint way of arrangements to solve the problem of financial sources for the subsidies, has had the effect of having all the departments concerned with agricultural production, through these

joint arrangements experience a common concern for the production and circulation of agricultural products, which is an even more beneficial factor for the development of agricultural production.

The above analysis shows that correct fixing and adjusting of prices for agricultural products is a key factor in the growth of production and in economic and market stability. A fundamental solution to problems in the pricing of agricultural products, however, also requires improvements in the socio-economic structure of the agriculture industry, enhancing its materials, technology, and equipment, and raising its labor productivity.

9808

CSO: 4406/302

TAIWAN

GOVERNMENT TO LOWER TARIFFS, ENCOURAGE IMPORTS

OW260305 Taipei CNA in English 0235 GMT 26 Feb 85

[Text] Taipei, 25 Feb (CNA)--The Ministry of Economic Affairs will consult with the Ministry of Finance [MOF] to further lower tariff rates on the import of machinery and equipment, and accommodate banking credits for procurement of agricultural and industrial raw materials.

An official with the ministry said that the move is aimed at providing a lift to slow-growing imports. The ministry had earlier consulted with the MOF on lowering import duties for over 1,000 items of goods, and slashing import surcharges to only 5 percent.

At the same time, the Board of Foreign Trade had also recommended that the government make more investments in public projects and establish venture capital corporations in a step to promote imports and provide incentives in attracting investments.

The board, meanwhile, had distributed questionnaires requesting opinions on whether restrictions imposed on some 1,200 items of goods should be lifted to facilitate importing them.

CSO: 4020/126

TAIWAN

ECONOMICS MINISTER TO VISIT SOUTH AFRICA

OW260323 Taipei CNA in English 0231 GMT 26 Feb 85

[Text] Taipei, 25 Feb (CNA)--Economics Minister Hsu Li-te will soon head a delegation to South Africa to attend the 7th Sino-South African Economic and Technical Cooperation Conference and discuss with South African officials on ways to further economic and trade relations between the two nations.

Hsu invited government agencies concerned to a meeting Monday to discuss some preparatory work before the meeting.

It was decided in the meeting that Hsu will lead the delegation and represent this nation to attend the 7th Sino-South African Economic and Technical Cooperation Conference to be held 18-24 April, an official disclosed.

The official further pointed out that the South African Government's chief delegate in the meeting will be Dr D. J. de Villiers, minister of trade and industries.

During the meeting, the two countries will widely exchange opinions on issues related to industry, trade, technologies and communications, and discuss ways to further cooperative relations between the two nations, the official added.

CSO: 4020/126

HONG KONG MEDIA ON CHINA

XUE MUQIAO WARNS OF CASH PAYOUTS AFFECTING PRICES, REFORM

HK120154 Hong Kong MING PAO in Chinese 9 Feb 85 p 5

["Special dispatch from Beijing": "Letter From Xue Muqiao Warns That Reform Plans Will Get Out of Control if There are Indiscriminate Price Hikes and Cash Payouts"]

[Text] Reforms of the economic structure in China, with the focus on the cities, are about to gradually unfold throughout the country. Issues of prices and wages, which are of universal concern, have now started to show some reaction, and bad trends of indiscriminate prices hikes and cash payouts have been whipped up in many places.

At present governments at all levels are taking steps by carrying out a major price inspection and vigorously curbing price hikes to put people's minds at ease. However there has not yet been any specific action on indiscriminate cash payouts.

A letter written to the XINHUA NEWS AGENCY by the well-known economist Xue Muqiao on 21 January appealed for attention to the phenomenon of indiscriminate cash payouts. He said: "During the fourth quarter last year, and especially in December, reports came in from everywhere of rush cash payouts by many organs and enterprises." "If subsidies of various kinds continue to be paid indiscriminately after the wages reform, the result may very well be that this year's wage and price reform plans will get out of control, causing a wage and price spiral. Please pay attention to this problem and organize and publish more articles on this topic, and best of all, appeals from the masses." He also attached a letter of appeal signed by one Yan Hongyi [0917 3163 1837].

Yan Hongyi said in his letter of appeal, dated 16 January: "In our district, each of the district organ work personnel was recently given 300 yuan in 'New Year expenses,' and it is also reported that there are various items of income in the bureaus paid out under various pretexts, some of which consist of money sent to the controlling bureaus by their subordinate enterprises. I have also heard that a similar state of affairs exists in Beijing. One acquaintance of mine who changed his job and was made a bureau chief did not at first dare accept the money sent in, but afterwards, as the lower-level cadres straightforwardly and directly distributed it without asking for instructions, he had no alternative but to turn a blind eye. This is a new development in the in-

discriminate payment of bonuses. The reason for it is that the administrative measures controlling consumption funds no longer work, and it seems that it will be hard to change this situation, following the separation of government and enterprise functions."

The letter stated: "In capitalist society, the laborers' consumption is restricted by the demands of the law of maximum profit for the capitalists, while the consumption of the capitalists themselves is restricted by the fact that there are not many of them and also by the need to increase investment to make enterprises competitive. Under the conditions of socialism, all the measures for controlling consumption are administrative. As a result, in recent years very little has been achieved in controlling indiscriminate bonus payments. Around the turn of the year rumors of price rises were heard everywhere and people's minds become unsettled; and it does indeed happen that prices of some commodities rise. If consumption funds cannot be controlled, this will have an impact on the basic stability of prices."

Yan Hongyi said in conclusion: "Under conditions of socialism, enterprise leaders are not capitalists; on questions of relationships between different interests, they are prone to tend toward blind expansion of consumption. But excessive consumption is bound to have an impact on prices. The problem of how to control consumption funds in socialist countries has not yet been solved. Therefore, while delegating powers, it is necessary to find a lever to control consumption."

CSO: 4006/402

HONG KONG MEDIA ON CHINA

MEETING ASSESSES PRC'S SERIOUS TRANSPORT SITUATION

HK150724 Hong Kong MING PAO in Chinese 14 Feb 85 p 5

["Special dispatch from Beijing": "Extreme Shortage of Transport Affects the Economy and Opening Up to World"]

[Text] There is an extreme shortage in China's transportation, particularly in passenger transport. Apart from the crowded trains, difficulties in buying ship and air tickets and traveling have become a matter of concern to everyone, which have even affected the implementation of the policy of enlivening the domestic economy and open to the outside world.

The Transport Association held a meeting of its board of directors in Beijing from 21 to 26 January. Centered on the issue of accelerating the development of China's transport, more than 160 experts in this field gathered here from all parts of the country to devise strategies. This made the following proposals:

Readjust the transport structure and use highways and railways to transport short-distance goods and passengers. In 1985 and 1986 the stress should be placed on alleviating the burden on the four busy railway lines which run from Beijing to Shanghai and Hangzhou, Beijing to Zhengzhou, Beijing to Datong, and Zhengzhou to Xuzhou. Meanwhile, it is necessary to break the bounds between different trades and regions. All trades, units and individuals should be allowed to run transport businesses provided these are advantageous to alleviating the burden on the main lines.

Strengthen the building and technical transformation of the transport facilities. Feasibility studies should be carried out on the main lines, including the Fengtai-Shahe-Datong Railway, the Beijing-Qinhuangdao Railway, the Beijing-Shenyang Railway, the Beijing-Guangzhou Railway, the Beijing-Shanghai Railway, the Harbin-Datong Railway, and the Lianyungang-Lanzhou Railway. In addition, we must develop transport by increasing the number of heavy-loaded and dual-purpose trains.

Marshal the trains and increase the number of railway cars from 17 to 20. The following should also be taken into account: Remove dining cars and enhance the catering services on the railway platforms instead; the attendants responsible for the entire route in the past should now be changed into

attendants undertaking responsibility in sections so as to vacate the attendants' rooms; and change the berths in the sleeping cars into convertible berths so as to increase the number of seats for passengers.

Under the unified leadership of the Civil Aviation Bureau, the localities should be encouraged to rent airplanes to carry out airtransport business.

Make full use of the domestic technical forces and adopt measures for tapping the latent potentials of the country and leasing foreign ships to enhance the passenger transport capacity on the Chang Jiang and the coastal areas.

Prices should be readjusted according to the principle that railway transport is higher than water transport, but is lower than highway transport. Different prices should be allowed for transportation in different lines, facilities, and seasons.

In his summary speech, Guo Hongqiao, president of the Transport Association, said that the association will sort out the proposals and submit them to the state departments concerned for their reference in practical work.

CSO: 4006/402

HONG KONG MEDIA ON CHINA

ARTICLES CITE REASONS FOR EXPANSION OF OPEN CITIES

HK140958 Hong Kong WEN WEI PO in Chinese 13 Feb 85 p 3

["Special dispatch" by correspondent Liu Minyi [0491 2404 0308]: "Huan Xiang [1360 6763], Qian Junrui [6929 0193 3843] Write Articles Saying Scope of Open Cities Should Be Expanded"]

[Text] Huan Xiang, the director of the International Affairs Research Center of the State Council, has pointed out that the scope of the open cities of our country should be further expanded so as to push ahead in line with the development of other cities and provinces of the country. If the small- and medium-sized cities such as Dongguan, Shunde, and Xinhui, which are in the Zhu Jiang Delta, and Nanjing, Zhenjiang, Wuxi, Changzhou, Suzhou, and Hangzhou, which are in the Huang He Delta, become open cities and enjoy the privileges of open cities, the economy of the two deltas will be greatly invigorated.

Huan Xiang gave his opinions in this article published in the special column celebrating the founding of the general office of "INTERNATIONAL COMMERCIAL POST" [QUOJI SHANG BAO 0948 7139 0794 1032].

He says that the agriculture of the two deltas has been quickly developing for the past few years. They now have the material conditions to change their situation of semi-self-sufficiency into a new situation in which agricultural products are merchandised and agriculture and forestry are commercialized so as to meet the needs of the international market and directly join the international economic system.

He points out that the successful implementation of the new policies in the two deltas will also dispel some foreigners' doubt about "whether China's open-door policy will be changed or not," because the continuous participation in the international economic system and sale of products on the international market will surely require a better open-door policy. Thus, the open-door policy will not be changed or reversed.

He also points out that now we are developing more and more open cities, so we should have a unified state plan which stipulates the division of labor and cooperation among all the units to prevent competition in importing the same technology and developing the same products.

Commenting on the development of the two deltas, Qian Junrui, the adviser of the Economics Research Center of the State Council and adviser of the Chinese Academy of Social Sciences, points out in his article that in reconstructing the old city proper in the two deltas, China should learn from Hong Kong's experience in constructing Dapu and Yuan Lang, and India's experience in constructing New Delhi. Their experiences have two characteristics: the construction is well planned, and the construction is strictly carried out according to the law.

CSO: 4006/417

HONG KONG MEDIA ON CHINA

HONG KONG'S MASS TRANSIT RAILWAY CORPORATION WINS SHANGHAI CONTRACT

HK190517 Hong Kong SOUTH CHINA MORNING POST in English 19 Feb 85 p 1

[By Walter Cheung]

[Text] The Mass Transit Railway Corporation [MTRC] has been invited to undertake a feasibility study for Shanghai's first underground railway.

The news of the MTRC's first overseas assignment came at a time when most of the corporation's current project--Island Line--is only three months from completion.

The MTRC may be awarded more Shanghai contracts as the city authorities intend to build a system ultimately comprising 17 lines involving 176 route kms.

The MTRC has much to offer Shanghai as Hong Kong's underground railway system is considered to be the most modern in Southeast Asia and the two cities have similar dense populations.

With the opening of the Island Line, the MTRC will have built railways totaling 38.6 km, most of them underground.

The study is on a 13.5-km line with 13 stations.

The contract--and the likelihood of more--means extra income for the MTRC which has a heavy debt burden and a big but experienced engineering team to keep.

The MTRC has been trying hard to sell its technical know-how to overseas underground railway projects since August 1983, in an effort to retain as many as possible of its army of engineers without spending too much money on idle staff.

If the team, now more than 1,000 strong, is disbanded, the MTRC will have to start from scratch to assemble a new team for any further expansion in Hong Kong.

The MTRC last night announced that it signed a contract with the Shanghai North-South Rapid Track Transit Line Preparatory Organisation 12 days ago.

An MTRC spokesman declined to say how much the contract was worth.

The MTRC said the contract provides for "mutual cooperation" in the production of a feasibility study for the first stage of Shanghai system.

The signing ceremony followed three months of discussions.

The statement said: "At the invitation of the Shanghai Municipal People's Government, the MTRC has had discussion with relevant authorities in Shanghai during the past three months.

"These were directed to agreeing a basis whereby the Shanghai authorities might have the benefit of MTRC experience in planning, designing, constructing, commissioning and operating a mass transit system suited to an Asian environment."

Work on the assignment will commence shortly after Lunar New Year.

The statement did not say when the feasibility study would be completed.

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END