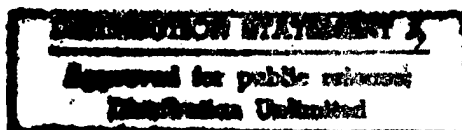


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13 NOVEMBER 1986



# China Report

ECONOMIC AFFAIRS

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13 NOVEMBER 1986

# CHINA REPORT

## ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON RISE IN URBAN LIVING STANDARDS

OWL30939 Beijing XINHUA in English 0908 GMT 13 Oct 86

[Text] Beijing, 13 October (XINHUA)--As the living standard of Chinese citizens steadily rises, nourishing food, better clothing, high quality goods and spacious homes become of utmost importance, GUANGMING DAILY reported today.

Quoting state Statistics Bureau figures, the paper said that last year, spending for urban residents was up 135.4 percent over 1978, a year before China's economic reform began.

According to a recent bureau survey, urban dwellers more than doubled amounts spent on food since 1978. Grain consumption reduced from 145 kilograms per person in 1981 to 131 kilograms last year, while the amount of non-staple foods consumed increased from 54.2 percent in 1981, to 58.1 percent last year.

Last year saw urban people consume an average of 7.5 kilograms more of meat, poultry, eggs and aquatic products per person over 1981.

Urban people spent more on clothing per person last year, up 66 percent over 1981. Sales of ready-made silk garments, woolen clothes and leather shoes are rising rapidly.

Spending on education and cultural facilities increased three times in the past 4 years.

By the end of this June, there were 24 color television sets, 54 radio cassette recorders, 14 cameras, 59 washing machines and 13 refrigerators per every 100 urban families.

Last year, living space per urban citizen was 6.6 square meters, up from 4.9 square meters in 1981.

According to the Statistics Bureau, the living standard of urban residents is varied. Monthly per capita income of 5 percent of the total urban families is below the national average. Inflation has also affected the lives of some urban citizens, according to the Statistics Bureau.

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NATIONAL POLICY AND ISSUES

REASONS FOR POOR QUALITY OF PRODUCTS DISCUSSED

Beijing JINGJI RIBAO in Chinese 4 Sep 86 p 1

[Editorial by unnamed critic: "Wherein Lies the Crux of the Quality Problem"]

[Text] The chain reaction started by criticism of the Snowflake brand refrigerator points out a chronic problem that has long permeated China's economic work; the assault on poor product quality has caused many plants to be on their guard, and the masses are following this closely.

The problem of poor-quality industrial products in China is an old one. In the past, commodities were in short supply due to the rigidity of the economy; this conflict is no longer a prominent one. Invigoration of the economy has meant that the living standard has begun to change from basic needs being met toward relative comfort, and there has been a major change in people's demands on products. Not only are they demanding that there be products, but also that they be good products, and new ones. Over the years the Central Committee and the State Council have issued repeated injunctions and the masses have regularly complained and appealed, but there has been no major improvement in the phenomenon of poor product quality.

Many reasons can be advanced for poor product quality, such as low staff and worker quality in enterprises and poor quality control over production operations as a whole; enterprises having weak bases and poor equipment and lacking inspection procedures; no experts to handle quality inspection; market mechanisms still not being present, a paucity of commodities; enterprises thinking that "the emperor's daughter need not worry about getting married;" raw materials not conforming to demand, and so on. Many comrades believe that the crucial point in poor product quality is that some enterprises have not sorted out the relationship between quality and quantity, that they go after profit at the expense of equity. These problems have been decried for many years; why can't they be resolved?

In a letter from machine industry expert Shen Hong [3088 7703] to the leaders of the Ministry of Light Industry, and in speeches by responsible comrades in the various ministries under the State Council at a seminar on the quality problem convened by this paper, it can be seen that there are two root causes, the first being that the concept of quality has not taken root in our minds; the second is that the system does not function smoothly, or that government and enterprise are not separated.

Ideologically, since the party's overall emphasis shifted to economic construction, the guiding ideology of economic work has not changed very much. In the minds of some leaders in economic sectors there is still less materialism than idealism. In terms of the system, as enterprises "change tracks and modify their form" and become more flexible, there has been no change in the management systems or functions of economic sectors. Macroeconomically, this has meant a simultaneous increase in the emphasis on output value, profit, and financial income, whereas control of product quality has been slighted. Microeconomically, there has been unchecked competition among sectors and regions for higher output value and profits. On the one hand, within their domain they practice a local protectionism trying to keep out outsiders, and, on the other, they view their own fast-selling products, especially brand-name products, as money trees. In order to take a few more bites of meat and shake a few more coins out of the tree, they stubbornly set targets for the enterprises and demand profits. And the enterprises, under this "baton" of output value and profits, languish away, unable to protest, merely toughing it out, "in too much haste to wash the radish," thus relaxing quality control. The result is that output climbs, profit increases, and quality declines. In recent years we have seen a good deal of this, as in the decline in quality in the Flying Dove bicycle the year before last, the glut of Wanbao refrigerators last year, and the sluggish sales of Snowflake refrigerators this year. Although each of these products is a different brand, the root cause of their poor quality was that they all got into the same rut: they did not sort out the relationship between quantity and quality, concentrating solely on the pursuit of quantity and speed while slighting product quality and results. Therefore a radical cure of the chronic ailment of poor product quality must be effected; the medicine must be swallowed. Not only should administrative measures be taken, such as dismissing the leaders of enterprises slighting product quality and ordering the enterprises to shut down and reorganize, there must also be a reorganization of the guiding ideology of economic work as well, so as to change as quickly as possible those approaches involving unrealistic quotas and speed. At the same time, reform of the economic and political systems must be continued; the enterprises must be allowed to free themselves from the system of ownership by departments to become truly independent and autonomously operating commodity producers.

To achieve this goal, in the near term we must reform the management system of administrative companies, or create the conditions for their elimination, or convert them to managerial service enterprise entities, giving true authority for the management of the enterprise's production to the enterprise. In the long term, we must separate the functions of government and enterprise, freeing all levels of government from the everyday, trivial economic affairs of enterprises and truly shifting their focus over to creating an excellent environment for raising the standard of living and the growth of enterprises.

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CSO: 4006/2

NATIONAL POLICY AND ISSUES

PAPER DISCUSSES THEORY OF SOCIALIST LABOR

HK160729 Beijing GUANGMING RIBAO in Chinese 27 Sep 86 p 3

[Article by Wei Xinghua [5898 5281 5478]: "A Brief Comment on the Theory That Socialist Labor is a Commodity"]

[Text] Now the number of articles advocating that labor under the socialist system is a commodity has multiplied. I disagree with this view. Here I would like to discuss in brief my views on this matter.

The Argument That Regards Socialist Labor as a Commodity Will Lead to a Conclusion That Socialism is Also a Wage Labor System

One important argument of the theory that socialist labor is a commodity is that under the socialist system there exists "individual ownership" or "private ownership" of labor and labor is a means of life. Therefore, labor is naturally a commodity.

The so-called argument that labor under socialism is owned by individuals or a private possession is itself a topic that has not been proved and it can thus hardly hold water. What is actually meant by "individual ownership of labor"? Three interrelated things of different facets need to be differentiated and analyzed. 1) In physiological terms, labor-power is just a kind of ability inherent in the living body of a human being. No labor-power can be independent from individual human being. Therefore, we can refer a person's labor-power to his hands or feet. If this is called individual ownership of labor, it will be not the relationship of ownership in economic terms. The individual ownership of labor in this sense is applicable to all people with labor-power, including slaves, slave owners, and people in the future communist society. It is of no economic significance at all. 2) In terms of personal freedom, all people who are not subject to any personal affiliations or to other extraeconomic forces but enjoy personal freedom are entitled to dispose of their own labor-power. The same is true of free individual laborers, free wage workers, and even true of all exploiters. If this is called individual ownership of labor, it will be not the individual ownership in terms of ownership of major factors of production. This will not cause people to sell their labor-power and not involve the problem of ownership of labor and its realization in the internal and external economic relations. The so-called individual ownership of labor

in this sense is of no special economic significance, apart from showing that laborers and even exploiters are free people. 3) In economic or ownership terms, the question of individual ownership of labor exists only with wage workers. The individual ownership of labor in economic terms is inseparable from labor as a commodity. It is therefore the two aspects of a thing. Only when labor is sold as a commodity can there be the problem of the realization of ownership of labor or possession of labor. Especially, as opposed to other commodities, labor as a commodity can neither be stored and stockpiled nor be sold at a time and at a price one thinks fit. If labor is not used or sold in a day, a year or even longer, it will vanish with the lapse of time. Therefore, for those who do not work or put their labor on the market at all, there will be no question of the individual ownership of labor in economic terms to speak of. As the owner of labor-power, once a laborer makes a deal with the owner of money on the market, or he sells his labor-power as a commodity, he will become a wage worker. Marx pointed out: "The characteristics of the capitalist epoch are that as far as a worker is concerned, he owns labor-power as a form of commodities and therefore, his labor is of wage labor in form. ("Collected Works of Marx and Engels," Vol 23, p 193) Therefore, the argument that regards labor under socialism as a commodity will lead to the erroneous conclusion that the socialist system is also a system of wage labor.

Labor as a means of life and labor as a commodity are not a casualty. From primitive to communist societies, labor is always a means of life. However, in a communist society, apart from a means of life, labor becomes life's prime want. As a means of life, labor is applicable to both small producers and socialist laborers. There is no problem of selling labor with the former. In the socialist economy, although labor is a means of life, it only determines that labor contributions and labor payment are interrelated. In other words, it has something to do with distribution according to work and has nothing to do with labor as a commodity.

#### The Argument That Regards Socialist Labor as a Commodity Will Obscure the Essence of Socialist Economic Relations

Another argument of the theory that socialist labor is a commodity is that socialist mass production calls for a rational flow of labor and labor mobility is achieved through market exchange. Therefore, labor is a commodity.

This inference is not necessarily appropriate. First, the labor flow we discuss here and the free flow of commodities in all markets are not the same thing. Still people are not encouraged to seek jobs as they please in disregard of the requirements of the state plan and overall arrangement and exclusively out of personal consideration. While a rational flow of labor is encouraged, labor should be relatively stable. Stressing one side of a coin to the neglect of its other side means one-sidedness. Second, by labor flow we mean chiefly the flow of qualified personnel rather than the sale of labor as a commodity in the market. We should not regard the flow of qualified personnel exclusively as a relationship of exchange between labor as a commodity and money. Third, we should not judge whether

labor is a commodity by whether there is a flow in labor. Even in capitalist countries there are in reality many staff members and workers who work in one and the same enterprise all their lives and moreover, some enterprises practice a lifetime hiring system under which the labor of wage workers remains a commodity. With a rational flow of labor being encouraged in our country, most staff members and workers and qualified personnel of various types will stay to work in their former work units for a long time. Whether or not they move to new work units, the relationship between them as individuals and society and collectives is the same, that is, not a relationship of labor selling. What particularly notes mention is that in the Soviet Union and some other socialist countries, the flow of labor has always been allowed. Stalin was even deeply concerned that 30 to 40 percent or more of the workers in most Soviet enterprises moved on to work in other enterprises within four or six months and adopted countermeasures against the mobility of labor. However, no one in these countries has, for quite some time, ever advanced the theory that labor is also a commodity under socialism just because of the aforesaid situation.

Whether or not labor is a commodity is decided by the socioeconomic status of laborers and the essential relationship of the mode of production rather than the superficial phenomenon in which whether labor is allowed to flow or not. Only a laborer who does not possess any means of production or products or does not jointly possess them with other laborers, and who, as a free wage laborer, creates surplus value for the employer under the latter's exploitation can produce labor as a commodity. Socialist laborers jointly own the means of production and products and they are the masters of society and products and not exploited wage laborers. Therefore, their labor is not a commodity. Marx said: Capital is a prerequisite for wage labor. In the place where there is no exploitation of wage labor by capital, the buying and selling of labor as a commodity is therefore nonexistent. This being the case, the assertion that under the socialist system laborers still "do not own a thing in the world" or "are still separated from the means of production" and therefore have to sell their labor as a means of life is not appropriate. The argument that stubbornly asserts that our individual staff members and workers should sell their labor to staff member and worker collectives will mean that every individual staff member or worker is the employer of the other staff members and workers, and at the same time, he is employed by other staff members and workers. Therefore, the socialist relationship of mutual cooperation and help among staff members and workers is interpreted as a relationship of buying and selling labor as a commodity among themselves, thus confusing the essence of socialist economic relations.

The assertion that "if labor is not a commodity, there will hardly be any genuine commodity economy" is a bit too arbitrary. Historically, in the last several thousand years expanding from a slave society to a feudal one, a simple commodity economy existed and developed in a great variety of forms. Can they not be regarded as a genuine commodity economy? Can the commodity economy currently being developed in our country in which labor mobility has not yet been achieved and labor is not traded as a commodity not be regarded as a genuine commodity economy? What is the definition of

a commodity economy? It is nothing but the unity of commodity production and commodity exchange. In the past people stubbornly asserted that the commodity economy fell in the category of a capitalist economy that included labor as a commodity and were opposed to its application in the socialist economy. But now there are people who are conversely arguing that the precondition for a genuine commodity economy under socialism is labor taken as a commodity. Reaching the same goals by different routes, the two arguments have a consensus of views on the connotation of commodity economy.

#### The Argument That Regards Socialist Labor as a Commodity Will Negate the Socialist Principle of Distribution According to Work

The proponents of the theory that socialist labor is a commodity say: Only when labor is exchanged as a commodity "can the principle of distribution according to work be really implemented."

Distribution according to work and distribution according to the value of labor are a relationship of two mutually exclusive, essentially different things. Under the capitalist system, wage is the price of labor sold and the manifestation of the value of labor. In this regard there is no relationship of distribution according to work to speak of. The value of labor is determined by the amount of the labor-time required for the production of labor-power and the conditions of labor market supply and demand and decided before labor is proceeded, and it has nothing to do with the results of the labor. However, the amount of income earned in accordance with the principle of distribution according to work is determined by the work results and contributions of laborers and is decided after labor is done. The fixed wages set exclusively in advance cannot properly embody the principle of distribution according to work. In the ongoing economic structural reform, many enterprises have put an end to the practice of setting wage income exclusively in advance and linked the amount of their income with the fulfillment of the tasks they contracted and the growth of economic results they gained from their operations. This income from labor apparently has nothing in common in the slightest degree with the price of labor determined by the value of labor and labor market supply and demand. In order to avoid confusing wage income with the value and price of labor, Yugoslavia has abolished the concept of "wage" in favor of the concept of "personal income." The income from a laborer's contributions in work in his personal income is determined by the "basic points" which are the indicator for the contributions he has made in work.

Moreover, if distribution is carried out according to the value of labor, the income of laborers will have nothing to do with surplus products and their value. The latter is owned by others. However, distribution according to work means distribution of products owned jointly by laborers and of the national income. Apart from the portion of products distributed among laborers as consumer goods according to work done, the remaining products and their value will go directly or indirectly to laborers in the form of social deductions. The higher the development level of socialist production, the more social wealth and the greater the disparity between the income

earned in accordance with the principle of distribution according to work and "the value of labor" will become. This is because distribution according to work is not restricted by "the value of labor." However, an article says: That "the income of laborers from their labor is greater than the value of labor" is the basic characteristic of socialist labor exchanged as a commodity. This view is self-contradictory. If labor is a commodity, wage is then the manifestation of the value of labor and under the principle of exchange at equal value, laborers will no longer surely obtain the value of some surplus products outside the value of labor. If the income of laborers is bound to surpass "the value of labor," their wage and bonuses will not be the value or price of labor and therefore, labor is not sold as a commodity. If labor is a commodity, the value of labor will drop along with the increase of the productive forces and moreover, the ratio of necessary products will continuously become relatively lower. Under the principle of distribution according to work there is no such economic mechanism, which calls for a continued increase in labor income along with the improved productive forces and the wealth increasingly created by laborers. To put it briefly, the socialist principle of distribution according to work cannot be applied hand in hand with the practice of income earned according to the value of labor.

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CSO: 4006/66

## ECONOMIC DEVELOPMENT ZONES

### COASTAL CITIES MUST BUILD EXPORT ECONOMY

OW050901 Beijing XINHUA Domestic Service in Chinese 0629 GMT 4 Oct 86

[Commentary by XINHUA commentator: "Coastal Cities Should Develop an Export-Oriented Economy"]

[Text] How to enliven the economy of coastal cities is an important question facing China's economic construction. Most of our country's coastal cities are engaged in processing industry. In the past, this industry yielded a rather good economic benefit because of the relatively low raw and semifinished material prices and labor wages. In recent years, however, there has been a rise in both raw and semifinished material prices and energy costs as well as in labor wages; Accordingly, coastal cities have been confronted with the problem of being unable to bear the increased burden. In certain cities, some industries have even shown a tendency of decline of production. This points to an urgent need to explore a new way for the economic development of coastal cities. As is clear now, the way is to develop an export-oriented economy.

With the all-round development of the socialist modernization program, our country's inland economy is developing with each passing day. Many inland areas that previously supplied coastal cities with large quantities of raw and semifinished materials have not begun to develop their own processing industries, and some of them have even been rapidly developing processing industries. Under such circumstances, the raw and semifinished materials coastal cities can obtain from inland areas will become increasingly less; what is more, they will meet with new competition in the markets in inland areas. Coastal cities should develop an export-oriented economy and improve their competitive edge to blaze new trails in the international market. This is the only way to avoid finding the going tougher and tougher in the days to come.

Viewed from the positive side, the development of an export-oriented economy in the coastal cities will have the effect of spurring the economic development of the whole country, especially that of inland areas. As windows opening China to the outside world, coastal cities can provide the various localities with experience in importing advanced technology and managerial expertise and play a role as base areas and bridges in this regard. While developing an export-oriented economy, coastal cities can also develop their association and cooperation with other localities, thereby providing new opportunities for the latter's economic development.

To develop an export-oriented economy, it is necessary to import raw and semifinished materials from abroad, process them, and manufacture products for export to international markets. In the present world economic situation, characterized by an open international market, the export-oriented economic mode is greatly conducive to ensuring rapid growth of the economy. In quite a number of countries and regions, the economy of their coastal cities is growing by leaps and bounds because of the adoption of the export-oriented economic mode. Since most of the coastal cities in our country have a relatively developed economy, a fairly complete industrial sector, a rather good scientific and technological basis, an abundant labor force, and the capability and experience to process export products, they possess the conditions for developing an export-oriented economy.

The primary question now is how to unify our thinking, use the opportunity, give play to our strong points, and change our pattern of economic development as soon as possible. We should note that coastal cities in some countries are gradually reducing the production of labor-intensive products because of rising labor wages, and are shifting to producing more technology- and knowledge-intensive products. This trend gives us an opportunity. While we prepare ourselves for the production of technology- and knowledge-intensive products, we should take advantage of the opportunity and make full use of our abundant labor resources to develop labor-intensive products. This will play an important role in enhancing our competitive power on the international market.

Some Chinese and foreign economists hold that the economy in the region surrounding the Pacific Ocean will become more prosperous in the next century. As many of our coastal cities are important cities in this region, whether or not they can keep up with the regional trend of becoming more prosperous in the next century will be of great importance to their own economic development as well as China's national economic development. We should seize the opportunity, meet the challenge, and strive to develop an export-oriented economy.

Of course, there are many difficulties coastal cities face in developing an export-oriented economy. However, further progress in reforming our economic structure and political system will surely create more and more favorable conditions for us to overcome these difficulties and develop an export-oriented economy. By perfecting our policies and carrying out thorough reform, we will be able to accelerate the construction of basic facilities in coastal cities, provide a good investment environment for foreign investors, attract more foreign investment in processing and manufacturing industries in our coastal cities, increase imports through various channels to raise the level of technology and management of coastal cities, gradually harmonize foreign trade relations, improve efficiency in foreign affairs, and enhance economic results in foreign trade.

In short, it is not only necessary but also possible for coastal cities to develop an export-oriented economy. As the situation in each coastal city differs from that in another, they must each consider their own realities

and local conditions in developing an export-oriented economy. However, they must all seek peal development in the course of carrying out reform and further opening to the outside world.

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## ECONOMIC DEVELOPMENT ZONES

### JIANGSU PORT CITY LURES FOREIGN INVESTORS

OW150306 Beijing XINHUA in English 1610 GMT 14 Oct 86

[Text] Nanjing, 14 October (XINHUA)--The port city of Lianyungang in east China's Jiangsu Province has worked out a more preferential code of regulations to lure foreign investors to the city's economic and technological development zone.

"This code will enable the investors to profit more compared with previous years," Mayor Tang Guanhui said here today.

According to Tang, the 20-article code is mainly to encourage the investors by reducing or waiving various taxes and providing other preferential treatment.

Enterprises whose contracts last more than 10 years will be income-tax exempt for 2 years after the enterprise begins to show profit, and only have to pay half of the tax amount the following 2 to 3 years, the mayor said.

Enterprises in low-profit industries like agriculture and forestry will continue to enjoy the treatment for another 10 years, and then their income tax will be reduced by 15-30 percent, according to the mayor.

Before 1990, the enterprises will not pay the local surtax, Tang said, adding that the city government will do what it can to guarantee the production of the enterprises.

"The equipment, vehicles and other materials they import for their own use will be free from customs duties," the mayor said.

The contracted term for the joint-ventures can last 40 to 50 years, Tang said. "We welcome all investors to our city and we especially welcome those who are engaged in such industries as electronics, meter-making, precision-machinery, light industry, food, textiles, and new materials and chemicals."

Lianyungang in east China's Jiangsu Province is one of the 14 coastal cities open to foreign investment and a port city linking the coastal areas with the western part of China. Its economic and technological development zone which opened 1 year ago covers 10 square kilometers. The infrastructure first built on an area of 0.3 square kilometers are ready for use by foreign investors. The city mayor said that the city has held talks on more than 100 projects with firms from 13 countries and regions and 7 contracts have been signed and construction is soon to begin. Eight more projects are expected to begin next year.

ECONOMIC DEVELOPMENT ZONES

LIAONING ON CONSTRUCTION OF DALIAN DEVELOPMENT ZONE

SK170715 Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 26 Oct 86

[Reporter Commentary: "Vast Vista of the Dalian Development Zone"]

[Excerpt] The day 15 October marked the second anniversary of the construction of the Dalian Economic Development Zone, which has attracted worldwide attention. The (Matiaozhi) Area in Jinxian County was an area of barren hills 2 years ago, but now the infrastructural projects in this area have been provided with supporting facilities. Projects built with foreign investment and by establishing lateral ties at home are successively under construction. Some projects of such kind have been completed and have gone into operation. All policies, rules, and regulations have basically been improved, and the management work has also taken on its course. An embryonic form of a new modernized industrial (? city) has presented itself before our eyes.

Developing, building, and striving to construct a stretch of land, [words indistinct] is an important principle of the Dalian Development Zone to make progress. Over the past 2 years, the state has invested 300 million yuan to build infrastructural projects in the development zone, and the infrastructural projects worth 261.55 million yuan have been completed. So far, six main streets of [words indistinct] and [words indistinct] road of the industrial complex have been open to traffic. Such projects also have been completed and commissioned as a postal and telecommunications building with a 4,000-line program-controlled system, a water treatment plant with a daily capacity of 50,000 tons of water, an LPG station with an annual capacity of 5,200 tons of LPG, a 66,000-volt power transmission line, the (Zhongxing) transformer station, a power supply system in [words indistinct], and two flood drainage channels separately in the eastern and western parts of the development zone. Some residential buildings, guest houses, primary and middle schools, nursery schools, and social service centers have successively been completed and gone into operation. Conditions for making investment and service utilities have further been improved. An ideal environment for absorbing domestic and foreign traders to make an investment in running plants has been created.

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## ECONOMIC DEVELOPMENT ZONES

### QINGDAO, YANTAI SAID READY FOR INVESTMENT

Jinan DAZHONG RIBAO in Chinese 4 Sep 86 p 1

[Article by Zheng Bosheng [6774 0590 3932]: "The Qingdao and Yantai Economic Development Zones [EDZ's] Are Ready for Investment and Setting up of Factories; All Facilities Are basically Finished, and the Three Economic Laws and Regulations Are Established; Businessmen From Over 20 Countries and Regions Have Come To Investigate, Visit, and Discuss Business, and Have Signed Over 100 Contracts, Agreements, and Letters of Intent"]

[Text] The EDZ cities of Qingdao and Yantai officially began construction in March 1985, and have not created the basic investment climate for foreign businessmen in the 1-square-km areas. In the past year or so, over 1,300 people from over 20 countries and regions have come to the 2 EDZ's to visit, investigate, and discuss business, and over 100 contracts, agreements, and letters of intent have been signed.

In the past year or so, the two EDZ cities have upheld the principle of "making profits while developing," and have focused their energies on doing a good job of the first phase of building various infrastructures and surface facilities within 1-square-km areas.

Backed by the relevant Central Committee, provincial, and municipal departments, by 15 August 1986 over 5,000 builders from all areas in China had taken part in building the two EDZ's, and over 187 million yuan had been invested in various capital construction projects, or over 95 million yuan in Qingdao and over 92 million yuan in Yantai. The whole project of building roads and communications facilities, as well as heat, power, and water supply, drainage, and pipelines to supply gas within a 1-square-km areas in the EDZ's, and conveyance systems beyond them, is approximately 80 percent finished. Construction was begun on over 160,000 square meters of surface projects, and over 70,000 square meters has been finished. Of this, the Qingdao EDZ has finished two 6-story general factory buildings, a 5-story industrial warehouse, a light steel factory building, and some living and service facilities, totaling over 40,000 square meters, in addition to building two 22-story hotels of which 18 stories have been completed on one and six on the other, respectively; the Yantai EDZ has finished two 5-story general factory buildings, two special-purpose factory buildings, two storied buildings as living quarters for staff members and workers, and industrial warehouse, and some service

facilities, totaling over 30,000 square meters. The two EDZ cities are now ready for investment and setting up of factories.

In the wake of the formation and perfection of conditions for investment in the EDZ's and, in particular, since Shandong Province has published the three economic laws and regulations for EDZ's on enterprise registration, labor supervision, and land management, businessmen from various countries have shown great interest in investing in the two EDZ cities. Over 490 groups and over 1,300 people from over 20 countries and regions, such as the United States, Japan, England, France, the FRG, Canada, Singapore, and Hong Kong, have come to the two EDZ cities to visit, investigate, and discuss business, and over 100 contracts, agreements, and letters of intent have been signed. The Yantai EDZ now has two Chinese-foreign joint ventures in official operation and an additional six projects preparing to go into operation, with the investment in the eight projects topping 139 million yuan. Negotiations on five more Chinese-foreign joint ventures are scheduled to be finished by the end of 1986. The Qingdao EDZ has concluded negotiations on four Chinese-foreign joint ventures in laser hologram technology, liquid crystal display screens, machine-embroidered hems, and sanitary wrappings for fast foods, with an investment topping 7 million yuan, which are scheduled to go into operation in 1986; it may also sign official contracts for eight additional Chinese-foreign joint ventures in 1986.

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ECONOMIC DEVELOPMENT ZONES

QINGDAO CITY MAYOR VIEWS 200 MILLION YUAN INVESTMENT PLANS

HK091305 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0331 GMT 8 Oct 86

[Text] Qingdao, 8 Oct (ZHONGGUO XINWEN SHE)--In the coming 5 years, China is going to invest over 200 million yuan in the Qingdao Economic and Technological Zone to build a new oil port capable of handling 17 million tons of oil and a large coal and sundry goods wharf capable of handling 17 million tons of goods. Eventually, Qianwan Port in the development zone will be able to handle nearly 100 million tons of goods, a 400 percent increase over the present Qingdao Port.

This was disclosed by Guo Congnian, mayor of Qingdao City, a few days ago while receiving Chinese and foreign reporters.

This economic and technological zone is located in Huangdao, an island 2.26 nautical miles away from the urban areas of Qingdao. With an area of 152 square kilometers and a 72-kilometer-long coastline with bays of various sizes, the whole zone is an ideal base for developing sea transportation.

The construction of the development zone began in March of last year. At present, 13 square kilometers of the ground construction have been completed, of which, an area of 1 square kilometer has been prepared for investment; a further 2 square kilometers is being completed. So far, five enterprises jointly owned and run by China and foreign businessmen, and 7 domestic enterprises have decided to set up their offices here. By the end of this year, 10 items will enter into the stage of production or trial production. Of these, health drinks, grinding materials and tools, health boxes for quick meals, machine-embroidered lace trimmings, techniques for laser photography, and so on, will be formally put into production.

The overall plan for the economic development of this zone is being enacted. It has been decided to set up five commodity bases of fruit, vegetable, aquatic products, foreign trade products, and construction materials in the zone.

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ECONOMIC DEVELOPMENT ZONES

SHANGHAI PEOPLE'S CONGRESS STANDING COMMITTEE HOLDS MEETING

OW311946 Shanghai City Service in Mandarin 0000 GMT 28 Aug 86

[Text] The 23rd Session of the 8th Shanghai Municipal People's Congress Standing Committee began 27 August. Entrusted by the municipal government, Li Gonghao, vice chairman of the Municipal Planning Committee; (Bao Youde), director of the Municipal Finance Bureau; and Hou Lushi, deputy secretary general of the Municipal Government, separately delivered reports on the implementation of the municipal economic and social development plan for 1986 in the first half of the year, the fulfillment of revenue and expenditure for January to June, and the progress in the execution of 15 practical things closely related to the people's livelihood in the first half of this year.

Chairman Hu Lijiao and Vice Chairman Wang Jian presided over the meetings in the morning and the afternoon respectively. The 23rd Session of the Municipal People's Congress Standing Committee will last for three days.

In his report to the 23rd Session of the Municipal People's Congress Standing Committee, Li Gonghao, vice chairman of the Municipal Planning Committee, said: Generally speaking, the municipality's economic situation in the first half of 1986 was good. Evidence is as follows: 1) Steady growth in gross domestic product [GDP], accelerated development of the tertiary industry, and fresh readjustment of the production structure. The municipality's GDP reached 24.2 billion yuan in the first half of 1986, or an increase of 4.9 percent over the same period in 1985. The growth rate is normal since it represents 48.4 percent of the annual plan; 2) a rosy prospect in foreign trade as manifested by the all-round upturn in export earnings, the volume of transactions, procurement, and imports; 3) a pickup in commodity sales, and the presence of stable markets and controlled commodity prices; 4) rapid progress in key construction projects and smooth progress in the execution of 15 practical things closely related to the people's livelihood; 5) major achievements in science and technology and fresh development in culture, education, and hygiene work; and 6) headway made in economic and technical cooperation and fresh advances in lateral economic ties.

The report pointed out that the overall economic situation in Shanghai has been good so far and development is sound. However, while forging ahead we must pay attention to slow growth in industrial production; uneven and declining quality for some products; and disappointing economic results.

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CSO: 4006/64

ECONOMIC DEVELOPMENT ZONES

SHANGHAI REGULATES FOREIGN REPRESENTATIVE OFFICES

HK310328 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0610 GMT 29 Aug 86

[Text] Shanghai, 29 Aug (ZHONGGUO XINWEN SHE)--The Shanghai Municipal Government will protect the legitimate rights of foreign enterprises' permanent representative offices and their working personnel according to law and provide convenience for their normal businesses.

This is quoted from "Regulations Regarding Management of Foreign Enterprises' Permanent Offices in Shanghai (for trial implementation)" promulgated by the Shanghai Municipal Government not long ago.

The main contents of the 22-article-regulations include the following:

If a foreign enterprise plans to set up a permanent representative office in Shanghai, it should, in light of the nature of its business, ask a local enterprise or company doing business with foreigners to submit its application to Shanghai Foreign Trade Committee. After examination, the application will be submitted to the relevant state departments for approval;

Within 30 days after the approval, the instrument of ratification should be registered with the Shanghai Industrial and Commercial Administrative Management Bureau. The registration paper, which is valid for 1 year, should be extended within 30 days of the expiration date. Without approval and registration, no individual should carry out any commercial activities in the capacity as personnel of the permanent representative office or put up symbols of any foreign enterprise;

The permanent representative offices of foreign enterprises in Shanghai are organs not directly engaged in operation. They can only make business contacts and offer services on behalf of foreign enterprises. If the governments of the two countries have concluded any agreement, the terms of the agreement should be followed;

The permanent representative offices and their working personnel should abide by China's laws, decrees, and regulations. They should do business under the supervision of the Shanghai Industrial and Commercial Bureau and other responsible departments and should submit an annual report on their businesses

to the relevant departments for examination. The Shanghai Industrial and Commercial Bureau has the right to examine and handle in accordance with law the violations of "Regulations" or other illegal activities; and

These regulations are also applicable to the permanent representative offices set up by enterprises run by overseas Chinese, Hong Kong, and Macao businessmen.

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## ECONOMIC DEVELOPMENT ZONES

### NEW SHANGHAI ECONOMIC ZONE ATTRACTS INVESTMENT

OW141815 Beijing XINHUA in English 1504 GMT 14 Oct 86

[Text] Shanghai, 14 October (XINHUA)--The Minhang Economic and Technological Development Zone in Shanghai has become more attractive to foreign investment since it was set up 2 months ago.

Zhang Gongfu, deputy general manager of the Minhang Joint Development Company, Ltd., said here today that three more contracts establishing foreign-funded companies have been signed in just 2 months, with others still under negotiation.

The 2.13-square-kilometer zone is 30 kilometers southwest of Shanghai city proper. Originally, it was designed to be a new industrial zone for this largest industrial city in China and no special preferential terms were offered to foreign investors after it was set up in 1983. Though many overseas business people came on study or negotiaion tours, no substantial results have been reached. The Shanghai Universal Toys Company, a Shanghai-Hong Kong joint venture, which began operation here last year, had been the only joint venture in the zone, Zhang said.

The deadlock was broken when the zone became an economic and technical development zone that has been empowered to offer preferential terms to foreign investors.

The three new ventures are the fluid sealant company, a solely U.S. investment; a cosmetics company, a Sino-Japan joint venture; and a textile mill, a Shanghai-Hong Kong joint venture. All will be in operation in the zone by early next year, Zhang said.

Preferential treatment offered includes a 15 percent cut in the income tax rate and the exemption of income tax on the part of dividends foreign partners remit abroad.

Zhang said that one fourth of the 40,000 square meters of general workshops built have been sold out and the rest have been booked by prespective investors.

He disclosed that at least two more contracts, one on soft drinks production and the other on medicine, will be signed soon with U.S. firms.

Another new development zone in the city which has been approved of being an economic and technological development zone is the Hongqiao Zone on the western outskirts of the city. The zone will be a diplomatic, international trade and tourist hotel center. It has already attracted nearly 200 million U.S. dollars in direct foreign investment.

Four high-rise hotel and apartment buildings, jointly undertaken by China and firms from the United States, Japan and Hong Kong, are rising. The Japanese general consulate has already chosen its site there. The United States, the Soviet Union, Britain and Federal Germany all expressed the intention to open their consulates there.

It was estimated that the two development zones will attract one sixth of the total direct foreign investment that will flow to the city.

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## ECONOMIC DEVELOPMENT ZONES

### BRIEFS

**ANHUI GOVERNOR MEETS STUDY GROUP**--From 31 August to 17 September a 24-member study group from the State Council's Shanghai Economic Zone Planning Office, which was led by its deputy director, (Zhou Guangchun), visited Anhui's Dabeishan Old Revolutionary Base Area to inspect its work and help promote economic ties with other areas. During the 18-day inspection tour a total of 85 agreements on economic cooperation were signed. The implementation of these agreements is of great significance for accelerating the development of the old revolutionary base area. During the study group's stay in Anhui it was received by Wang Guangyu, chairman of the provincial People's Congress Standing Committee; Wang Yuzhao, governor; and Meng Fulin, vice governor. Governor Wang Yuzhao and Vice Governor Meng Fulin held cordial talks with the members of the group on the morning of 18 September. They discussed problems encountered during the tour. [Excerpts] [Hefei Anhui Provincial Service in Mandarin 1100 GMT 20 Sep 86 OW] /9738

**ZHANJIANG EXPANDS EXPORTS**--Guangzhou, 14 October (XINHUA)--The first 10 foreign-funded firms in Zhangjiang Economic Zone, Guangdong Province, have steadily increased foreign currency earnings since completion last year. These Sino-foreign joint ventures and cooperative businesses earned 1.58 million U.S. dollars in the first 8 months of this year, almost as much as in 1985, a Zhanjiang City official said today. Their export products include plastic products, mini-radios, tape decks, clothing and foodstuffs. Zhanjiang is one of 14 coastal cities with greater authority over foreign investment and trade. The 9.2 square kilometer Zhangjiang Economic and Technological Zone was opened 2 years ago to foreign investors. Now, the zone's infrastructure is complete, with adequate roads, power transmission lines, water supply lines and factory buildings, direct telephone dialing links the zone to Hong Kong, and Guangzhou, capital of Guangdong Province. Overseas investments of 13.48 million U.S. dollars have been used for development purposes. Workers are building 10 firms in the zone to be equipped with updated foreign technology. They will use local resources to manufacture goods for export, including rubber, plastics, hemp, granite slabs and citric acid. [Text] [Beijing XINHUA in English 0214 GMT 14 Oct 86 OW] /12232

CSO: 4020/27

ECONOMIC PLANNING

CHANG JIANG TRANSPORT AIDS DEVELOPMENT OF COMMODITY ECONOMY

Beijing JINGJI RIBAO in Chinese 1 Sep 86 pp 1, 2

[Article by Wang Yang [3076 3152] and Jiang Yang [1203 3152]: "The Commodity Economy and the Rise and Fall of Water Transport; Notes from a Trip up the Chang Jiang; Properly Using the 'Golden Waterway' and Invigorating Chang Jiang Regional Development"]

[Excerpts] [Editor's Note] What is the way to "properly use the Chang Jiang" and promote the development of a commodity economy along the river? This is an important question. In June and July, reporters from this paper went along the river gathering material having to do with how to develop a commodity economy and promote water transport, how to develop the Chang Jiang's resources and stimulate favorable economic cycles along the river, etc. They returned with a number of reports. This paper will continue to publish these reports and hopes that comrades studying this issue will make their views known. [End Editor's Note]

Yichang, Hubei, the place where boats traveling the upper and middle reaches of the Chang Jiang meet. We have heard of many different problems concerning development of the Chang Jiang. Wang Changgen [3769 7022 2704], director of the Yichang Regional Water Transport Management Office, turns to a table and says that the flow of commodities in the Yichang area relies primarily on water transport. The region has 10 large, specialized fleets. In 1984, there was 25,000 HP, with a freight volume of 3.98 million tons; freight turnover amounted to 1.1 billion ton/km, the highest level in history. However, beginning in 1985, shipping went into a slump. The 1985 freight transport volume fell to 2.5 million tons, and freight turnover was only 700 million-plus ton/kh, these two figures each falling 62 percent from 1984. In the first half of this year, the region's specialized fleets did even worse, with freight transport volume declining sharply. As of 15 June, 1.04 million ton/days had been lost, which is to say that 90 percent of the boats spent more than 10 days idle in port.

The situation in Yichang led us to think of the cry we had heard in Chongqing: in recent years, due to a lack of freight to transport, 29 of Chongqing's more than 30 water transport firms have suffered losses. The Chongqing Chang Jiang Shipping Co. directly under the Ministry of Communications, lost 4.8 million yuan, and the Chongqing Shipping Co. lost more than 200,000 yuan. The Minsheng Shipping Co., a key, state-supported collective enterprise, suffered losses month after month, falling into serious difficulty.

What brought this situation about?

As we gathered our information, people reported that there are many different causes: there are the problems of water transport itself, such as the overly rapid development of transport capacity, and the irrational price ratios between water and rail transport that hindered the normal development of water transport. There is also the shortage of core industries along the upper Chang Jiang, and so on. But the most important cause is that in recent years the growth in transport capacity far outstripped the development of a commodity economy, creating a shortage of freight volume.

The assertion is reasonable. Before 1983 there was a shortage of vessels on the Chang Jiang in Sichuan, and transport capacity was inadequate; large quantities of freight along the upper Chang Jiang could not be transported out of Sichuan.

But in just 2 short years since 1984 the relationship between transport capacity and freight volume on the upper Chang Jiang has been completely reversed: from 1979 to 1984 in the Yichang area of Hubei, 10 specialized prefectural and county fleets tripled their fixed assets, and vessel tonnage increased 89 percent.

In 1984 transport capacity in the Chongqing area increased 50 percent over the previous year.

However, the growth of the commodity economy along the upper Chang Jiang could not keep up during these years. Unfortunately people did not see this danger sign and blindly invested in shipbuilding and expanding capacity, giving themselves over to the job of "1,000 ships competing" on the Chang Jiang. This resulted in an extreme imbalance between the growth in water transport and the circulation of commodities.

Chongqing's fleets and constricted market are like a person with one short leg and one long one: how can he take a big step forward?

The planning and economic commissions of Yichang Prefecture and Zhijiang, Yidu, Zigui and other counties under it are also worried about the fact that whereas local coal, despite its rather high ash and sulfur content, can still be ordered in considerable quantities, high-quality Shanxi coal is now being transported south in large quantities, so that local coal is unable to find a market. What to do? Sand, stone, and citrus are all carried seasonally! We don't know how many times we heard this concern all along the Chang Jiang in Sichuan, in Leshan, Yibin, Luzhou, Chongqing, and Wanxian.

Consequently, this recent surge in water transport is now facing a depression, and there is a danger of falling into the abyss. Is there no way out for water transport? Of course there is!

Water transport offers more advantages than land transport and has a broader market. The key lies in how to utilize it rationally.

What is heartening is that local leading comrades have already recognized that the current slump in water transport is due to the growth of the commodity economy being momentarily unable to keep up, thus creating a temporary difficulty. This situation will be eliminated as the commodity economy grows vigorously. They are now in the process of contemplating the development of the commodity economy, and they are brewing up a transformation.

In the Regional Territorial Planning Office in Yichang Prefecture hangs a carefully drawn map. As Zhang Huanlin [1728 3562 2651], deputy chairman of the prefectural planning commission, explains confidently, we are looking at the magnificent prospects for future construction in Yichang Prefecture.

The 232 km of the Chang Jiang's banks within Yichang Prefecture will see the appearance of four city and town groups centering on Yichang City and the towns of Sandouping, Zhicheng, and Majiadian. The commodity economy will flourish along with the city and town groups.

Along the 150 km of banks below the future Three Gorges power plant project and Sandouping, industrial zones comprising energy, smelting machinery, and other systems will be established. These zones will consume the abundant local resources of mining and agricultural and sideline products, causing them to yield greater results.

The 100-plus km below Yichang where the water is more than 5 meters deep constitute the "golden waterway" for port construction. A number of deep-water docks will be constructed here to provide excellent conditions for the development of Chang Jiang water transport and the commodity economy.

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## ECONOMIC MANAGEMENT

### SUGGESTIONS FOR FURTHERING REFORM OF ENTERPRISES

Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 5, 23 May 86 pp 5-8

[Article by Chen Guangyi [7115 0342 3015]: "Do a Good Job in Internal Supplementary System and Further the Reform of Enterprises"]

[Text] Editor's note: This is an excellent report which has been confirmed and praised by leading comrades of the State Council. Comrade Chen Guangyi has made an in-depth study of 10 large and medium-size enterprises and analyzed their current situation and problems. He has made some recommendations for future reform and his comments are of widespread significance.

Large and medium enterprises are important pillars in economic revitalization. In the past few years, Gansu Province has steadfastly considered the vitalization of large and medium enterprises as an important task in reform. Now that reforms have taken place, what are the vitality, efficiency, and supplementary support of the enterprises like? How do we further reform them? We will take a look at the Lanzhou Oil Refinery and the other 9 large and medium enterprises in order to gain a firm understanding of these key issues.

The survey shows that during the past few years Gansu has achieved much in reform, just as the rest of the country. The series of measures adopted by the State Council to invigorate enterprises are currently implemented. Enterprises have secured decision-making power in regard to operational plans, product marketing, floating prices, the selection and purchase of goods and materials, the use of self-pooled funds, the disposal of unused assets, the establishment of internal organs, personnel and labor management, wage and bonus distribution, and joint management with other units. The plant director's responsibility system has got on the right track. The management system has begun to break through the old pattern. Cadres' employment and tenure systems are replacing the lifetime cadre system. Economic responsibility systems of various forms are being gradually improved. Horizontal economic links are being made into a complete lateral economic relations are being formed. Reform has brought vitality to the enterprises, enabled them to develop production, improve results, and increase profit delivery and tax payment to the state. At the same time, enterprises have developed a feel for selling to a market and have increased the number of new products. Their ability to adjust and create has improved and the living

standards of employees are continuously rising. However, there are some problems. 1) The distribution and use of retained profits are not totally rational. The main problem is that the proportion of bonus and welfare funds is large while that of production and development is small. The proportion actually used on technological transformation is even smaller. 2) The increase in gross wages is higher than that in labor productivity and profits and taxes delivered to the state. 3) Enterprise ability to absorb things is weak and most profit increases are a result of government policies and price adjustments. 4) Enterprises have a lot of direct support but lack indirect support.

In our study, we concentrated on problems relating to furthering the reform of enterprises.

1. It is necessary to unify and enhance enterprises' understanding of the objective of reform and put the standpoint of reform on increasing enterprises' ability to transform, develop, and circulate themselves.

The objective of enterprises' reform is to give enterprises the ability of self transformation, self development, and self circulation. Unifying and enhancing enterprises' understanding of this basic objective is an important issue leading to the deepening of enterprises' reform. It is necessary to help enterprise leaders enhance overall point of view and handle well three relations:

A. The relation among the state, enterprises, and staff and workers. Most enterprises have more or less increased the amount of profit retention and used it to develop production and accumulate definite staying power. The use of retained profits is not totally rational in some enterprises. The main problem is that production development funds are relatively skimpy compared to the spending on the welfare and wages of staff and workers. If this continues for a long period time, production will not develop nor will staff and workers' income be stabilized or the results of reform be consolidated and developed. Some enterprises have recognized the seriousness of this issue and begun to curb excessively rapid increase in spendings on the wages and welfare of staff and workers and use the major part of retained enterprise profits in technological transformation. Some enterprises have not recognized this problem. For instance, when studying development plans for the "Seventh Five-Year Plan" period and determining five enterprise funds, quite a few enterprises used the method of "reverse accounting"--namely, securing the end of wages and bonuses first and using what is left for the funds of production development. Therefore, in the face of the new situation of deepening reform, it is necessary to conduct once again the education of correctly handling the relations among the state, enterprises, and individuals and reiterate the principle of "giving the major portion to the state, the medium portion to enterprises, and the small portion to staff and workers." In the reform, we should concretely implement the principle that the increase of wage bill cannot exceed that of labor productivity and profit delivery and tax rates and ensure that the major part of profits retained by enterprises is used for technological transformation and production development. Through the guidance of policies, we should put enterprises' vitality, efficiency and staying power on a reliable foundation.

B. The relation between immediate and long-term interests. Judged from the 10 enterprises of the survey, there are three scenarios: Enterprises with sufficient starting and staying power are the minority while those with sufficient starting power but insufficient staying power are the majority. Enterprises whose products have recently dominated the market and which have transformation projects for now and the "Seventh 5-year Plan" period are the minority and those whose short-term results are good but follow-up development ability is weak are the majority. Plant directors who consider the development of enterprise within their term and at the same time genuinely pay attention in practice to the development beyond their term are the minority and those who consider only results within their term and at the same time make plans for the development beyond their term but have not fully implemented them in work are the majority. This explains that enterprises still need to take a further step to handle well the relation between immediate and long-term interests. We should realize that the ultimate result of enterprise reform is demonstrated by whether or not production can continue to develop and whether or not results can continue to improve. If we only pay attention to staff and workers' immediate interests and short-term development, we will have the problem of depletion and exhaust equipment and human resources, causing enterprises' vitality to weaken. Although most enterprises have realized this problem, they need to adopt effective measures.

C. The relation between microcosm and macrocosm. Enterprises now have two issues concerning microcosm and macrocosm. One is that as far as whole society is concerned, enterprise is microcosm and whole society is macrocosm; the other is that as far as enterprise itself is concerned, whole enterprise is small macrocosm and subsidiary plants, workshops, and administrative and technical offices are microcosm in relative terms. As for the former, it is mainly necessary to clarify enterprise's obligation to society. When it comes to issues concerning enterprise's production and management activities, enterprises should be granted real power. When it comes to issues in economic life concerning the situation as a whole, enterprises should be subordinated to overall guidance, coordination and control. For instance, with regard to production plans, enterprises can organize other production operations according to their ability only after they fulfill state-assigned command plans; with regard to economic results, enterprises should pay attention to their own profit growth and at the same time pay still greater attention to quality and service results. As for the latter, enterprises should smooth out the relation between "large microcosm" and "small macrocosm." This mainly is to downgrade the size of accounting units. Enterprises can apply this method to all subsidiary plants and workshops practicing independent accounting based on commodity output to further delegate production and management rights to grassroots units while exercising control over issues affecting the interests of the enterprise as a whole. The Lanzhou Petrochemical Machine-building Company provides a corresponding control measure whenever it draws up a decentralization measure. It also mobilizes staff and workers to conduct discussions on handling well the relation between microcosm and macrocosm. This combines not only micro-flexibility with macro-control but also the building of material civilization with that of ideological civilization.

The key to handling well the above three relations is to clarify whose interests enterprises' leaders, mainly plant directors, represent. In our opinion, since ours is a socialist country and large and medium-sized enterprises are state-owned, plant directors should first represent state interests. Target control during their office term should include targets for production development, efficiency, new product development, technological transformation, and technological progress. Through the implementation of the term target responsibility system of plant directors (or managers), plant directors (or managers) will lead enterprises to do a better job in organically combining the interests of the state, enterprise and individual, immediate and long-term interests, and macrocosm and microcosm.

2. It is necessary to continue to adopt the policies of decontrol, revitalization and support while strengthening guidance for the use of enterprise funds and internal distribution.

In order to increase enterprises' digestive ability, we need to adopt the method of "driving people to join the Liangshan Mountain rebels"--namely blocking access to indiscriminate price hikes of products and blind pursuit of tax and profit delivery reductions and forcing enterprises to find a way out by improving administration and management and increasing digestive ability. In the meantime, we should continue to raise the profit retention level of large and medium-sized enterprises in a planned and step-by-step manner. On condition that economic results and revenue are not affected, fixed-asset depreciation rate should be raised appropriately. Industries and enterprises with heavy new product development tasks may retain a certain percentage of sales revenue for new product development funds. The regulatory taxes of large and medium-sized enterprises may be gradually reduced and profits accrued as a result of product expansion may be exempted from regulatory taxes. With regard to enterprises whose profit retention level is low (the current standard of Gansu Province is less than 360 yuan per capita), state and provincial treasuries should offer support in regard to policies.

Enterprises should be encouraged to use as much retained profits as possible to develop production. With regard to enterprises' profit retention, Gansu Province plans to use the method of fixing distribution ratios according to different periods, demanding that in general during the base period, no less than 60 percent of retained profits should be used for production development; no less than 50 percent of profit increase retained should be used for production development; and the overwhelming majority of profits gained by enterprises as a result of policies should be used to develop production. Funds needed by enterprises for production development should first come from enterprises' profit retention. Loans may be used only to make up deficiencies. It is not allowed to use large amounts of special loans while there is a surplus of self-pooled funds.

At present, it is extremely important to control the inappropriate growth of enterprises' consumption funds. It is necessary to fix bonus fund retention ratios according to the different situations of different enterprises. Bonus fund retention ratio should be relatively low for those enterprises with higher profit retention level while that for enterprises with little profits should be properly raised. Enterprises practicing the efficiency-related wage

system should link wage increase to tax payment and profit delivery to the state and also examine other targets reflecting enterprises' labor results.

As for the arrangement of enterprise transformation projects, Gansu Province plans to set several principles: Self-pooled funds generally should not be less than 50 percent, input-output ratio must be higher than 1:2, and the tax and profit delivery rate of output value should be over 20 percent. In order to encourage enterprises' technological transformation, fixed-asset depreciation funds accrued as a result of the construction of projects financed with enterprises' retained funds and loans should be set aside for use by enterprises. Enterprises' gains from newly increased profits should be higher than the pre-set profit retention level. Newly increased profit delivery and tax payment will be temporarily excluded from financial budget before all loans are paid off. Before-tax loan payment must come from profit retention.

3. Developing from single-item breakthrough to internal coordination is the orientation for deepening enterprises' reform.

Enterprises should use the power given by the state, look toward the inside, extend and coordinate reforms, tap potential, and improve quality to seek survival and development in competition. To use enterprises' own language, it is to make "three changes of direction": 1) Instead of looking toward the outside and asking higher levels for more power and preferential policies, we should look toward the inside, do a good job in internal reforms, and tap enterprises' internal potential. 2) Instead of single-item reforms, we should carry out comprehensive, coordinated reforms and revitalize each and every "cell" of enterprise. 3) Instead of paying attention only to short-term efficiency and staff and workers' immediate interests, we should pay attention to long-term efficiency and enhance enterprises' staying power. According to this guiding ideology, we summarized the internal extension of reforms of 10 enterprises into the following five roads: 1) Economic responsibility system (halter) to output- and profit-related contracts (including contracts of material objects), to downsized accounting units, to contracts linked to ability, the fluctuation of costs, and the "digestive ability." 2) The expansion of integration (halter) to the expansion of products, to the expansion of technology and personnel, to the extension of both ends--raw materials and products--to loosely or closely integrated bodies. 3) Enterprise management (halter) to overall quality, target and cost controls, to modernized management. 4) Internal distribution (halter) to enterprises not eating from the "communal pot" of the state, to subsidiary plants and workshops not eating from the "communal pot" of enterprise, to internal distribution (or staff and workers not eating from the "communal pot" of enterprise." 5. Plant directors' responsibility system (halter) to plant directors' term target responsibility system, to cadre selection and employment system and the cadre promotion and demotion system, to graded responsibility system linked to responsibilities and profits. We understand that the internal development of enterprise reform is not merely simple coordination and perfection, but to spur the reform to continue to develop forward, consider enterprise reform as a system engineering project and complete and improve it in the course of development. Just like some comrades of enterprises said: "Instead of engaging in static coordination and improvement, we should destroy and establish things in a dynamic manner."

4. The task of the superstructure in enterprise reform is to turn "management" into "service."

The internal reform of enterprise has set forth a reform demand on the departments of the superstructure (including central cities, general government organs, and enterprise supervising departments). If the superstructure fails to carry out simultaneous reform, it will affect or even hinder the tempo of the deepening of enterprise reform. At present, there are three scenarios in the external reform of enterprises: 1) Some of the powers given to enterprises by the state cannot be exercised because the reform of some departments of the superstructure is out of line. 2) After enterprises' internal reform, management departments at higher levels still manage enterprises in the old way. 3) Management departments at higher levels begin to have the tendency of competing to be the "mother-in-law" of enterprises, turning previously centralized enterprise supervising departments into "multi-layered" ones. These three scenarios explain that it is urgent to speed up supplementary external reform and that the focus of reform is to change the "management style" to the "service style."

First, change direct management to indirect control and provide a relaxed condition for enterprise reform. It is necessary to clearly determine the scope of responsibilities for management organs and solve their problem of "piling one bed on top of another and building one house on top of another." Enterprise supervising departments should jump out of the word "managing" as in simply managing people, managing money, and managing objects and gradually conduct industrial service. General departments should genuinely embody the spirit of "coordination and service," change "blocking" and "digging" to "dredging," strengthen horizontal consultation between general departments, and solve the existing problem of incoherence of enterprise target systems. Financial and monetary departments which occupy an important position in enterprise reform should genuinely put their foothold on helping enterprises make money because in order to take, one has to give first. This will bring about a benign circle of the economy.

Second, continue to implement the policy of supporting enterprise revitalization. In the past few years, in accordance with the general political principles of the state and the actual conditions of different enterprises, Gansu Province formulated some policy measures which have played a great role in invigorating enterprises, developing production, improving efficiency, and increasing staff and workers' income. Effective policies should be upheld. However, we should conscientiously sum up the experiences of the past few years in implementing these support policies and gradually improve them on condition that the general principle remains unchanged. Especially we should strengthen guidance of policy application for enterprises, ensuring that benefits resulting from policies should be mainly used to develop production. When we formulate new support policies in the future, our attention should be paid to balancing neighboring enterprises to avoid "racing with each other." Generally, such "blood transfusion" methods as tax reduction, surplus profit retention, and interest deduction will not be

applied to enterprises, except for a few with financial difficulties, in order to free them from the state of "infancy" and make them turn pressure into vitality.

Third, cities should create a fine environment for enterprise reform. After enterprises are turned over to central cities, central cities' task is to guide, plan, coordinate, serve, and supervise enterprises. Central cities and general government departments must have a very clear understanding of this point. At present, a prominent task of central cities in regard to serving enterprises is to vigorously develop the tertiary industry and reduce enterprises' social burden instead of increasing enterprises' burdens (apportionment of expenses and work).

5. Mix reform with transformation, development, and opening up.

This year, Gansu Province's economic work should be focused on reform, transformation, opening up, and development. To find a fundamental solution to the problem concerning enterprises' vitality, efficiency and staying power, we must concentrate on reform. Reform is mixed with the effort to solve prominent problems facing enterprises in production development. For instance, enterprises now face a problem of opening up markets and changing from the production type to the production-management-development type. This is an issue of reform as well as an issue of production and management. For another instance, by engaging in expansion and integration, enterprises can increase their ability to develop and adjust and also carry out profound reforms in regard to organization and management. Therefore, simultaneous attention should be paid to both reform and transformation, development, and opening up. Reform should be considered together with transformation, development, and opening up so that the former can give a boost to the latter. Problems in production development are also main directions of attack in reform. Production development plans are also reform programs. We should make reform develop simultaneously with transformation, development, and opening up.

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CSO: 4006/1197

ECONOMIC MANAGEMENT

BRIEFS

CONTROL OF AUTOMOBILE BUILDERS--Wuhan, 12 October (XINHUA)--China's Central Government planners will soon take direct control of one of the country's key automobile manufacturers, the Dongfeng (east wind) motor vehicle group, Dongfeng officials said today. Previously under the supervision of local governments and the China Automotive Industry Corporation, the group after 1 January will operate "directly under the State Planning Commission," they said. Under the new system, designed to increase production and exports of some of China's leading products, the Planning Commission and other central government offices will set the group's main economic goals. One Dongfeng official told XINHUA the transfer of control is expected to "strengthen management." The group includes 157 plants scattered throughout 20 provinces. In 1985, it produced 95,515 motor vehicles last year, one-fourth of the country's total. Another of China's major vehicle production groups, the Jiefang (liberation), will eventually be transferred to central government control, the official said, although he gave no details. [Text] [Beijing XINHUA in English 0129 GMT 12 Oct 86 OW] /12913

CSO: 4020/22

FINANCE AND BANKING

GONGREN RIBAO EXPLAINS CHINESE STOCKS, BONDS

OWL60920 Beijing XINHUA in English 0909 GMT 16 Oct 86

[Text] Beijing, 16 Oct (XINHUA)--Stocks and bonds bought by people in China differ from those in capitalist countries in one major respect -- their maximum earnings are fixed, the WORKER'S DAILY reported today.

In China, maximum returns have been set at 15 percent, including interest and dividends, which are based on enterprise profits.

State-owned enterprises began selling bonds in the early 1980s, to raise capital unavailable from government banks.

By the end of 1985, enterprises in China had sold 10 billion yuan (270 million U.S. dollars) in bonds and in a limited number of stock issues.

Last February in Shanghai, one of the cities pioneering the country's financial reform, the Yanzhong duplicating company found itself swamped with buyers when it announced that it was selling bonds. It sold 4.5 million yuan (1.2 million dollars) in bonds in just three days.

Other enterprises throughout the country have had similar experiences, the paper said.

It praised the Chinese news media for "giving a good explanation of the advantages of introducing stocks to the enterprises." but it said "they have not said enough about shareholders' risks."

If China does open a full-fledged stock exchange, said the paper, it should be regulated by the government and "a number of large, government-owned enterprises should be involved."

It said banks should also exercise a certain control over stock exchange.

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CSO: 4020/24

FINANCE AND BANKING

INTERIM PROCEDURES ISSUED FOR JIANGXI ENTERPRISE STOCKS, BONDS

OW051636 Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 4 Oct 86

[Text] The Jiangxi Provincial People's Government recently promulgated the interim procedures of Jiangxi Province for the administration of enterprise stock and bonds, which went into effect on 1 October.

The procedures stipulate that all enterprises in Jiangxi and those outside Jiangxi wishing to issue stock and bonds in Jiangxi must obtain permission from a people's bank according to regulations. Enterprises issuing stock and bonds must have a certain amount of assets of their own or must obtain the guarantee of an economic entity. The funds raised by an enterprise must be used only for developing production and expanding circulation; they must not be used for other purposes. The purchase of stock and bonds must be based on the principle of voluntariness and compensation. Forced buying is prohibited. In buying stock and bonds, an enterprise must use only those funds it is entitled to use according to state regulations; it must not use state-allotted circulating funds or bank loans to buy stock and bonds. In buying stock and bonds, institutions must use only their surplus extra-budgetary funds. Free transactions and circulation of stock and bonds are not permitted, but they can be transferred or used as a guarantee for loans provided proper procedures are done in a bank or trust and investment company. The ceiling for annual stock dividends plus interest is set at 20 percent of the principal. Annual bond interest must not exceed 30 percent of the annual interest of the same amount of bank time deposit.

The interim procedures also clearly state that Jiangxi's people's banks have the authority to administer enterprise stock and bonds.

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FINANCE AND BANKING

BRIEFS

SEMINAR ON BANKING, FINANCING--The Bank of China and the Midland Bank Group of Britain began a three-day seminar on banking and finance in Beijing's Great Hall of the People yesterday. The seminar also marks the 70th anniversary of relations between the two banks, and Midland Bank's 150th anniversary. Attending the seminar were more than 100 Bank of China workers from all over China, many of whom have received training in special courses arranged by the British bank for Chinese banking officials in London. Midland Bank was the first European bank since the founding of the People's Republic to be invited to open a representative office in China. And recently, as lead bank, it signed a loan agreement to finance the British portion of the Daya Bay nuclear power station in Guangdong Province. Meanwhile, a Sino-British Trade and Economic Co-operation Seminar will be held today and tomorrow in Shanghai. Sir James Cleminson, chairman of British Overseas Trade Board, said that he believed the seminar will prove "memorable and rewarding for all who participate in it." [Text] [Beijing CHINA DAILY in English 14 Oct 86 p 1 HK] /12624

YANGTZE RIVER VALLEY ECONOMY AIDED--Beijing, 11 Oct (XINHUA)--To encourage economic cooperation among Yangtze River Valley enterprises, China's largest banking system has been established in Wuhan, capital of Hubei Province. "The new system is aimed at making better use of more than 100 billion yuan (27 billion U.S. dollars) of credit loans in the People's Bank of China in 27 large and medium-sized cities, including Shanghai, Nanjing, Wuhan and Chongqing," the PEOPLE'S DAILY quoted a city official as saying today. These cities can now borrow from or issue loans to each other in a bid to push inter-regional economic cooperation between enterprises, and speed up development of energy and materials industries and grain and export-oriented production. To encourage inter-regional cooperation aimed at developing quality products, the banks in any of these cities can grant loans to enterprises in another city with preferential treatment in interest rates. Under China's present financial system, funds are not allowed to flow between banks in different regions. The industrial output value of these 27 cities accounts for a quarter of the country's total. [Text] [Beijing XINHUA in English 1440 GMT 11 Oct 86 OW] /12624

GANSU DEVELOPS MONEY MARKET--In 1985, the province's banks, headed by the People's Bank, established a money market by first forming a short-term capital market. Now, they have handled over 3,000 cases of capital circulation, so that the capital is fully utilized without increasing the gross amount of money. Also, the banks introduced a bills clearing service. Twelve prefectures and cities, including Zhangye, Tianshui, and Jiuquan,

have also established clearing houses. Investigations conducted at Lanzhou, Tianshui, and Linxia showed that some 300 million yuan of funds was raised in the form of shares, bonds, and compensation trade. [Summary] [Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 4 Oct 86 HK] /12624

QINGHAI FINANCE DEVELOPS RAPIDLY--Since 1978, the province's financial work has developed rapidly. The province has now established a fairly complete financial system with people's banks in the leading role and professional banks as the main part. By the end of August, there were over 800 financial organizations of various kinds in the province. Branches of financial organizations are scattered in all areas of the province. According to statistics, by the end of August this year total bank savings in the province amounted to some 2.87 billion yuan, an increase of 180 percent over 1978. Of this figure, the urban and town bank savings reached 900 million yuan, an increase of 500 percent over 1978. [Summary] [Xining Qinghai Provincial Service in Mandarin 2330 GMT 1 Oct 86 Hk] /12624

CSO: 4006/65

## MINERAL RESOURCES

### BRIEFS

**JILIN MINING INDUSTRY**--Jilin Province to date has discovered 72 kinds of mineral deposits that occur in more than 380 pieces. Of these places, more than 70 of them can be developed into large and middle-sized mines that can produce 48 kinds of minerals. The deposits of silica, diatomaceous earth, gold, wulfenite, nickel, and zeolite occupy important positions in the country. At present, the province has 134 state mines at or above the county level and more than 2,390 collective and individual mining enterprises at the township-town level. There are almost 200,000 people engaged in mining. The province's comprehensive system of mining production can turn out 31.28 million tons and 42 kinds of minerals annually. Over the past 30 years since the founding of the PRC, the province's total mining output value has reached 11.7 billion yuan. Particularly over the past 2 years, more than 40,000 peasants have engaged in the mining production of 24 kinds of minerals, and some of them have become wealthy. [Experts] [Changchun JILIN RIBAO in Chinese 20 Sep 86 p 1 SK] /12624

**HUBEI MINERAL DEPOSITS**--Years of arduous prospecting conducted by the province's geological workers show that Hubei has 116 minerals and has found deposits in mines at 1,322 locations. Deposits of phosphorus, rutile, garnet, and marl are found in the greatest quantities in China, while those of iron, copper, gold, silver, mercury, and vanadium, a metallic element which occurs in combination in minerals, are not widespread. The proportion of the provincial output value of the mining industry to its gross industrial output value is gradually increasing. Now, 24 counties and cities in the province have set up administrative organizations for mining industry development. [Summary] [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 2 Oct 86 HK] /12624

**YUNNAN GOLD**--The province has overfulfilled this year's gold production target 4 months ahead of schedule. The province abounds in gold deposits. A number of county-run and township-run gold mines have been established over the past few years. Individual operation of gold extraction was also encouraged. The province's gold output from January to August this year increased by 37 percent over the same period of last year. [Summary] [Kunming Yunnan Provincial Service in Mandarin 2300 GMT 7 Oct 86 HK] /12624

ISO: 4006/65

INDUSTRY

STATISTICS OFFICIALS VIEW 1986 INDUSTRIAL GROWTH

OW090237 Beijing XINHUA in English 0157 GMT 9 Oct 86

[Text] Beijing, 9 October (XINHUA)--The record of industrial achievement for the first nine months of this year has inspired optimism in Chinese statistics officials about the country's realization of an 8 percent growth of the total industrial output value by the end of the year.

The officials said that so far the whole country has realized an industrial output value of 652.1 billion yuan, with a 6.4 percent annual increase on average over the past few years.

The country's goal is to secure a 7 percent increase and strive for 8 percent by the end of this year, according to the state statistics bureau.

Compared with the same period of last year, the growth rate for the first nine months has been going up steadily--4.4 percent for the first three months, 5.3 percent for the second and 9 percent for the third.

They expect a continuous big-scale increase during the next three months.

The power industry has taken the lead among the enterprises, having already attained the state quota, according to the bureau. Electricity output increased by 9.1 percent.

The production of raw materials including steel, cement, glass and nonferrous metals has also increased by a big margin.

The output value of light industry has been increasing faster than that of heavy industry. More refrigerators, washing machines and cassette recorders were manufactured. The production of color TV sets resumed an increasing trend in July.

However, the officials called attention to some prominent problems like overinvestment in means of production, poor quality and the decline of profits. In addition, clogged channels of commodity circulation in rural areas still hampers sales, they said.

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CSO: 4020/22

INDUSTRY

BRIEFS

HEILONGJIANG WOOLLEN TEXTILE PRODUCTION--Harbin, 26 September (XINHUA)--A worsted spinning plant with 10,000 spindles went into production today in Harbin, capital of north China's Heilongjiang Province. With the new plant, Heilongjiang will be able to produce 6 million meters of worsted woollen fabrics annually, as against only 1 million meters six years ago. In the past five years, the province has invested 200 million yuan and US\$10 million worth of foreign funds to increase the production of both its worsted and woollen fabrics. Although one of the most important wool-producing areas in China, Heilongjiang once had to buy woollen cloth from other provinces. Now it earns US\$10 million a year from exports of woollen fabrics. [Text] [Beijing XINHUA in English 1617 GMT 26 Sep 86 OW] /12913

CSO: 4020/22

## SMALL-SCALE ENTERPRISES

### EXPERTS' SURVEY SAYS SMALL, RURAL ENTERPRISES NEED INFORMATION

HK220832 Beijing CHINA DAILY in English 22 Oct 86

[By Wen Chunlin]

[Text] Experts in China say that small and rural enterprises are in urgent need of economic and technological information.

The experts in China's Institutions of Information Science reached this conclusion in two surveys they conducted of enterprises across the country.

Rural economic reform has brought about the rapid development of township enterprises. By 1985, there were more than 12 million such enterprises. But many complain of lack of economic information.

More than 40 percent of rural enterprises say they need information on the development of new products and technological imports. They need to know about the market to sell their products.

At present, most enterprises get the information they need through social contacts. Newspapers are also a source of information. Documents and regular reports are seldom available.

In the developed areas of East China, many rural enterprises use the help of universities and research institutions for information because they face stiffer market competition.

Many rural enterprises though, have no access to, or interest in, the latest information from abroad.

As latecomers to the information business, rural enterprises are not regarded as major information users by the State Scientific and Technological Information Department. Although many do not participate in the country's information networks, nearly 50 percent of rural firms say they do not have the time to obtain information.

The surveys showed that the advisory service provided by information departments is welcomed by rural enterprises. It is a more time-saving and effective information service.

CSO: 4020/24

## SMALL-SCALE ENTERPRISES

### NATIONWIDE PROGRESS FOR TOWNSHIP, TOWN ENTERPRISES REPORTED

Beijing RENMIN RIBAO in Chinese 22 Aug 86 p 1

["Steady Development Seen In Township and Town Enterprises In the First Half of the Year; Enhanced Quality Control and Development of Diversified Lateral Relations Stressed; Gross Enterprise Revenue Grows 20.7 Percent, While GVIO Grows 22.1 Percent"]

[Text] Beijing Zi Ang Xinhua She. According to the Township and Town Enterprise Bureau of the Ministry of Agriculture, Animal Husbandry and Fisheries, China's township and town enterprises still maintained a steady rate of development in the first half of this year, a positive trend. According to incomplete figures from 27 provinces, autonomous regions, and municipalities under the direct administration of the central government, total product marketing and labor revenues for township and town enterprises from January to June were 123.2 billion yuan, of which 83.8 million yuan were accounted for at the township and village levels. Compared to the situation in 25 comparable provinces, autonomous regions, and municipalities under central government supervision during the same period last year, there was a 20.7-percent increase in total township and town enterprises revenues the first half of this year, and a 22.1-percent increase in town and township industrial output.

According to the bureau: In the first half of this year, village enterprises developed more rapidly than township enterprises in China; the pace of development for peasant joint ventures and other cooperative and independent enterprise forms was more rapid than that of village enterprises. As for products, gold production grew 26 percent over the same period last year, raw coal production increased 9.2 percent, and edible oil processing grew 16 percent.

The development of township and town enterprise in the first half of the year showed the following characteristics:

1. Each region treated the development of township and town enterprises as a breakthrough point in the revitalization of the rural economy, and shifted from the past emphasis on development along to quality, management, and efficiency.

2. Each region stressed horizontal relations and economic cooperation which enabled an even wider realm of development for township and town enterprises. Many township and town enterprises teamed up with the appropriate units and departments to engage in production, industrial-trade, capital, production-marketing and technological joint ventures, coordinated processing, and other diversified forms of economic cooperation.

3. The relevant leadership departments improved macroeconomic guidance over township and town enterprises, and while going all out to renovate and maximize the potentials of older enterprises, have done a great job of putting new enterprises into production and obtaining good economic returns, so that the basic construction and technological renovation of township and town enterprises could proceed smoothly.

12221/13104

CSO: 4006/1317

## SMALL-SCALE ENTERPRISES

### PROFIT DISTRIBUTION REFORM OF TOWNSHIP, TOWN ENTERPRISES

Beijing NONGYE KUALI YANJIU [AGRICULTURAL ACCOUNTING RESEARCH in Chinese No 2, 86 pp 20-22]

[Article by Bao Weihe [0545 4850 0735] of the Township and Town Enterprise Bureau of the Ministry of Agriculture, Animal Husbandry and Fisheries:  
"Suggestions on Profit Distribution Reform of Township and Town Enterprises"]

#### [Text] I. The Great Significance of Profit Distribution

Profit is the final result of the operational activities of township and town enterprises, the overall measure of the performance level of every enterprise, and the material foundation for the expansion of reproduction, increasing state financial resources, and raising the level of workers' wages. The distribution of profits is the key to the survival and development of township and town enterprise. Doing an appropriate job of handling the relations of distribution involved in enterprise profits is directly related to the major issue of fairly and comprehensively balancing the relations between the interests of the state, collective and individual. If the relations among the three can be correctly balanced, we shall be able to achieve the "three increases," which are: 1) an increase in the state's revenues, enabling the accumulation of capital for socialist construction; 2) an increase in enterprise reserve funds for use in technological renovation, the renewal of equipment, the experimental production of new products, and the increase of economic returns; 3) an increase in the workers' bonus and social welfare funds in order, on the foundation of increased production, to constantly enhance their material and cultural living standards, thereby encouraging the vast ranks of the workers to show concern for their enterprises and improve operational management based on their material interests. If the relationship among the three is handled poorly, losses for the state, collective, and individual worker will be incurred. If the individual and collective are stressed while neglecting the state, loss of control over consumption funds will result, which will be harmful to society as a whole. If attention is paid only to long-term at the expense of short-term interests, and enterprise profits are all allocated elsewhere, it will blunt the workers' enthusiasm, and be detrimental to the development of the enterprise and the conservation of sources of tax revenue. Thus, it can be seen that a sacrifice of any one

of the three is detrimental to the consolidated development of the enterprises. The state, collective, and individual must all be considered equally, without favoring one of the three.

## II. Current Problems

Some of the numerous problems involved in the distribution of township and town enterprise profits have created serious consequences, which are manifested primarily as follows:

A. Some enterprises are willing to sacrifice capital in order to hand in more taxes, issue more bonuses, retain less accumulation, report less depreciation or none at all.

B. The percentage of after-tax profits extracted at the township and village levels is too high, leaving the enterprises with little retained profit. In some places, 70 to 80 percent of enterprise profits is taken away. In some places, all profits are handed in for centralized allocation. This is harmful to the enterprises' capacity for self-renovation and detrimental to future development.

C. The phenomenon of the "three manys and three fews" has appeared in jointly run peasant enterprises: much distribution to the individual, much profit sharing among shareholders, and high incomes for many shareholders with little profit retained by the enterprise, little profit sharing for laborers, and little income for hired workers.

D. Some places have initiated many public projects but lack the understanding of the necessity to proceed according to ability. Quite a few township (village) governments not only take 10 percent of gross income to provide social subsidies to be completely handed in by the enterprises, but also take away a large portion of after-tax profits so that the enterprise is burdened with the responsibility for providing an excessive amount of social subsidies.

The numerous not totally rational aspects of the distribution of township and town enterprise profits have created the following serious consequences:

1. Quite a few township and town enterprises not only lack sufficient funds for expanded reproduction and technological renovation whenever necessary, but have no choice but to rely on credit to provide for even the maintenance of the circulation funds needed for simple reproduction as well. As a result, the enterprises lack vitality, have no reserves, show reduced profits and garner low economic returns.

2. Handed-in profits are not utilized rationally. Some are used as prefectural and township "small treasuries." The leadership grants indiscriminate approval of expenditures for providing subsidies for workers with difficulties. In some places tall buildings and offices are constructed. Profits are rarely used to develop township and town enterprises or to supplement agriculture.

3. The extraction of much of township and town enterprise profits at the township and village levels have created the false impression among some departments related to rural work that there is much "oil" to be squeezed out of the enterprises, leading to a scrambling to amass funds, charge fees, and offer "support" under numerous guises. This has increased the onerous burden of township and town enterprises and seriously hampered their healthy development.

### III. The Causes of the Above Problems

The causes of problems in the distribution of township and town enterprise profits are multifaceted. Some have appeared in the course of the overall economic reform and in the replacement of the old by the new. Some have been caused by the lack of the necessary organization. Some are due to ideological problems, others to practical problems. They all can be summed up as follows:

A. The lack of a unified method for the distribution of profit. Distribution of township and town enterprise profit is indeed complex and highly related to state policy. In stipulating annual distribution ratios, sometimes the enterprise's supervisor organ consults with the tax departments to set provisional rations; in some cases, the ratios are decided on by prefectural and township governments themselves. Due to the lack of unified standards for profit retention and distribution at the higher levels, there are no regulations for the subordinate levels to follow. As a result, standards differ from place to place, some very widely.

B. When handling the distribution of enterprise profits, some cadres ignore objective and subjective conditions, one-sidedly to raise the level of worker income and create competition among the enterprises, creating a tendency towards the artificial raising of per capita income and huge differences in income.

C. The shortage of funds for welfare work has led to encroachments on township and town enterprise profits. In the past few years, there has been an increase in expenditures for rural education, health, family planning, subsidies for military recruitment and militia training, and a growth in work to help the "five guarantee" households, to subsidize households with difficulties, to fund old-age homes, nurseries, and other social welfare activities. This led to high social expenditure and encroachments on a large portion of township and town enterprise profits.

### IV. Some Proposals on the Reform of the Distribution of Township and Town Enterprise Profits.

The reform of profit distribution is one of the core problems in the development of township enterprise. Experiments are being conducted to deal with this problem in Beijing, Tianjin, Shanghai, and the southeastern coast where township and town enterprise is more developed. It is my belief that the reform of profit distribution among township and town enterprises must resolve the following problems:

#### A. Clarifying the Guiding Philosophy Over Profit Distribution

Township and town enterprise profits must be rationally distributed on a foundation of paying equal attention to the interests of the state, collective, and individual. First, state tax revenue must be guaranteed. Township and town enterprises must promptly pay income tax according to state-set tax rates to support economic construction carried out by the state. Second, attention must be paid to enhancing the enterprise's internal accumulation and capacity for self-development. Third, the legal rights of the investor to prompt profit sharing of the amount due must be guaranteed. Fourth, the workers' income must be appropriately increased based on a foundation of increased production, profits, and taxes remitted. Fifth, industry must be made to supplement and build agriculture. Sixth, social welfare measures must be provided with the appropriate funds. In short, in distributing township and town enterprise profits, we must guarantee the continuance of key projects, plus engage in unified planning considering all aspects, while raising our ideological consciousness and balancing the ratio of distribution fairly.

#### B. Rationally Determining the Ratio of Distribution of After-Tax Profit

At present, regulations have been made in quite a few places concerning the distribution of township and town enterprise profits. For example, the Beijing Municipal Region has stipulated that township and town enterprises profits shall be distributed according to a "4:3:3" ratio, that is, the enterprise retains 40 percent, hands in 30 percent to the township government (or village government) to be used primarily for the support of agriculture, and delivers the remaining 30 percent to the township (or village) economic organizations (enterprise companies) to be used to expand reproduction or build new enterprises. In Simen Town, Yutao City, Zhejiang Province, a regulation was adopted using a "double 3-7" ratio in the distribution of after-tax township and town enterprise profit, in which 70 percent of after-tax profits is retained by the enterprises for use in expanded reproduction and 30 percent is given over to the town industrial bureau. Of the profit handed in, 70 percent is retained by the bureau to use in supporting the renovation of older enterprises and the building of new township and town enterprises, while 30 percent is given to the town government to use in the construction of small market towns and other expenditures of a social nature. Lonan Township of Shanghai's Baoshan County adopted a "3:3 system" of profit distribution, in which one-third of the net profit of township-run enterprises is retained by the enterprises to use in technological renovation, equipment renewal, to supplement circulation funds, and enhance the enterprises' capacity for self-renovation and development; another one-third is retained by the township economic organizations (industrial companies) to use in developing new projects, creating new enterprises or engaging in large-scale technological renovation, increasing township and township enterprise reserves, at the same time augmenting the investment of intellectual resources, doing a good job of worker education and personnel training and accelerating the pace of personnel development; the last one-third is handed in to the township government for use in public

welfare measures, urban construction and support of the production of agricultural byproducts whenever administrative funds from the township government are insufficient to cover these expenditures.

My proposals:

1. Most of the township and town enterprise after-tax profits, generally not less than 60 percent, should be retained by the enterprises. Most of the profit retained by the enterprises should be used to augment development funds and carry on expanded reproduction. A small part should be used to increase bonus and social welfare funds in order to enhance the workers' real income.
2. The proportion of profits handed in to the township and village governments should not generally exceed 40 percent of after-tax profits. Most of this money should be used to develop township and town enterprise. A small portion should be used to supplement agriculture and to provide for supplemental social expenditures.
3. Regulations concerning the distribution of after-tax profits of peasant joint-stock enterprises should be clarified. The ratio between distribution according to labor and capital must be appropriate. A definite percentage must be retained for public use. Profits cannot be totally divided up. Generally the "2:5:3" ratio should be used--that is, 20 percent distributed according to the number of shares held, 50 percent according to the amount of labor performed, and 30 percent to be retained by the enterprises as public accumulation.

#### C. Clarifying All Usages by Strick Review Procedures

First, are the uses of profits retained by the enterprises: 1) primarily for technological renovation, equipment renewal and expanded reproduction; 2) to supplement insufficiencies in the enterprises' own funds; 3) to develop intellectual resources and to train personnel in engineering technology, business management, accounting, marketing, etc.

Second come the uses for profits handed in to economic organizations: 1) to invest in new enterprises; 2) to renovate older enterprises, particularly those lacking the capacity for self-renovation; 3) to train cadres, plant directors, accountants, technicians, marketing personnel, etc.

Third are usages for profits handed in to the township (village) economic organizations: 1) to use in agricultural capital construction, price subsidies, and other forms of industry supplementing agriculture; 2) to meet small-town construction and public welfare expenditures; 3) to compensate for insufficient administrative funds.

The percentage of profits to be used for the above-noted items should be rationally determined according to local conditions so that these limited funds are spent exactly where needed.

Management of funding must be strengthened so that the budget drawn up in the beginning of a year is strictly controlled via definite review and approval procedures. Plans to use profits retained by the enterprise for large expenditures or new project must undergo feasibility analysis and be approved by the workers' councils after discussion. Profits handed in to township or village governments could be used as circulation funds for the development of township and town enterprise with compensation to encourage the enterprises to improve their accounting, increase the turnover rate of a capital and obtain more economic returns. New township and town enterprises could be initiated in, for example, industry, transportation, commerce, and services. "Industry could be made to supplement agriculture." Wherever these profits are to be utilized, there must be strict procedures of review and control, and some projects must be approved by the township or village people's congresses before being implemented.

Various social expenditures for projects such as small market town construction must be determined based on practical considerations. Projects should only be undertaken if enough funding exists. We cannot go all out everywhere to build, wasting the peoples' money and labor without considering the conditions.

#### IV. Improving Ideological and Political Work and Balancing the Relationship Between Retained Profit and the Worker

The relationship between the interests of the individual, collective, and state, between short-term and long-term interests and between partial and overall interests must be explained to the vast ranks of the cadres and workers. All the workers must truly understand that the scope of investment in township and town enterprise must correspond with local levels of accumulation; that blind large-scale construction must be avoided; that public welfare construction can only be undertaken according to available resources and that the highest standards cannot always be applied; that the worker's income should be gradually increased based on increased production of their enterprise; that consumption funds should increase together with profits and taxes handed in; that the growth rate of worker income cannot exceed that of profits, and that the enterprise should maintain funds necessary for public accumulation. Only in this way can the long-term interests of the vast ranks of the workers be upheld. We must resolutely correct tendencies toward departmentalism and individualism in which the interests of the whole are neglected. Sharing out or handing in an excessive amount of profits is like "draining a pond to catch the fish," and is a poor way to develop township and town enterprise.

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## SMALL-SCALE ENTERPRISES

### FUNDRAISING FOR TOWN, TOWNSHIP ENTERPRISES DISCUSSED

Beijing NONGYE KUALI YANJIU [AGRICULTURAL ACCOUNTING RESEARCH] in Chinese  
No 3, 86 pp 48-50

[Article by Liu Zhihong [0491 1807 1347], of the Rural Work Department of the Jinzhong Prefectural CPC Committee, Shanxi Province: "On Fundraising for Town and Township Enterprises"]

[Text] In developing town and township enterprises, a pressing problem is the lack of capital. For many years, development of town and township enterprises has relied on state loans, funds from departments at higher levels, or accumulation by the enterprises themselves. However, in the past few years, particularly since the last year, owing to the rapid growth of the rural commodity economy, funds from these channels have fallen far short of demands. To solve the problem, there is a growing trend in the rural areas of pooling resources to run town and township enterprises. This is an important sign of the growing vigor of various productive factors, and its appearance is not fortuitous.

First, the lack of capital has become the major problem hindering the development of the productive forces in town and township enterprises. According to statistics, the 1985 plans of Jinzhong Prefecture, Shanxi Province, called for the establishment of 7,429 new town and township enterprises of various kinds and the technical transformation of 718 enterprises to increase their production capacities, requiring a total of 246.76 million yuan. However, banks and credit cooperatives could provide only 68.32 million yuan in loans, meeting only 27.8 percent of the amount needed, and capital was not available for most of the planned new enterprises.

Second, there is a lot of money in the rural areas. Since the 3d Plenum of the 11th CPC Central Committee, with the rapid growth of agricultural production, peasant income has increased year after year, and an increasing amount of money is being set aside. First of all, commune members' savings deposits have increased. As of the end of 1984 in Taigu County, commune members' savings deposits totaled 20 million yuan, an increase of 17.03 million yuan over the 2.97 million yuan in 1978. Per capita savings increased from 15.8 yuan in 1978 to 100 yuan in 1984. Next, the peasants are keeping more cash. According to statistics, in Jinzhong Prefecture, idle cash kept by peasants now totals 40.9 million yuan, averaging 18.5 yuan per person. Furthermore, many households have become well-to-do through hard work. In Jinzhong Prefecture, there were 16 households with a per capita income of

1,000 yuan and 1,203 households with a net income of more than 10,000 yuan in 1984, the latter being nearly double the 651 such households in 1983. In addition, funds accumulated by collectives and from other places are also sources of capital for town and township enterprises.

Third, the masses' enthusiastic participation in fundraising efforts to set up town and township enterprises shows that flexible and varied forms of fundraising are in keeping with the objective requirements of rural economic development in China at present. In 1984, 4,244 peasant households, or 7 percent of all peasant households, in Yuci City took part in fundraising, and they raised 10.47 million yuan. The Shuixiu Township cardboard box plant launched a fundraising campaign under a labor-investment program. In only 10 days, 130 entered their names, and only 80 were accepted based on needs, each bringing along an investment of 1,000 yuan, raising a total of 80,000 yuan.

At present, the mass enthusiasm to raise funds for town and township enterprises is spreading in rural Jinzhong Prefecture. Funds are raised mainly in the following five ways:

1. Loans: Such mutual-help credit activities are widespread among the people. Loans are divided into three categories according to interest rates:

First, interest-free loans: Generally this occurs when an individual household, planning to start a small business, borrows money from relatives, friends, and neighbors. As they trust each other, and only small amounts of money are involved, the loans are interest-free.

Second, low-interest loans: Investors earn interest on their money according to current bank loan interest rates. A common practice is the formation of a fundraising company with limited liabilities by related enterprises, units and individuals. The company issues shares and engages in the credit and loan business. The enterprises, units, and individuals put their money in the company and become shareholders. The principal and interest of shares are guaranteed, but there will be no distribution of bonuses or dividends. Those who apply for loans from the company must sign contracts. Shares have a longer time limit than loan contracts. Share interest rates should be higher than savings deposits. Units and individuals receiving loans pay interest rates should be higher than savings deposits. Units and individuals receiving loans pay interest at current bank loan interest rates.

Third, loans at market interest rates: A trust and investment company is formed to accept deposits and extend loans at negotiated interest rates.

2. Labor-investors: An enterprise may combine labor recruitment with fundraising. Each worker hired is requested to invest a fixed amount of money in the enterprise. When a worker quits working for the enterprise, his money is paid back to him in full. Shares earn money in one of three ways:

First, dividends: A certain proportion of the enterprise's after-tax profit is distributed as dividends among shareholders and workers. Generally a bigger portion is distributed for work than on shares.

Second, interest and dividends: The enterprise pays both interest and dividends. The interest rate is equal to or slightly higher than bank rates. The investors are guaranteed interest payments, and the amount of dividends is tied to the enterprise's economic performance.

Third, interest: Investors receive only interest and no dividends. The enterprise pays interest to the investors on a monthly or quarterly basis as stipulated in the contracts.

3. Joint ventures: Under this form of fundraising, investors take part in enterprise management. They share the capital investment, management, profits and losses. Joint ventures can be based on three kinds of economic ties. First, joint ventures between one household and another, combining labor with skills and pooling financial resources. Second, joint ventures between one village and another, pooling financial, labor, and natural resources. Breaking through the regional economic barriers formed by the administrative divisions, is conducive to the horizontal flows of funds, technology, and labor between regions. Third, joint ventures between town and township enterprises and state-owned industrial and commercial enterprises. Breaking through the barriers between different ownership systems and between urban and rural economies, is conducive to the establishment of vertical urban-rural economic networks with rational, combined agricultural-industrial-commercial operations to further expand economic contacts between urban and rural areas and promote integrated agricultural, industrial and commercial development in rural China.

4. Dividend-earning shares: This method is often used by enterprises which require relatively large capital investments. As the main objective of this type of investment is to earn dividends, investors generally do not participate in management. To guarantee investors' economic benefits and encourage the masses to buy shares, most enterprises not only guarantee interest payments, but promise dividend distributions. The interest rates may be lower than bank deposit interest rates, and dividends are determined by negotiation.

5. Capital from elsewhere: Funds brought in from other places play an important part in accelerating the development of town and township enterprises. As production grows, so will the attraction to investment capital from elsewhere. Funds may come from other regions and provinces. Overseas Chinese and foreign capital can also be used. The CPC Central Committee's Document No 1 of 1984 pointed out: "It is necessary to permit the free flow and rational merging of capital, technology and other essential factors of production among different areas and trades." Thus, the introduction of external capital is fully approved as a policy. In actual practice, the following two forms are more commonly used by town and township enterprise at present:

First, compensation trade: Machinery, equipment, production technology and so forth are bought on credit. Loans are repaid with products or other commodities after the start of production.

Second, joint ventures: Generally the town and township enterprises provide the natural resources, plant sites, labor, and so forth, and funds, technology, equipment, and so forth are provided by investors from other places.

Moreover, various credit organizations, such as fundraising companies, and credit forms, such as bond issues, selling on credit, commercial notes, commission shops, leases, etc., have appeared among the people in the rural areas. All of these can become effective ways to tap society's potential resources and raise funds for developing town and township enterprises.

Practice in Jinzhong Prefecture in the past few years has shown that raising funds to develop town and township enterprises can produce the following good social and economic results:

A. It is conducive to the organic combination of capital, technology and labor, which contributes to effective use of capital, on the one hand, and creates work for surplus rural labor, on the other, turning latent productive forces into active productive forces. Flexible and convenient ways to raise funds have helped solve the problem of capital shortage by tapping financial resources that would otherwise have remained idle, and capital is the glue which binds the essential factors of production together and effectively promotes the development of town and township enterprises. In 1984, Yuci City raised 10.47 million yuan to set up 534 town and township enterprises of various types, which provided more than 2,600 jobs for surplus rural labor and increased the city's income by more than 10 million yuan in the same year.

B. It contributes to readjusting the rural production structure and developing rural commodity production. Since 1983, Xiamen Town, in Lingshi County, has raised a total of more than 1 million yuan, with which the town has set up 260 enterprises in mining, smelting, mineral wool, sulphur, cement, machine repair, transport, and processing industries, employed 1,974 peasants, and turned the town's single-product, closed, natural economic structure into a commodity economic system with combined agricultural, industrial, and commercial operations. The town's industrial income accounted for 30 percent of its total income in 1978. The proportion was increased to 70 percent in 1984. The town's per capita income increased by nearly 500 percent in the same period.

C. It is conducive to developing and improving the rural cooperative economy so that it will keep pace with the development of the productive forces and grow at various levels and in all directions. Capital is the cement in economic associations. Fundraising has increased the flow of capital between different trades and areas. As a result, various types of intertrade and transregional joint ventures and economic associations have emerged. In 1984 Yuci City raised 5.13 million yuan, 36.6 percent of the total amount of funds raised in the city's rural outskirts, to establish 393 economic associations of various types.

D. It gives added support to the development of the poor regions. The flow of capital has increased the spread of competent people and technology and accelerated rural economic development in underdeveloped regions.

E. It helps accelerate the economic development of small rural towns.

F. It helps promote urban-rural economic associations so that cities can lead rural villages in helping peasants get rich faster.

By implementing the guidelines of the CPC Central Committee's Documents No 1 of 1984 and 1985, fairly rapid progress has been made by the masses in raising funds to set up town and township enterprises, and some valuable experiences have also been gained. However, there are also some problems which need to be studied and dealt with seriously. First, it is necessary to further emancipate our minds and remove mental blocks. Second, it is necessary to improve the enterprises' economic performance and enhance their reputation. Third, it is necessary to follow the principle of voluntary participation and mutual benefit and continue to improve the various forms of fundraising.

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SMALL-SCALE ENTERPRISES

BRIEFS

HUBEI SMALL SHOPS--There are about 250,000 small shops in some 810 towns of the province. In other words, there are 14 shops for every 1,000 people. The total social retail sales volume achieved by these shops last year reached some 10.6 billion yuan, accounting for the 56.5 percent of the province's total social retail sales volume. [Summary] [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 3 Oct 86 HK] /12624

CSO: 4006/65

DOMESTIC TRADE

REPORT ON GUIZHOU'S LATERAL ECONOMIC TIES

Kunming YUNNAN RIBAO in Chinese 21 May 86 p 2

[By correspondent Zhang Guangzong [1728 0342 1350] of the GUIZHOU RIBAO and correspondent Ye Xiaosheng [0673 2400 3932] of the Guizhou People's Broadcasting Station: "Advancing Hand in Hand in Joint Endeavor--New Breakthroughs in Lateral Economic Relations Between Guizhou and Sichuan, Yunnan, Guilin, and Chongqing"]

[Text] In observance of the principle: "Reconstruction through self-reliance, uniting with many parties, backing by the state, and joint effort for vigorous development," Guizhou started out from the realities of the situation and energetically instituted lateral economic cooperation with the four regions of Sichuan, Yunnan, Guilin, and Chongqing. Since last year's Second Five-member Economic Coordinating Conference, Guizhou Province has signed agreements with Sichuan, Yunnan, Guangxi, and Chongqing for over 230 economic and technical projects, of which 118 projects have already been implemented.

In the course of the year, the lateral economic ties between Guizhou, on the one hand, and Sichuan, Yunnan, Guilin, and Chongqing, on the other hand, displayed the following five special characteristics:

Widespread Initiation of Lateral Economic Corporation on an Enterprise-to-Enterprise Basis Accomplishes a Series of "Short-Lasting, Fair-priced, Rapidly Effective" Projects.

A mechanized brickworks of the Yushan district in Wengan County, Guizhou, imported 400,000 yuan additional capital and technical improvements from a mechanized brickworks of Anyue County, Sichuan, for a joint operation at a capacity of 10 million mechanically produced red bricks per year, a production that had actually started last year. A canning factory in Dejiang County had the canning technology of the Dehe canning factory of Yunnan introduced to improve its own canning production. The Zunyi City beverage plant established, together with the Chongqing City beverage plant, the Zunyi-Chongqing Tianfu Kola Factory, which is presently producing seven kinds of beverages.

Negotiation or Execution of Several Major, Urgently Needed, Bilateral or Multilateral Construction Projects.

Certain large construction projects, beyond the capability of Guangzhou Province alone, have, through cooperation between many parties, based on the principle of reconstruction through self-reliance, and with the support of the state, either already been completed or included as key construction projects in the state's Seventh 5-Year Plan.

Electrification and technical transformation of the Hunan-Guizhou, Sichuan-Guizhou, and Guiyang-Kunming railway lines is being continued uninterruptedly. The highway between Panxian and Baise in Guangxi is being reconstructed. A new highway is being built from Dafang County to Naxi in Sichuan and also from Malin in Chishui County to Hejiang County in Sichuan. All these projects have been included among the key engineering projects of the state's Seventh 5-Year Plan. The provinces of Guizhou and Guangxi are jointly investing in the construction of a coking plant in Guiyang with an annual capacity of 600,000 tons of coke. This project requires an investment of 160 million yuan, and both sides will share in the output and profits in proportion to their investments. The project is part of Guizhou's Seventh 5-Year Plan. Guizhou signed an agreement with Chongqing for joint investment in a soda ash plant of an annual capacity of 40,000 tons. Work on this project was started in August last year. In January of this year, the Nanning-Guiyang railway line was opened to direct passenger traffic. As to the technical work of electrifying the Guiyang-Kunming railway line, the section from Guiyang to the west of Shuicheng was officially opened to traffic in December of last year.

The New Tendency of Lateral Economic Cooperation Between Neighboring Counties.

Great activity is being shown in the lateral economic cooperation between the adjacent counties of the five members of the economic conference. In June of last year, the first economic and technical conference of eight adjacent prefectures and Zhou of the four provinces of Hubei, Hunan, Sichuan, and Guizhou, was held under the auspices of Tongren Prefecture in Guizhou Province, to discuss economic, technical, and materials supply cooperation and general identity of opinions was achieved at the conference. In October of last year, Wuchuan County held a meeting of 12 adjacent counties of Sichuan and Guizhou, broke out of the past pattern of isolated materials exchanges and developed the relationship into one of neighborly cooperation, the several parties working as a united entity, in the fields of economics, technologies, materials supplies, and information. At the meeting, over 50 projects of economic cooperation were arrived at, and the commodity transactions involved 10 million yuan. In the latter part of October, the autonomous Zhou of southwestern Guizhou joined together with the Zhou of Wenshan, Qujing, and Baise in a Yunnan-Guizhou-Guilin Border Region Economic Cooperation Conference and in March of this year instituted projects of mutual investigations, negotiations, and cooperation.

Strengthening Economic and Technical Cooperation With the Coastal Regions.

According to suggestions formulated at the Second Five-member Economic Coordinating Conference, Guizhou Province last year sent several delegations

to Shanghai, Tianjin, Jiangsu, Zhejiang, and Guangdong to initiate technical cooperation and exchanges, thereby opening up a large gate toward the coastal regions. They achieved over 400 cooperative projects of a great variety of forms, such as investments for the building of new factories, joint capital ventures, joint production projects, processing of materials, compensation trade, transfer of technologies, exports to overseas, S & T consultations, exchanges of personnel and information, and instituting "windows" to each other's territories.

Instituting a Network Concentrating on Interchanges of Materials and Industrial and Commercial Linkages.

Since last year, Guizhou further developed commodities and materials cooperation with four parties, in a variety of patterns, at different levels, and through a variety of channels. Guizhou also developed and perfected in reliance on the key cities, various types of trade centers and wholesale markets, and instituted a variety of trade outlets for its commodities, to promote materials and commodity exchanges. Guizhou's interregional cooperation in materials exchanges with the said four parties included barter, adjusting mutual surpluses and shortages, and making up shortages left by the state plan. Last year the total value of commodities involved in these cooperative activities reached 130 million yuan, comprising assistance to Guangxi, Sichuan, and Yunnan with the supply of 570,000 tons of raw coal and 210,000 tons of coke, effecting an adjustment by supplying 56,600 tons of pig iron to Guangxi and Sichuan and obtaining by barter in return 48,000 tons of steel billets, assisting Guangxi by supplying 110,000 tons of phosphate, also imported from Sichuan 25.3 million tons of steel materials and 26.79 million tons of cement. Last year a conference on cooperation in the supply of building materials was held at Guiyang, resulting in transactions valued at over 63 million yuan.

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## DOMESTIC TRADE

### REPORT ON YUNNAN'S LATERAL ECONOMIC TIES

Kunming YUNNAN RIBAO in Chinese 21 May 86 p 2

[By own reporter: "Forging Ahead in Lateral Ties and Cooperation Between Yunnan and Sichuan, Guizhou, Guilin and Chongqing--Initiation of a New Pattern in Regional Lateral Economic Relations"]

[Text] Since the Second Five-Member Economic Coordinating Conference, Yunnan's lateral ties with various parts of the Southwest have intensified, and extensive interchanges and cooperation have taken place in the fields of economics, technologies, materials supplies, S & T, commerce, and the training of personnel. Somewhat over 700 projects involving linkages and cooperation have been achieved, accounting for over one-third of all cooperative projects throughout the province during last year.

Yunnan has by now initially formed a new pattern of regional lateral economic linkages with various areas of the southwest, principally on three levels. One is economic coordinating conferences, the second is conferences of neighboring prefectures, and the third is the economic and technical cooperation and exchanges between certain prefectures, zhou, municipalities, and counties, also relevant departments, trades, industries, and enterprises of this province with the relevant prefectures, trades, industries, and enterprises of various other places. There has been certain progress in the joint undertaking of key projects. Among the series of joint projects which have been the subjects of agreements signed by Yunnan with various parties at the Second Economic Coordinating Conference, there are three that are now listed among the work planned for the early period of the Seventh 5-Year Plan. Work is being accelerated on the interconnection of interrupted highways between Yunnan and Sichuan, Guizhou, Guilin, and Chongqing. The interrupted section of 14.2 km between Yulin in Guangxi and Guangnan in Yunnan was completed in January of this year, after 3 months of hard work. Following the Second Economic Coordinating Conference, there has been a constant emergence in Yunnan of transregional, intertrade, and interindustry joint entities and other forms of linkages in the southwest, principally for the widest possible dissemination of high-quality products. After the joint production of such famous and excellent products as Chongqing's Tianfu kola and chocolate champagne had been started in Kunming, these products are now being distributed to several prefectural cities and zhou, such as Jinjiu, Zhaotong, and Chuxiong. Binchuan County in Dali zhou of Yunnan has linked up with

Chongqing for the joint cultivation of mandarin oranges and tangerines, of which Binchuan County's last year harvest had increased to 4 million jin, thereby increasing the income of the people by 4 million yuan. Certain major industries, for which Yunnan has superior resources, have been strengthened in the course of these cooperations and linkages. Following the importation last year by some Yunnan enterprises of advanced techniques and qualified personnel from Sichuan and Chongqing, sugar production, rubber processing, and the tropical fruit industry have all taken on a completely changed aspect. The Yongkang sugar refinery in Yongde County, Lincang Prefecture, had lost 1.6 million yuan in the 4 years of its existence. During September to November last year, the director of the Tayi sugar refinery in Sichuan brought over 50 of his key technical personnel to help the Yongkang sugar refinery improve its production technique and methods of management, as a result of which the said refinery could at one stroke turn a deficit into a profitable operation. Among the six sugar refineries in Lincang Prefecture, four have by now received assistance from Sichuan and established solid and suitable cooperative relations. The supply and marketing coop of the Honghe zhou last year imported from Guangxi 300,000 saplings and now predicts that they will harvest several million jin bananas more this year. Among the more than 700 projects for which Yunnan has signed cooperative agreements with various quarters, more than half are of collective enterprises. Many village and township enterprises in the prefectures, zhou, and municipalities of Zhaotong, Chuxiong, Honghe, and Dali have developed rapidly, with assistance from various provincial and prefectural departments. The Yuxi Leather Shoe Factory No 1, with assistance from the Chengdu Leather Factory, last year added three new large lines of articles with almost 200 different designs and colors, which increased output value by 500,000 yuan and yielded 60,000 yuan profit. The "zaojiu" winery of Kunming imported techniques and wine processing methods from the makers of "maotai" liquor in Guizhou and are now producing a "Yunzao" brand "zaojiu-type" liquor of fragrant bouquet and unique flavor, much acclaimed by its consumers.

With cooperation from various provinces and regions, Yunnan has started on the development of its natural resources together with various neighboring regions. The Panxi Steel Mill [?] invested 700,000 yuan to open up a new iron mine in collaboration with Yuanmou County, also investing another 2.2 million yuan in support of an expansion of the Yuanmou Cement Works. To provide added service to the Panxi iron and steel base, the Yongsheng County of Lijiang Prefecture expanded production capacity for agricultural and sideline products. Last year they supplied the Panxi Steel Mill [?] with 200,000 jin water melons, a production which they intend to increase this year to over 3 million jin. Yongren County last year supplied the Dukou Prefecture with 30,000 jin fresh fish, over 100 tons of fruit, and more than 1,000 tons of radishes. Up to the present, 11 prefectures and zhou of Yunnan have contracted with the Jinniu district of Chengdu for more than 200 cooperative projects, of which 62 percent have already been carried out with excellent results.

Following the Second Economic Coordinating Conference, the traditional economic relations in the southwest, which had formed according to the flow of commodities, have been further strengthened and developed. The establishment of "windows" to each other's territories, of commission agencies, and of a

variety of other forms of commercial cooperation, has proven abundantly effective. With assistance from Chongqing, 10 or so prefectures, Zhou, and municipalities in Yunnan successively opened Sichuan-style food restaurants. A department store in Gejiu City imported goods from 150 factories and commercial establishments in Sichuan, Chongqing, Guilin, and Guizhou, and last year increased its profits by 60 percent. Last year, new developments also took place in the cooperation with various places in the southwest for the supply of materials. Since last year, the exchange of qualified personnel has been stepped up between Yunnan and various places. Following the establishment of the Kunming branch of the Chongqing Building and Engineering College, 63 Yunnan students were enrolled in the special water supply and water drainage courses. This year, the said college will enroll new students in 4 specialized and 2 regular college courses. The Chengdu College of Telecommunications cooperated with the Yunnan Military District in classes for the training of military and local personnel. Last year, this college enrolled 150 new students from among the military. The Guizhou Agricultural College, the Chongqing Technical Teachers Training College, and other colleges trained qualified personnel on behalf of Yunnan Province. Five senior middle school teachers from Chengdu, all with abundant teaching experience, accepted invitations to teach in Dehong and Lingchuan middle schools for over 1 year, raising the teaching quality in these places conspicuously. The lateral economic ties between Yunnan, on the one hand, and Sichuan, Guizhou, Guilin, and Chongqing, on the other hand, have begun to exercise an increasingly important role in Yunnan's economic and cultural construction.

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CSO: 4006/1123

## FOREIGN TRADE AND INVESTMENT

### PAPER REPORTS ON NATION'S INVESTMENTS ABROAD

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese 26 May No 20, 1986  
pp 24-25

[Article by our special correspondent "China Is Also Investing Abroad"]

[Text] Editor's Note: Don't think China is just importing; in fact while importing funds and technology, it is also investing abroad. Chinese investment abroad has its own special characteristics, with businesses including exploitation of natural resources, production processing, shipping, financial insurance, architectural engineering, opening Chinese restaurants, etc.

Since 1980, China has been making efforts to broaden the sphere of foreign economic cooperation, actively investing abroad and setting up joint ventures. To date, China has already begun 144 joint and individual ventures in 34 countries and the territories of Hong Kong and Macao. Total investment equals \$239 million. The kinds of businesses include: the exploitation of natural resources, production processing, technology, as well as trade integration, shipping, financial insurance, architectural engineering, and Chinese restaurants. These are distributed mainly among the United States, Japan, Holland, Belgium, the FRG, Britain, Canada, Australia, Nigeria, Guinea, Guinea Bissau, Sierra Leone, Senegal, Swanda, Algeria, Brazil, Guyana, Sri Lanka, Pakistan, Thailand, Bangladesh, A-lian-qi [7093 5114 6790] Morocco, Cameroon, Tanzania, Mauritius, Malta, and the territories of Hong Kong and Macao. In addition, there are currently more than 300 joint venture projects being discussed. These projects are mainly in Asia, Africa, and Latin America.

### China's Basic Principles of Investment Abroad

One aspect of China's policy of opening to the outside world is the development of various kinds of joint ventures abroad. In its joint ventures abroad, China strictly observes the four basic principles of "equality and mutual benefit, emphasis on results, diversification, and joint development," with adherence to equality and mutual benefit and joint development given priority. In its investment abroad, China respects all the sovereign rights of the foreign country, does not interfere in the country's domestic affairs, does not attach any political conditions, does not require any special

privileges, observes all the country's laws and regulations, local customs, and the letter of the contract for the joint venture. Management style suits local conditions, and investment is flexible and diversified, such as the use of either cash, equipment, technology, materials and/or property as investment. This reflects China's vast possibilities for joint ventures with the rest of the world, especially with Third World countries.

#### The Main Forms of China's Joint Ventures Abroad

China is mainly opting for three forms of joint venture abroad: a) Private limited-liability companies. These are rather simple--usually not raising capital through the issue of stocks but rather the various parties of the joint venture in observance of local laws agree upon capital investment ratios in the form of cash or payment in kind and/or technology reflected in shares in the joint venture company. Investment, management, risk, and profit and loss are all shared. b) The limited liability company. The company raises some or all capital through public issue of stocks and consists of a certain number of shareholders. Currently, some Chinese joint ventures abroad have taken the form of limited-liability companies but investment is not large and the stocks do not go on the market. Moreover, the Chinese side has many shares and great control within the company. c) Contract joint ventures. In this kind of company, the Chinese investors usually provide capital, or equipment, industrial power, technological aid, and special technical know-how to their partner in the country abroad, and receive service fees or payment in kind as remuneration. Currently, China, in joint ventures abroad exploiting natural resources, basically chooses this method of cooperation.

#### The Key Points of Chinese Investment Abroad

In keeping with the reality of its situation, China focuses on the following areas in joint venture investments abroad: 1. Cooperation in the development of natural resources, such as forestry, the marine industry, mining, etc. This not only aids the development of local economy, but can result in the return of timber, paper pulp, marine products, or mineral products needed by China. Some resources are not required by China but if there is a requirement in the local country and a market abroad, China will undertake joint development. 2. Development of manufacturing and service enterprises for various kinds of machinery products. The Chinese side provides equipment, technology and product kits, and components for final assembly and sale abroad. In this manner, not only are local needs satisfied, but China's export of machinery, equipment semifinished products and component parts is also promoted. 3. Joint-venture contract companies as a means of undertaking engineering projects and expanding labor cooperation. China now has 54 companies which specialize in the contracting of international engineering projects. These companies have substantial power and rich experience in construction domestically and abroad. They are able to organize the design and construction as well as contract for various kinds of industrial and civil architectural engineering, specialized engineering, municipal engineering, mining exploration and exploitation, well drilling, road-and bridgebuilding, railroad, airport, harbor, hydropower station, and thermalpower station construction projects among others. They hope to form contract engineering

companies or joint enterprises for projects with all countries with friendly people possessing broad experience and management ability. 4. Utilize local natural resources and conditions to run locally required industrial and agricultural manufacturing joint enterprises whose products will first satisfy the needs of the local country. 5. Joint venture Chinese restaurants. Chinese culinary art has a long history and is famous throughout the world. In recent years, many countries have proposed joint-venture Chinese restaurants with China. There are many forms of joint-venture restaurants. Most commonly, the Chinese side supplies Chinese cooking utensils, traditional Chinese tableware, Chinese furnishings and decor, and seasonings and special ingredients unavailable on the local market as its investment, as well as providing first-rate cooks in the way of technical service. 6. Industrial trade and technology trade joint ventures. In such a way, China can import modern technology, equipment, and component parts for domestic production, scientific research, and the technical overhaul of old factories. The promotion of product advancement and the expansion of exports also aid technical exchange and mutual understanding.

China's joint ventures abroad are primarily small-and medium-scale ventures in an effort to obtain quick results with a minimum of investment.

#### Results Already Seen in Overseas Investment

China's priority in foreign investment is to exploit natural resources which are scarce within China. In recent years, China has begun 13 projects abroad in the fields of forestry, fishery, and mineral products. The plywood factory established in Brazil by the Chinese Ministry of Forestry has achieved an annual yield of 10,000 cubic meters. From the official start of production in October 1984, the production situation has been very good. Forestry resources development work with the United States, Brazil, and other countries has been proceeding smoothly. In just the latter half of 1985, more than 500,000 cubic meters of lumber was shipped to China. Currently, China is actively discussing forestry cooperation with Papua New Guinea and other countries.

In order to protect China's offshore natural resources and develop deep sea fishing, China has signed fishing cooperation contracts with seven other countries including Senegal, Guinea Bissau, the United States, and Sri Lanka. The first deep sea fishing fleet organized by China has begun operations in the waters of the above-mentioned countries. In October 1985, for the first time Beijing residents ate fresh fish which had been shipped from waters off the coast of West Africa. Estimates indicate that after 1 or 2 years, deep sea fishery products will markedly increase. In addition to what is sold abroad, more than 100 million jin of all kinds of fish can be supplied annually to the domestic market. In February of this year, three large processing trawlers from three sea fishery companies of Shanghai, Dalian, and Yantai set sail for U.S. waters to begin fishing operations. This is the first time Chinese fishing boats have operated in U.S. waters. The deep sea fishing is in accordance with the Sino-U.S. fishing agreement signed in July 1985 when Li Xiannian visited the United States. By mid-March two boats had started operations. By the end of March, the two boats had caught more than one million kilos of fish. The other boat has now also begun fishing operations.

Joint mining ventures for iron, copper, precious stones and gold are actively in progress with Australia, Canada, and other countries, with some to show results in 1986. China is now holding talks with countries on potash and phosphate mining. These resources which are badly needed for modernization are in short supply in China.

In addition to the initial results of the above-mentioned investment projects for natural resource development China has also established 19 international engineering joint-venture companies with Nigeria, Cameroon, Rwanda, Thailand, the Arab Yemen Republic as well as with the terrorists of Hong Kong and Macao for cooperative contracting of engineering projects abroad. In recent years, engineering projects worth several hundred million dollars have been undertaken with quite good results. Also, sole invested or jointly managed Chinese restaurants are distributed in more than 10 countries. More than 100 chefs coming from Sichuan, Guangzhou, Beijing, Shanghai, Liaoning, and other provinces and cities have used China's unique culinary skills to earn nearly \$3 million in foreign currency.

Statistics show that among these joint venture industries abroad, more than 90 percent have had good economic results. They have acted as a link for the import of modern technology from abroad and the expansion of commodity exports. Economists with foresight believe that this kind of equitable and mutually profitable economic and technical cooperation will help the economies of all countries develop and flourish.

13284/9869

CSO: 4006/1209

FOREIGN TRADE AND INVESTMENT

XINJIANG, USSR CONDUCT MORE BORDER TRADE

OW100850 Beijing XINHUA in English 0731 GMT 10 Oct 86

[Text] Beijing, 10 Oct (XINHUA)--Trade between inhabitants of China's far western frontier and the Soviet Union has begun a new phase, the economic daily reported Thursday. The border between the Xinjiang Uygur Autonomous Region and the Soviet Union opened earlier this year after it had been closed for decades.

The region has had a long history of cross-boundary contact and trade between residents in the Soviet Union and China. Many of the residents in both countries share the same ethnic background "the dwellers on both sides of the border have many similarities in their way of living, culture and customs and trade and contact links were established as early as 2,000 years ago through the 'silk road'", the paper said.

Over 200,000 Chinese or their descendants living in the Soviet side had long hoped to resume the economic and cultural contacts which were stopped in the early 1960s owing to the political conflict between the two governments.

At the beginning of this year, the authorities of the two countries officially agreed to renew border trade in the region and a regional company for foreign trade signed a contract with a Soviet company in Beijing before exchanging orders for a number of commodities, the paper said.

In August, the Chinese region sent a delegation on border trade to the Soviet Union, an exhibition was held showing off the region's light industry products, textiles, livestock, foods, arts and crafts and electronic equipment, all of which greatly intrigued the customers and viewers, the paper said.

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CSO: 4020/23

FOREIGN TRADE AND INVESTMENT

CSSR'S ROHLICEK 'DEEPLY IMPRESSED' BY PRC VISIT

OW170750 Beijing XINHUA in English 0736 GMT 17 Sep 86

[Text] Prague, 16 Sep (XINHUA)--Both Czechoslovakia and China are optimistic about the future of relations between the two countries, said Rudolf Rohlicek, Czechoslovakia's first deputy premier, who has just ended an official visit to China.

Czechoslovakia and China are both building socialism, are both solving a series of similar problems, and share the ultimate goal of improving their people's livelihood, Rohlicek said in an interview with XINHUA.

In assessing bilateral trade, the vice premier said both countries emphasize the overfulfilling of the items stipulated in their long-term trade agreement signed last year when China's Vice Premier Li Peng visited Czechoslovakia.

During the visits, both sides discussed possible high-level cooperation in fields such as production coordination and mutual transfer of licenses, he added. Rohlicek also said that Czechoslovakia is interested in participating in China's transformation of industrial enterprises engaging in metallurgic, textile, machinery and chemical production.

However, he said, such cooperation does not mean unilateral Czech exports to China. Besides importing traditional Chinese food and raw materials from China, Czechoslovakia also takes a great interest in expanding its imports of Chinese manufactured goods such as household electric appliances and machines.

Talking about his tours of Chinese cities, the Czechoslovak vice premier said that he had been deeply impressed by the progress the Chinese city of Shenzhen (China's first special economic zone open to foreign investment) has made in its modernization drive. The city's "super modernized construction" in the past six or seven years has brought about enormous development and prosperity he said.

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CSO: 4020/23

FOREIGN TRADE AND INVESTMENT

RARE EARTH EXPORTS EARN \$38 MILLION FOREIGN EXCHANGE

HK060334 Beijing CHINA DAILY in English 6 Oct 86 p 1

[Article by staff reporter Nie Lisheng]

[T-xt] With its rich resources of rare earth ores, China aims to become a major exporter of rare-earth products by 1990, when it hopes to handle 30 percent of international rare-earth trade compared with 20 percent at present.

Last year, the country processed 8,500 tons of rare earth into more than 400 varieties of industrial materials and products, second only to the United States, and sold 4,500 tons abroad to earn foreign exchange income of \$38 million, said Lin Zongtang, vice minister of the State Economic Commission.

Rare earth is a group of 17 metallic elements used mainly as agents for processing steel and iron and in petrochemical products. Rare-earth products have been widely used in China to make steel and iron alloys with better strength qualities or ability to conduct heat or electricity. Last year, China consumed 2,200 tons of rare earth in making 1 million tons of cast iron.

China has also begun using rare earth as fertilizer. This year, about 450 tons of rare earth are being used over 530,000 hectares of farmland around the country, where yields have risen after seeds were soaked or crops sprayed with rare-earth chemicals.

Lin told a national conference on rare-earth exploration and application yesterday in Beijing that total export volume had increased at an annual rate of 50 percent since 1979. Since then, the State has earned \$109 million on rare-earth exports.

China now exports not only primary rare-earth products, but also a dozen highly-processed products that contain only one of the 17 rare-earth elements. China has replaced France and the United States to become the chief supplier of such products to Japan, which bought 38 percent of its rare-earth imports from China in 1985.

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CSO: 4020/23

FOREIGN TRADE AND INVESTMENT

GUANGDONG TO ENSURE FOREIGN INVESTORS' PROFITS

HK151357 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1431 GMT 14 Oct 86

[Report: "Yu Fei, Vice Governor of Guangdong Province, Says that Guangdong Must Enable Foreign Investors to Make Profits"--ZHONGGUO XINWEN SHE headline]

[Text] Guangzhou, 14 Oct (ZHONGGUO XINWEN SHE)--Vice Governor of Guangdong Province Yu Fei said that Guangdong will create favorable conditions in all fields so as to help enterprises involved in foreign investment to improve their business results and to enable foreign investors to make profits.

Yu Fei said this yesterday when telling reporters about Guangdong's measures to implement the "regulations on encouraging foreign investment" promulgated by the State Council.

Yu Fei said that the main measure is to support the enterprises involved in foreign investment and help them expand production and product sales. These enterprises will be allowed to export their products on their own or through foreign trade companies. If the quality and specifications of these products reach the same level of the imported goods of the same kind, Guangdong Province will purchase these products and reduce or stop the import of similar products from abroad.

He also said that the enterprises involved in foreign investment can fix prices for their products on their own (except for the products sold in domestic markets in light of the unified prices fixed by the state). They can be exempted from paying taxes on the bonuses issued to their workers. These measures are not included in the state council's regulations. Yu Fei said Guangdong will adopt a more favorable policy in the aspect of the land use fees as compared with neighboring countries and regions so as to attract foreign investors.

As for the foreign exchange issue at which foreign investors are concerned, Yu Fei said Guangdong is a province which has comparatively more foreign exchange reserves in China and can thus allocate part of its foreign exchange reserve to meet the needs of the enterprises. At the same time, the Guangdong Provincial International Investment and Trust Corporation will issue bonds on behalf of the enterprises to raise funds which are needed in their business inside China.

The provincial vice governor also said that Guangdong plans to establish a number of material markets to ensure the supply of various materials needed by the enterprises involved in foreign investment. Such enterprises themselves can also run their own raw material bases in Guangdong.

Now, electricity in Guangdong is in short supply, and this has brought difficulties to the production of some enterprises run by foreign investors. Yu Fei promised that next year, Guangdong's electricity generation capacity will be doubled, and the situation in electricity supply will be improved. The Guangdong Provincial Government has ordered all localities and departments to take an equal approach to enterprises run by foreign investors and state-run enterprises with regard to electricity supply.

Vice Governor Yu Fei said that the Guangdong Provincial Government has also laid down such regulations to the departments concerned and to local governments that replies must be given within 2 months after projects and enterprises involving foreign investment are submitted to them for approval. Foreign economic relations and trade commissions at all levels are also required to deal with the complaints and inquiries filed by foreign investors without delay.

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CSO: 4006/67

FOREIGN TRADE AND INVESTMENT

GUANGZHOU TO OPEN FOREIGN EXCHANGE TRADING CENTER

HK140545 Hong Kong SOUTH CHINA MORNING POST in English 14 Oct 86 BUSINESS POST  
p 1

[By Paul Sham]

[Text] Guangzhou is to set up a foreign exchange trading centre in an effort to help joint ventures and wholly foreign-owned enterprises balance their hard currency accounts.

The centre could be in operation later this month.

Guangzhou's Mayor, Mr Zhu Senlin, said joint ventures and wholly foreign-owned enterprises would be able to trade their foreign exchange or renminbi at the centre which would be supervised by the Guangzhou branch of the People's Bank of China.

In June, Guangzhou set up a similar foreign exchange trading centre to meet the needs of domestic enterprises. So far transaction volume has reached more than U.S. \$10 million.

Mr Zhu said certain details, such as the permitted range of exchange rates, were still being worked out by the authorities but he said the centre was likely to open before the end of this month.

The mayor said Guangzhou was also working on a series of supplementary measures designed to attract more foreign investment to the city. These would be in line with the recent incentives the Chinese Government had offered to foreign investors and would be completed in the near future.

The measures would include cost reductions, the implementation of compensation trade rules and an import substitution scheme.

Compensation trade allows joint ventures or wholly foreign-owned enterprises to export products other than their own.

The import substitution scheme permits these same enterprises to sell their products in the domestic market but with prices quoted in foreign exchange.

Mr Zhu said to ensure the effectiveness of the measures the authorities were in the process of deciding on which products could be exported by these enterprises or sold by them on the domestic market.

He said foreign investors in Guangzhou would also benefit from the expanded foreign exchange subsidy scheme offered by central government.

The government has already utilised several hundreds of thousands of U.S. dollars to help a joint venture car factory in the city balance its foreign exchange account.

Mr Zhu stressed there was no set amount of hard currency reserved for this purpose. Investors would be able to obtain such assistance according to proven need, he added.

To further safeguard the interests of foreign investors, the mayor said Guangzhou would oppose the abolition of foreign exchange certificates [FEC] until a suitable replacement has been found.

"The policy of cancelling the FEC is correct, but an appropriate method must be mapped out first to safeguard the foreign exchange profit of foreign investors," he said.

Mr Zhu said a trade delegation would be sent to Hong Kong in November to introduce the supplementary investment incentives.

"The trip will aim to promote Guangzhou as a good place for foreign investment," he said.

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CSO: 4020/27

FOREIGN TRADE AND INVESTMENT

LIAONING PROVINCE DEVELOPS EXPORT-ORIENTED ECONOMY

OW110244 Beijing XINHUA in English 0202 GMT 11 Oct 86

[Text] Shanyang, 11 October (XINHUA)--Liaoning Province in northeast China is turning its coastal areas into foreign trade, international banking, science and information centers, according to vice-governor Zhu Jiazhen.

The areas cover 20 counties under the jurisdiction of Dandong, Dalian, Yingkou, Panjin and Jinzhou cities.

They can provide more than 46 percent of the province's total volume of products for export, the vice-governor said.

The scheme will facilitate further implementation of the policy of opening to the outside world, the vice-governor said.

These areas with abundant natural resources are Liaoning's industrial bases for crude oil, chemicals, machinery, building materials, light industry, textiles and electronics and its major exports outlets.

Among 14 agricultural and side-line products for export, each can realize hard currency of over 5 million U.S. dollars, and more than half were provided by the coastal areas in the past.

The province's oilfield at the Liaohe River basin has a verified reserve of 1.2 billion tons, 85.9 billion cubic meters of natural gas, 87 percent of China's total magnesite deposit, 60 percent of its boron, 53.5 percent of its diamond and 47.2 percent of its talcum reserves.

During the Seventh 5-Year Plan (1986-1990), vice-governor Zhu Jiazhen said the province will attract foreign investment and introduce foreign technology to transform 700 enterprises in the areas.

And 100 specialized factories producing exports and 100 export production bases will be established, he said.

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CSO: 4020/27

FOREIGN TRADE AND INVESTMENT

SHENYANG PIONEERS EXPERIMENT IN TECHNOLOGY TRADE

OW160428 Beijing XINHUA in English 0155 GMT 16 Oct 86

[Text] Shenyang, 16 October (XINHUA)--Shenyang, China's leading heavy industrial center, now pioneers China's experiment in technology trade.

This capital city of Liaoning Province became the first Chinese city undertaking the trade in 1980, and is now the sole city designated to find ways of establishing a sound, comprehensive technology trade system.

The transactions, which involved 23,000 items, came to 500 million yuan between 1981 and 1985, and 79 million yuan for the first 8 months of this year, according to local officials.

To promote its spread, China now encourages sales and purchase of technology which used to be controlled almost exclusively by the government. "Technology is now regarded as a commodity," one official explained.

"The technology market will become an indispensable part of the socialist commodity market being encouraged as part of the effort to modernize China," he added.

In addition to technology items, a variety of services including provision of technology information, development and transfer are also available on the Shenyang market.

The new practice has brought additional industrial output value estimated at 2.3 billion yuan, and motivated the city's experts to develop 820 items of new technology, the official said.

"It used to take 2 years to develop and spread an item," he said. "And now 1 year would be enough."

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CSO: 4020/27

FOREIGN TRADE AND INVESTMENT

XINJIANG TECHNOLOGY IMPORTS FOR 7TH FYP DETAILED

OW021148 Beijing XINHUA in English 1037 GMT 2 Oct 86

[Text] Beijing, 2 Oct (XINHUA)--By 1990, the Xinjiang Uygur Autonomous Region will have spent U.S.\$162 million plus 486 million yuan to import 170 projects of foreign advanced technology, the ECONOMIC DAILY reported today.

The regional government decided that the first imported items will be those connected with the region's food, packaging and leather industries, the paper said.

The advanced technology will be introduced especially to the food industry in Kashi, Hetian and Xinyuan in southern Xinjiang to boost their milk and fruit products.

Sophisticated machines will be brought in to improve the region's fur and hide garment and shoe production. Also, techniques and equipment to produce hygienic soft packaging will be imported to help the region keep its surplus fruit fresh.

By the end of last year, the region had already imported 58 technological projects worth U.S.\$37.9 million. An assembly line imported from Switzerland to produce hami-melon juice and jam enabled the residents to enjoy the soft drink made from the famous hami-melon for the first time in history.

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CSO: 4010/2002

FOREIGN TRADE AND INVESTMENT

YANTAI CITY IMPROVES INVESTMENT ENVIRONMENT

HK100527 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0549 GMT 7 Oct 86

[Report by reporter Yuan Chonghe [5913 1504 0735]: "Yantai Enacts Measures to Improve Investment Environment"]

[Text] Jinan, 7 Oct (ZHONGGUO XINWEN SHE)--Jiang Dehua, vice mayor of Yantai City in Shandong Province, proclaimed today that the Yantai City Government has decided to work out eight measures, so as to strive to create a good investment environment and give foreign investors good prospects for making gains.

Jiang Dehua said this to foreign visitors and overseas Chinese on the occasion of the first Yantai Art Festival.

He said that Yantai is one of the coastal open cities with abundant natural and material resources. Since the adoption of the policy of opening up to the outside world, over 5,000 foreign businessmen from scores of countries and regions have come to Yantai for business, signing 329 contracts totalling over \$250 million. Over 50 percent of these items have been put into production.

In order to enable investors to achieve more profits, and to make them willing to invest in Yantai, preferential treatment will be given to foreign, overseas Chinese and Hong Kong businessmen in the following aspects: Low costs; material and capital supply; use of foreign exchange; decisionmaking power in enterprises with foreign investments; import and export licenses; construction works; tax exemptions; simplification of approval and examination procedures, and so on.

The vice mayor also said that Yantai will adopt various internationally accepted flexible business patterns such as direct foreign investment, foreign loans and so on. The emphasis in foreign investment will be placed on the textile industry, farm and sideline products processing, and other fields.

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CSO: 4006/67

FOREIGN TRADE AND INVESTMENT

BRIEFS

CHINESE-MONGOLIAN TRADE INCREASE--Ulaanbaatar, 3 Oct (XINHUA)--China and Mongolia have negotiated an agreement that sets the frontier trade volume between the two countries this year at 2.44 million Swiss francs, a 3-fold increase over that of last year. The agreement was reached by China's Nei Monggol frontier trade delegation headed by Liu Shiqi, general manager of Nei Monggol frontier trade, and the departments concerned of Mongolia. The delegation left here for home today. [Text] [Beijing XINHUA Domestic Service in Chinese 0716 GMT 4 Oct 86 OW] /9738

HUBEI EARNS FOREIGN EXCHANGE--This year, the province earned U.S.\$557 million in foreign exchange through export, fulfilling this year's export quota three months ahead of schedule. The volume was increased by 56.6 percent compared to the same period last year. The province's progress of fulfilling the quota ranks top in China. The province's textile, pharmaceutical, garment, handicraft and light industry products import and export companies overfulfilled this year's export quota. Some major export commodities such as rice, cotton, yarn, knitwear, cotton fabrics, honey, cement and Chinese herbal medicine also fulfilled this year's export quota ahead of schedule. [Text] [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 1 Oct 86 HK] /9738

SECOND SINO-JAPANESE JOINT VENTURE--The Xinjiang Tianshan Pharmaceutical Industry Company Ltd., a Sino-Japanese joint venture, started operations in Urumqi today. The company is jointly invested and run by the Xinjiang Pharmaceutical Plant, the regional Medicine and Health Care Products Company, Japan's Alps Pharmaceutical Industry Company Ltd, and (Long Tai) Trading Company Ltd. Qi Fengshan, vice chairman of the Regional Economic Commission and chairman of the board of directors of the Tianshan Pharmaceutical Industry Company, presided over today's inauguration ceremony. Regional party and government leaders Zhang Sixue, Qi Guo, Tuohudi Shabier, and Hederbai warmly celebrated the establishment of the region's second Sino-Japanese joint venture, together with cadres and workers of various nationalities. Mr Ogura, chairman of Japan Pharmaceutical Industry Association and president of the Alps Pharmaceutical Industry Company, presented a lorry to the company as a gift. [Excerpts] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 1 Oct 86 HK] /9738

TRADE FIRM OPENS IN TOKYO--Tokyo, 15 Oct (XINHUA)--The Guangdong International Trade Company opened its headquarters in the Japanese capital today. The company, fueled by 55 percent Chinese capital and 45 percent Japanese, will deal in machinery, non-ferrous metals, textiles, and agricultural, marine and chemical products. [Text] [Beijing XINHUA in English 1148 GMT 15 Oct 86 OW] /9738

PRC MEETS CHILEAN DELEGATION--Beijing, 9 Oct (XINHUA)--Chinese Vice-Premier Yao Yilin met with a Chilean official delegation led by Coronel Manuel Loncha, vice minister of finance [name and title as received] here this afternoon. Chilean Ambassador to China Benjamin Opazo was present on the occasion. After their arrival here on 6 October at the invitation of the Ministry of Economic Relations and Trade, the Chilean visitors have attended the ninth meeting of the China-Chile Joint Committee on Economy and Trade, while in Beijing, they also called on Minister of Foreign Economic Relations and Trade Zheng Tuobin. [Text] [Beijing XINHUA in English 1738 GMT 9 Oct 86 OW] /9738

FUJIAN OPEN POLICY--Fuzhou, 10 October (XINHUA)--Fujian Province will further improve its investment climate to attract foreign investors, Vice-Governor Cai Ninglin today told a group of visiting foreign diplomats. Some 50 diplomats from 38 embassies in Beijing arrived here earlier today for a week-long visit to the east China province. Cai told the visitors that there has been a big improvement in the province's transport and communication systems. Direct phone calls can be made from Fuzhou, provincial capital, and Xiamen, one of China's four economic zones, to 13 countries and regions. Its air routes connect with Hong Kong, Singapore, the Philippines and Japan. Local authorities are striving to overcome bureaucracy and other poor work styles in order to raise the work efficiency of both the government and enterprises, according to the vice-governor. By 1990, Fujian is expected to double its electricity output, and railway and sea freight handling capacity, Cai said. [Text] [Beijing XINHUA in English 1711 GMT 10 Oct. 86 OW] /12232

SHANGHAI MARINE BUSINESSES--Beijing, 11 October (XINHUA)--Shanghai's Departments of Harbor Engineering and Marine Salvation are doing business in other countries and they're making a healthy profit, the PEOPLE'S DAILY reported today. Over the past 5 years, the departments have signed over 100 contracts with foreign countries, earning 35.6 million U.S. dollars for China, the paper said. Shanghai-based China Harbor Engineering Company alone made 27 million U.S. dollars from its 20 contracted projects for which more than 600 staff workers have been working abroad. In one of the contracts, a Shanghai Harbor building company is exploring, designing or building dikes, wharves and berths in Burma and Tanzania. It began to export its own labor force in 1984, the paper reported. The company's workers now are also renovating a harbor in Columbia, the paper said, adding that the company has signed contracts worth 16 million U.S. dollars. The Shanghai Marine Salvation Bureau successfully towed a 88,000-ton oil barge to Thailand from Japan. The company has also towed an offshore drilling platform across the Pacific Ocean to Alaska from Japan, the paper said. The departments have been working in Columbia, Kuwait, Mexico, Malta, Tanzania and 12 other Asian, African and Latin American countries, according to the paper. [Text] [Beijing XINHUA In English 0233 GMT 11 Oct 86 OW] /12232

CSO: 4020/27

## SPECIAL ECONOMIC ZONES

### SHENZHEN STEPS UP INTRODUCTION OF FOREIGN FUNDS

HK161249 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1016 GMT 15 Oct 86

[Article by ZHONGGUO XINWEN SHE reporter Zhan Moujun [6124 6180 0193]:  
"Intake of Foreign Funds into the Shenzhen Special Economic Zone: From  
Planning to Action"--ZHONGGUO XINWEN SHE headline]

[Text] How is the Shenzhen Special Economic Zone doing in introducing foreign capital? Reviewing the progress made in this field in the last 3 quarters, we can find that the special economic zone has been regaining the initiative and shifting from "planning" to action.

#### Something Unexpected

Responsible persons of the departments concerned Xu Tienan and Lin Fengying briefed me on the progress made in introducing foreign capital. They said: The total value of investment contracts concluded with foreign business firms during the period from January to September this year amounted to HK\$550 million. At first sight it is much lower than the value of investment made by foreign business firms during the same period of last year, which was recorded at HK\$3.57 billion. But the case of last year was quite peculiar -- the investment in the Shajiao Power Plant Project alone totaled HK\$3.2 billion. If the investment in this project is not counted, then the total value of investment contracts concluded in the first 9 months of this year will be 47.7 percent higher than the investment value recorded during the same period of last year. Foreign investment in Shenzhen last year accounted for only 25 percent of the total investment in the city (including the investments made by other provinces and cities of China). This year, the percentage of foreign investment rises to over 40 percent, and the number of projects run with foreign investment involving a value of over HK\$10 million each reaches 24, also more than that of last year. Meanwhile, a growing number of new enterprises run with foreign capital, overseas Chinese capital, and with both Chinese and foreign capital have been established this year than last year. Among the 226 new enterprises of this category that were established this year, 62 have been put into operation, and 70 percent of their products are to be exported.

## Stressing Real Effects

Since the beginning of this year, Shenzhen has taken the initiative and done a more solid job than last year in introducing foreign capital. In examining and approving contracts on investment projects, first of all the departments concerned require investors to confirm that the capital to run the projects is truly available, there is a readily potential market for the expectant products, and these products will be marketed abroad. As a result, business firms coming to negotiate investment contracts are mostly established economic entities. In the past, many contract negotiators were merely briefcase companies without real capital, and much of the information mentioned in proposed contracts was untrue. Now this phenomenon has been eliminated. Although there are fewer contracts submitted for approval and fewer projects approved this year than last year, they are generally more reliable and the rate of approval is over 10 percent higher than that of last year.

Shenzhen used to accept whatever foreign investment contracts offered. This year, as Shenzhen is better informed of new developments and world business and has more experience, it can now take the initiative in its hands in introducing foreign investment. For example, when planning to import a printed circuit board production line and the sign labelling equipment [yu qie fu hao she bei 7315 0434 4569 5714 6080 0271], the department concerned tried to contact as many manufacturers as possible for quotations. It negotiated with several manufacturers from the United States and Italy, carried out a study of the quality and prices of different choices, and finally decided to import the equipment from Italy. In consequence, the department made a good deal.

Besides, the Shenzhen authorities have also paid attention to the information feedback procedure that follows the introduction of projects and have strengthened macroeconomic guidance to enterprises run with foreign investment.

## Taking Import of Software and Technology as the Key Link

The principle of taking the import of software and technology as the key link and import of hardware as the auxiliary is one of the important features of Shenzhen's efforts to introduce foreign investment this year. From January to September this year, Shenzhen city achieved three pure technology import projects, namely, the project for introducing metal and pottery and porcelain clay injection moulding techniques and the rolled aluminium processing technique from the United States, and the projects for introducing light industrial technology and printing ink production techniques from Canada and Japan.

In the past, Shenzhen used to overlook the introduction of technology but concentrated its attention on the introduction of hardware or both hardware and software. This year, the Shenzhen authorities have placed the import of technology on the agenda, and some contracts involving pure technology imports have been signed. This is regarded as a new breakthrough.

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CSO: 4006/67

## SPECIAL ECONOMIC ZONES

### XIAMEN SEZ INVESTMENT CLIMATE IMPROVED

Beijing RENMIN RIBAO in Chinese 13 Sep 86 p 1

[Article by Liu Changjin [0491 1603 6855]: "The Investment Climate in the Xiamen SEZ Has Clearly Improved; Through 5 Years of Construction, the Infrastructure, Including Telecommunication and Transport Facilities, Has Begun To Take Shape; Over 100 Joint Ventures, Cooperative Ventures, and Wholly Foreign-Owned Enterprises Have Gone Into Operation"]

[Text] Many Chinese and foreign businessmen have visited Xiamen since the summer of 1986, and all have praised this "garden-on-the-sea" city for its "recent changes."

The Xiamen SEZ has invested 1.78 billion yuan in capital construction in the past 5 years, or 2.4-fold that of the previous 31 years. Its 1985 GVIAO and revenue were both double those of 1980, and the net income of its urban residents has more than doubled in 5 years.

Businessmen staying here in Siamen feel unanimously that "things are much more convenient now." In the past it was a whole morning's work to make a long-distance domestic phone call, but noe one can pick up a remote-controlled phone and dial direct to Hong Kong, Japan, and the United States. The "basic project" of the Xiamen government's key construction, the investment climate, has clearly improved. The first phase of the new project of developing the Huli Industrial Zone is now drawing to a close, and 390,000 square meters of general factory buildings have been built by the bay for sale or rental to foreign businessmen. The Xiamen International Airport, which was built with locally raised funds, has 49 scheduled flights a week, and foreign and domestic passenger and cargo planes from all large and medium-sized cities in China and places such as Hong Kong, the Philippines, Japan, and Singapore, take off and land here daily. The favorable investment climate is attracting many investors.

The furnishings and structure of this "window" are becoming richer and more rational, with imports and exports "taking off as one." Based on local and domestic needs, the Xiamen government has paid attention to planning things, such as imported technology and equipment, cooperative projects, and export products, has concluded transactions for the best, and has devoted its efforts to seeking results. There are now 126 Chinese-foreign joint ventures,

Chinese-foreign cooperative ventures, and wholly foreign-owned enterprises, which have been finished and put into operation throughout the city of Xiamen. Their output value is over 400 million yuan a year, or nearly one-fifth of the GVIO throughout the city of Xiamen. By the end of June 1986, Xiamen had signed 314 contracts with foreign businessmen for the "three kinds" of enterprises, and 225 of these, with a combined investment of \$870 million, have been examined and ratified. The fields of investment are gradually expanding, and include projects in electronics, building materials, light textiles, food, plastic goods, tourism, finance, construction fittings, breeding of aquatic products, real estate, and commerce. In addition to those who have come to invest in Xiamen from the Hong Kong-Macao area, businessmen have also come from over 10 countries, such as Singapore, the United States, the FRG, Japan, Kuwait, and Poland.

The Xiamen SEZ is daily increasing its ability to draw imported capital and technology into the interior and is fulfilling its role as a "window to technology" for the hinterland. In the past 3 years, it has imported over 1,800 pieces (sets) of advanced equipment from abroad, enabling over 150 factories to transform in varying degrees.

12267/6662

CSO: 4006/27

## POPULATION

### HEBEI HOLDS CONFERENCE ON FAMILY PLANNING

SK060845 Shijiazhuang Hebei Provincial Service in Mandarin 2300 GMT 24 Sep 86

[Text] On the evening of 24 September, the provincial party committee and government held a provincial family planning telephone conference, calling on Communist Party and CYL members, cadres at all levels, and the masses of people throughout the province to study again the party Central Committee's open letter on controlling the population growth of our country issued to all party and CYL members, resolutely put population growth under strict control, and grasp family planning work firmly and successfully.

The conference pointed out: The date 25 September this year marks the sixth anniversary of the issuance of the party Central Committee's open letter, and this year is the first year to implement the Seventh 5-Year Plan. The Seventh 5-Year Plan period will witness a birth peak, and therefore the tasks for family planning are all the more arduous during this period. Population growth should be brought under strict control. We should not deviate from this principle.

The conference urged: Party committees and governments at all levels should conscientiously attach great importance to family planning, and grasp it as they do economic work. If the population growth of a locality is out of control, its party committee and government should bear responsibility for their dereliction of duty.

The conference emphasized: It is necessary to comprehensively understand and correctly implement the party's family planning policy. Perfecting the child-birth policy does not mean allowing people extensively to have a second birth; still less does it mean allowing unjustifiable births. We should continue to give side publicity to the one child per couple policy, and late marriage and late child-birth. With regard to people who really have practical difficulties, arrangements should be made in a planned manner according to policies for them to give second births. Unplanned second births and multiple births should be strictly banned, and so should allowing people to give unjustifiable births. All localities should conscientiously conduct an inspection on how the child-birth policy is implemented, study, formulate, earnestly carry out and improve the award-punishment methods corresponding with the child-birth policy, and resolutely adopt birth control measures.

The conference called on all localities to conduct an earnest analysis of the family planning work of the counties, townships, and villages under their jurisdiction, strengthen guidance to them according to their specific conditions, exert great efforts to help backward counties, townships, villages and households transform themselves, and guard against laissez-faire.

The conference pointed out that attention should be paid to summing up the fresh experiences in advocating the one child per couple policy, in helping the families with only one child achieve affluence, and in building civilized households.

The provincial party committee and government are preparing to hold a provincial family planning work conference at the end of this year to exchange experiences so as to promote our province's family planning work in both range and quality.

The telephone conference was presided over by Yue Qifeng, deputy secretary of the provincial party committee. Vice Governor Wang Zuwu spoke at the conference. (Guo Shujiang), secretary of the Cangzhou Prefectural Party Committee, and (Su Musen), permanent deputy commissioner of the Hengshui Prefectural Commissioner's Office, introduced their experiences in carrying out family planning work successfully.

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CSO: 4006/65

POPULATION

JILIN COMMENTARY HAILS FAMILY PLANNING LETTER

SK250922 Changchun Jilin Provincial Service in Mandarin 2200 GMT 24 Sep 86

[Station commentary: "Developing an Excellent Situation in Family Planning," hailing the 6th anniversary of the issuance of the open letter]

[Excerpts] On 25 September will be the 6th anniversary of the issuance of the open letter on controlling China's population, by the CPC Central Committee for all Communist Party and CYL members. Practice in the past 6 years shows that the open letter's advocacy of one couple one child serves as a great driving force for the development of family planning work and for changing the people's concept of having children.

In the past 6 years, our province has scored great achievements in family planning work, and the overquick growth of population has been effectively controlled. During the Sixth 5-Year Plan, the province's annual average natural population growth rate was 8.11 per thousand. Compared with the birth rate of 1972, a total of 2.38 million fewer people were born in 5 years, thus saving a sum of 4.879 billion yuan that would have been used in bringing up these people.

Since the issuance of the open letter, a great number of model party and CYL members, cadres and people who have responded to the party's call for voluntarily giving one birth and a great number of advanced persons who are dedicated to family planning work have emerged throughout the province. Great changes have taken place in the people's concept of having children.

During the Seventh 5-Year Plan, China will enter the second birth peak period. Leading cadres at all levels should be sober-minded, and should not be careless. It is necessary to pay great attention to family planning work and to grasp it unremittingly through to the end. The broad masses of party and CYL members and cadres should set examples and taken the lead in observing family planning policies, and make new contributions to fulfilling the province's population plan during the Seventh 5-Year Plan.

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CSO: 4006/65

## POPULATION

### BRIEFS

**SICHUAN : 3,000 BIRTHS DAILY**--The "Land of Plenty," where the population has long since passed the 100 million mark, admits an average of 3,484 little citizens every day to the Chinese "nation." This reporter learned recently from the department concerned in Sichuan that in the first half of this year 630,575 babies were born in this province, averaging 3,484 births daily and surpassing the same period last year by 208,376 births, or 49.35 percent. The sharp rise in population growth shows that: 1) a second peak in childbirths has arrived in Sichuan; 2) more couples are allowed to have two children owing to real personal difficulties; and 3) family planning work has slackened in some places. According to statistics, in the first half of this year, the one-child-per-couple rate dropped 11.58 percent from the same period last year, while the rates of second births and additional births rose 11.72 percent and 1.2 percent, respectively, over the same period last year. What merits attention is the fact that the number of people marrying early has increased markedly, and the late-marriage rate has dropped to 27.76 percent, the lowest in several years. In the past few months, the provincial CPC committee and provincial government have urged the localities in good time to adopt a series of realistic measures to stabilize the present childbirth policy, continue to encourage and reward couples to have only one child, and energetically publicize the idea of getting married and having children at a more mature age. At present, the situation of excessive population growth in the province is easing. [Text] [Beijing JIHUASHENGYU BAO in Chinese 8 Aug 86 p 1] 12802/9869

**REGULATIONS ISSUED FOR RETIRED ENGINEERS**--Beijing, 20 Oct (XINHUA)--The State Council has issued new regulations to tap the expertise of retired engineers and specialists, according to a document made available to XINHUA today. Over the past few years, many engineers and specialists have retired according to the new retirement policy but many are still in good health and capable in their fields, the document says. Local governments should help them play active roles in their specialties or related fields by inviting them to do translation work, give lectures, provide consulting and information services and help train young people. "But, for the sake of their health, it's better not to let them hold leading positions," the document adds. "They can receive payment while engaging in these activities, in addition to their pensions and other official benefits." But if their additional income exceeds a certain amount stipulated in the income tax law, they should pay appropriate tax. Re-employed retirees should be allowed to borrow books and materials from their original working places, but those wanting to use equipment, technical materials or blue-prints must get approval of the leaders, according to the regulation. [Text] [Beijing XINHUA in English 1318 GMT 20 Oct 86 OW] /12624

TRANSPORTATION

WAN LI, HUANG HUA OPEN BRIDGE

OW010521 Beijing XINHUA Domestic Service in Chinese 1720 GMT 30 Sep 86

[Article by reporters Yin Daofu and Wang Geng]

[Excerpts] Zhengzhou, 30 Sep (XINHUA)--The Huanghe highway bridge at Zhengzhou, the longest highway bridge in China, formally opened to traffic today.

Wan Li, vice premier; Huang Hua, vice chairman of the NPC Standing Committee; leading cadres of the departments concerned; and some 2,000 people of all walks of life attended the opening ceremony this morning.

On behalf of the Party Central Committee and the State Council Comrade Wan Li extended his congratulations and regards to all engineers, technicians, cadres, and workers. He said: Facts have again proven that as long as we have correct decisions and policies, our technical personnel, leading cadres, and workers are capable of achievement in the four modernizations."

Amidst sound of firecrackers and gongs and drums, Huang Hua and Liu Yawei, deputy secretary of the Henan Provincial Party Committee, unveiled a stone tablet inscribed with the name of the bridge in Comrade Deng Xiaoping's handwriting. Wan Li and Yang Xizong, secretary of the Henan Provincial Party Committee, cut the ribbon to open the bridge.

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CSO: 4006/58

## TRANSPORTATION

### MORE FUNDS INVESTED TO BUILD AIRPORTS

OW151016 Beijing XINHUA in English 0904 GMT 15 Oct 86

[Text] Beijing, 15 October (XINHUA)--China will have invested more than 500 million yuan (about US\$140 million ) to accelerate construction and expansion of 12 airports across the country this year, a government official said here today.

Next year, the official said, construction will start on 16 airports in open coastal cities, important economic centers, tourist cities and remote areas.

An official of the Civil Aviation Administration of China (CAAC) told XINHUA that "the airport projects are part of the nation's efforts to improve economic infrastructure for developing tourism and the national economy while relieving strains on air service."

A CAAC official said the plan includes new projects and the expansion of runways and building new terminals. Part of the project is designed to accommodate larger aircraft such as Boeing 737s and MD-80s next year, and more in the next few years.

Some airports are located in open coastal cities such as Ningbo and Wenzhou in East China, and Beihai and Shantou in South China. These four cities have been officially opened to foreign investment.

A new airport will go into operation in November in Beihai, Guangxi Zhuang Autonomous region. The plane will fly the Guangzhou-Beihai-Nanning route every Thursday and Sunday.

A 60 million yuan-expansion project started at Shantou Airport in July and will be completed at the end of the year. The airport has been designated an entry and exit port and it will be expanded to eventually handle foreign planes. Currently its use is limited to Chinese planes flying the Shantou-Hong Kong-Bangkok route.

Work is expected to start on an international airport in the Shenzhen special economic zone later this year. The first stage will include a 2,800 meter long runway, suitable for Boeing 737's and tridents.

Some are in tourist cities including ancient Luoyang city in Henan province, and Tunxi near the well-known Huangshan Mountain in Anhui province.

Louyang is building a modern airport to accommodate Boeing 737's to meet the needs of growing numbers of tourists. More than 20 other major airport facilities are expected to be completed by the end of this year.

Expansion work on Changchun Airport with a 2,600-meter main runway was completed in Northeast China's Jilin province.

"Obviously, air service facilities are not enough, even with large scale projects underway. To further improve air service conditions, the Chinese government plans to allocate more funds to build and upgrade airports next year," the CAAC official said.

Next year construction will start on 16 airports in Baotou, Chengdu, Guilin, Hangzhou, Junming, Nanjing, Shanghai, Shenyang, and other cities.

China has now 90 civilian airports, of which eight can accommodate Boeing 747's, while Boeing 737's and Tridents can land in 32 airports.

According to the administration, "the Chinese government is paying special attention to the development of air service in cities where it is rather strained and many people have to wait."

The country invested four million yuan to improve air service facilities while also spending large sums of money to buy airplanes.

Hu Yizhou, director general of the Civil Aviation Administration of China said, "China's national carrier--CAAC--added nearly 100 imported jets to its fleet over the past five years."

"That brings its total number of planes to 460 and has enabled the airline to increase passenger seats 70 percent since 1980," he added, "and this year CAAC will add 30 jumbo jets, including Boeing 747's and Boeing 767's, to its fleet."

The airline now operates more than 1,000 flights a week, establishing a nationwide air service network with its center in Beijing, the capital of China.

CAAC also operates more than 60 flights between Hong Kong and Beijing, Guangzhou, Hangzhou, Kunming, Shanghai and Tianjin.

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CSO: 4020/22

TRANSPORTATION

XINJIANG RADIO HAILS COMPLETION OF SHIHEZI RAILSECTION

HK081459 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 4 Oct 86

[Station commentary: "A Happy Event in the Economic Life of People of Various Nationalities--Warmly Congratulating the Completion of the Track Laying Project at Shihezi in the Beijing Railway"]

[Excerpts] Completion of the track laying project at Shihezi in the Beijing Railway is a happy event in the economic life of people of various nationalities in the region. We hereby extend warm congratulations to the workers, cadres, engineering and technological personnel, and PLA officers and soldiers who have taken part in the railway project.

The Beijing Railway project started in May last year. In the 17 months since then, the builders have built some 124 kilometers of railway. This speed is not only unprecedented in the railway building history of the region, but is also rare in the country's railway construction.

Building the Beijing Railway has been a long-cherished desire and demand of people of various nationalities in the region. Completion of the railway will play an important role not only in expanding exchange of goods between the urban and rural areas, in promoting economic development in northern Xinjiang and all of Xinjiang, but also in strengthening friendly ties between Xinjiang, China and the people of all European countries, in developing economic and technological cooperation, and in developing foreign trade.

Now the track has been laid to Shihezi in the Beijing Railway. This is a great victory. However, this is only a good beginning for the entire project. To complete the entire railway project, our task will be more difficult and arduous. We hope that the relevant regional departments and people's governments at all levels along the Beijing Railway line vigorously support the railway construction just as in the past, and do their utmost to meet the needs of the project in areas of funds, material, land, and workforce. We also hope that the comrades taking part in the railway project continue to maintain a style of hard work and plain living, unite as one to fight, attain a great target, and make new and greater contributions to the completion of the entire Beijing Railway project.

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CSO: 4006/58

## TRANSPORTATION

### BRIEFS

NORTHERN XINJIANG RAILROAD--Beijing 2 October (XINHUA)--Rail-laying has been completed on one-fourth of the 470-kilometer northern Xinjiang Railroad. When finished, the line will run from Urumqi, capital of the Xinjiang Uygur Autonomous Region, to the Alataw Pass on China's northwest border with the Soviet Union, where it will connect to an existing Soviet railroad. Work on the Northern Xinjiang, a major project of New China in the 1950s, halted after relations between China and the Soviet Union deteriorated in the early 1960s. It was resumed in 1985. The completed line--China's third rail connection to the Soviet Union--is expected to enhance China's international trade. [Text] [Beijing XINHUA in English 1533 GMT 2 Oct 86 OW] /12913

DOMESTIC AIRCRAFT FOR MINOR ROUTES--Beijing, 14 October (XINHUA)--The Sichuan Airline Company signed a contract here today to buy two airplanes made in Xian. This is the first time for a Chinese local airline to buy Chinese-made aircraft. An official of the Aviation Industry Ministry said at the signing ceremony that the main functions of the Yun-7 passenger plane, modified with imported electronic equipment, and the Yun-12 are better than those of similar airplanes made abroad. Besides, the price is lower. He said that from now on China will not import passenger planes for minor routes and the government will support the local production of aircraft by importing technology and equipment. [Text] [Beijing XINHUA in English 1605 GMT 14 Oct 86 OW] /12913

GAOMING PORT OPENS--Guangzhou, 3 Oct (ZHONGGUO XINWEN SHE)--The loading and unloading wharf for import and export cargo of Gaoming Port by the side of Xi Jiang holds a traffic-opening ceremony today. So far, all the counties of Foshan city have ports for import and export cargo. This new 500-ton wharf is situated in the eastern suburbs of Gaoming town and by the side of Linggui Pagoda. With one high-water level berth and one low-water level berth, it can accommodate 300-ton cargo ships in the dry season and 1,000-tons cargo ships in the rainy season. Over a dozen of Gaoming County's traditional export farm and sideline products, such as Sanzhou black rice, Heshui water melon, Duichuan tea, tumeric, yams, and so on, are selling very well in Hong Kong, Macao, the United States, and countries in Southeast Asia. In recent years, the export trade of this county has been growing year after year. From January to September of this year, the total purchase volume of the foreign trade of the whole county was over 26 million yuan, an increase of 276 percent over the corresponding period of last year. [Report: "Gaoming County Port in Guangdong Province Opens to Traffic"] [Text] [Hong Kong ZHONGGUO XINWEN SHE in Chinese 1716 GMT 3 Oct 86 HK] /9738

JINZHOU THIRD BIGGEST PORT--Shenyang, 3 Oct (ZHONGGUO XINWEN SHE)--China has decided to build Jinzhou commercial port, the third largest commercial port in northeast China, in Jinzhou of Liaoning Province. Classified as one of the key construction projects during the country's "Seventh 5-Year Plan," this project will be officially started next year and completed in 1989. Situated on the area of water west of Dabijia Shan in Shijin County, which is 15 km from Jinzhou City, Jinzhou Port will occupy an area of 10 square km. The construction work for the port will be carried out in phases. The first-phase project includes five 10,000-ton berths, of which three are for sundry goods and two are for finished oil products, being capable of handling a total of 3.75 million tons of goods. At present, the preliminary work for the first-phase project will start soon and the construction materials and work teams have arrived at the construction site in succession. It is learned that the total investment for the whole preliminary project is 162 million yuan, of which \$25 million is loans provided by the Kuwaiti Government. [Text] [Hong Kong ZHONGGUO XINWEN SHE 1827 GMT 3 Oct 86 HK] /9738

HENGYANG-GUANGDONG FEEDER LINES--Guangdong opens three feeder lines today on the province's Hengyang-Guangzhou railroad. They are the Dalang-(Tangqi), Juntian-Letong line and (Yinjiao'ao)-(Zhuchao) city lines. The railroad constructions in these districts and towns were projects listed by the Ministry of Railroads to be completed by the end of September. Since March last year when the projects started, workers from the No. 4 Engineering Company under the Provincial Railroad Bureau have worked hard day and night. Overcoming various difficulties, they laid 580,000 cubic meters of earth and stone as railroad foundation, built 12 bridges and 50 culverts, and laid 21 kilometers of track. During the construction work, they exercised strict quality control so that the feeder lines were built successfully and opened to traffic. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 30 Sep 86 HK] /9738

EXPRESSWAY LINKING SHENZHEN, SHANTOU--Guangzhou, 29 Sep (ZHONGGUO XINWEN SHE) --This reporter has learned from the Guangdong Provincial Transportation Department that Guangdong is to build an expressway from Shenzhen to Shantou. A feasibility study of the project was completed a few days ago. It is reported that some highway sections of the project have been surveyed and that initial designs for these sections have started. According to the designs, the projected Shenzhen-Shantou expressway, with a total length of 303.4 km, starts at Shenzhen's Shawan and, after passing through Haifeng, Lufeng, and Puning, ends in Shantou. The project includes over 350 big and small bridges, over 600 culverts, and 36 flyovers. According to calculations by the relevant department, the project will cost 1.2 billion yuan. Some foreign capital will be introduced for the construction of the expressway. The entire project will be completed in about 4 years. After completion, cars using the expressway may run at a maximum speed of 100 km an hour. [Text] [Hong Kong ZHONGGUO XINWEN SHE in Chinese 1051 GMT 29 Sep 86 HK] /9738

SECOND ASIA-EUROPE BRIDGE URGED--According to the West China edition of JINGJI RIBAO, the research center of Urumqi Railroad Bureau in Xinjiang recently published a thesis holding that it is urgently essential to build a second land bridge linking Asia and Europe. The second bridge should start at Lianyungang, proceed along the Longhai and Lanzhou-Xinjiang lines, and from Urumqi go through the Alashan Pass to link up with the Soviet Union's Puxi railroad. Results of studies show that freight transport costs to

Europe on such a link would be 20 percent less than from using joint land and sea transport via the Suez Canal. The moment such a railroad is linked up, it could handle foreign trade goods of over 30 eastern and western countries and become a Silk Road of the 1980's. [Text] [Xian Shaanxi Provincial Service in Mandarin 0200 GMT 3 Oct 86 HK] /9738

CSO: 4006/58

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

TRADE OFFICIAL ADDRESSES ROME SEMINAR ON WORLD ECONOMY

OW130845 Beijing XINHUA in English 0727 GMT 13 Oct 86

[Text] Rimini, Italy, 12 Oct (XINHUA)--A Chinese official said here today that the main obstacle to the internationalization of the world economy and trade is the inequitable north-south relationship.

Speaking at a seminar on the world economy here, Jia Shi, chairman of the China Council for the Promotion of International Trade, said the most pressing task for the international community is to prevent a further worsening of the economic and trade conditions of the developing countries.

To this end, he suggested, the developed countries should fulfill their promise to reduce or eliminate trade protectionism. Particularly, he added, they should stabilize and raise the prices of primary products, further lower their interest rates and improve the terms of debt payments. Jia also urged a reduction in and even an end to harsh terms and restrictions on the transfer of technology to the developing countries.

The international seminar, which opened here today with the theme of "piloting the megatrend," is organized by the Italian Pio Manzu International Research Center.

In his speech entitled "the changing geography of commercial development," Jia said that regional grouping, though at different stages, is a typical form of grouping in the process of world economic and trade development. These changes in the world economy and trade since the second world war have upset the traditional economic trade relations in some spheres, and boosted the world trade as a whole.

He noted that the geographical change of the world economy and trade has entered "a period of pluralized regional grouping," and will further grow, though unevenly, in the coming years.

Jia pointed out that in the course of pluralized regional grouping, the uneven development has brought about a sharper contradiction in the north-south relationship. He blamed the deterioration on falling prices of primary products of the developing countries, their heavy debt burden, and the stern protectionist measures against their manufactured goods imposed by the developed countries.

Meanwhile, Jia called on developing countries to adopt independent strategies and readjust their development priorities in the light of the actual conditions of their own countries.

The seminar, which will last until 14 October, is the 12th since 1969 when the research center was first set up with the aim of promoting international economic cooperation, particularly cooperation between European and Arab nations.

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## CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

### HORIZONTAL ECONOMIC RELATIONS IN SOVIET UNION, EASTERN EUROPE

Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 6, 15 Jun 86 pp 45-49

[Article by Wang Aizhu [3769 1947 3796]: "Economic Reform in Soviet Union, Eastern Europe"]

[Text] The development of a socialist commodity economy and modern production requires horizontal economic interactions. The process by which a new system replaces the old is also a time when we develop extensive horizontal economic interactions and eliminate localism and sectionalism. The development of horizontal economic interactions and the elimination of fragmentation are not only an important part of the restructuring of the urban economic system in China, but have also occurred in the Soviet Union and Eastern Europe as those nations sought to reform their own economic systems.

I. On a theoretical level, foreign and Chinese economists classify socialist economic systems differently. They look at socialist economic systems from different perspectives and employ various classification criteria to differentiate between different socialist economic models. Some identify three models: centralized, decentralized and mixed, depending on the level at which economic decision-making takes place. Others identify the planned economy, the market economy, and the hybrid economy combining elements of both the planned and market economies, according to the extent to which planning and market mechanisms exist side by side. Yet others look at the coordinative mechanisms of the macroeconomy and distinguish between four models: direct administrative coordination (IA); indirect administrative coordination (IB); decontrolled market coordination (IIA) and controlled market coordination (IIB). So on and so forth. I propose to do a comparative study of the economic systems of the Soviet Union and Eastern Europe from the angle of microeconomic mechanisms.

The so-called microeconomic mechanisms refer to the way the enterprise, the basic unit in a socialist economy, operates. How does an enterprise really operate economically? Is it administratively subordinate to the state, taking orders from the latter in the organization of production and business affairs, and depends mainly on the vertical flow of information and centralized decision-making for coordination? Or does it depend on horizontal economic interactions, that is, market demand, in the organization of production and business activities? Is it free from subordination to the state and relies

mainly on the horizontal flow of information and decentralized decision-making in regulating its economic life? Or does it rely on both vertical and horizontal interactions, deciding the routine day-to-day production and business matters on its own and leaving the state to set the development direction and determine the product mix and methods of investment? Do its managers keep one eye on the authorities above and another on the market? Does it rely on a dual flow of information and dual-level decision-making for coordination? By this criterion, the economies of the Soviet Union and Eastern Europe also fall into three categories. The first category relies on vertical interactions and is represented by the Soviet Union. The second relies on horizontal interactions and is represented by Yugoslavia. The third has a dual dependency--horizontal and vertical--and is represented by Hungary.

Although the Soviet Union has consistently considered the expansion of enterprise autonomy an important goal of the package of economic reforms it introduced in 1965, such autonomy has remained very limited thus far. As far as production is concerned, mandatory targets handed down by administrative agencies still reign supreme. The only change is that there are now fewer targets and that the target system has been improved. Concerning the supply of materials, the state still clings to planned allocation through administrative means, and only 5 percent of goods and materials enjoy free market circulation. Consequently resource allocation remains vertical. Horizontal interactions and contractual relations are of a merely executive nature. Enterprises' goods supply contracts in effect are a guarantee of the vertical allocation of resources, and enterprises lack genuine autonomy. The prices of most products are still set by the state; enterprises are free to determine only the temporary prices of new products and one-shot orders. The state basically exercises a monopoly on the sale of means of production and consumer goods. In a system dominated by a vertical chain of administrative orders, ever-changing consumer demand cannot be transmitted promptly to production decision-makers through the price medium. As production becomes divorced from demand, inventories pile up and consumer interests are not served. Moreover, enterprises' payroll and labor remuneration standards and the amount of profits they can retain are all centrally regulated by the state bureaucracy. Enterprise managers and factory directors are appointed by the higher authorities. It is those authorities which determine whether an enterprise is to expand, reduce in size, close, suspend, merge or switch to another line of business. The relations between an enterprise and the agency in charge are one of subordination. Since an enterprise is not an independent economic entity and cannot independently discharge its own economic affairs, it is not responsible for the consequences of its actions. That is why the enterprise economic accounting system in use in the Soviet Union for years has unavoidably fallen into formalism.

Yugoslavia began a system of worker self-management in 1950, which was extended in later years to society as a whole, forming a socialist self-management system. In essence, the Yugoslavian system of self-management replaced a handful of state appointees with the entire labor force as economic managers. The most basic unit in the self-managed economic system is the joint basic labor organization, an independent economic entity that enjoys managerial autonomy and is responsible for its profits and losses. The joint labor basic organization is empowered to draw up a production plan based on

market demand and its own circumstances, to put its products on the market and sell them freely, and to select and purchase the raw materials and equipment it needs on its own. As far as the prices of products are concerned, apart from a handful of key commodities under state price control, enterprises are free to set prices in the light of market conditions. As for income distribution, enterprises can dispose of their net income minus statutory payments to the state and voluntary payments in the way they see fit. United basic labor organizations can team up with one another to form joint labor organizations on the principles of voluntarism and mutual benefit. The latter, in turn, can establish complex joint labor organizations on an even larger scale. Joint basic labor organizations have the right to take part in, and withdraw from, a joint labor organization. With their respective self-interests, the various joint labor organizations may conflict with one another and are unregulated to a certain extent. Apart from coordination through self-management agreement and the social contract, the state also intervenes in the economic system through economic policies, legislation, and supervision. Hence the Yugoslavian system is a dual system in which the two forces--"self-management and the state"--play a role.

In Yugoslavia's self-managed economic system, the relations between enterprises and the state are not one of subordination. As autonomous economic entities responsible for balancing their accounts, enterprises should be free to exchange products, technology, and labor among themselves in a unified national socialist market through extensive horizontal interactions. They should also be able to pool funds and labor. But judging from the realities of economic life in Yugoslavia, enterprise autonomy is not as substantial as that conferred by the socialist self-management system. A multitude of political forces interfere excessively in the economic activities of enterprises. The federal government influences enterprises primarily through federal policies, laws, and the social contract at the federal level. Yugoslavia is a multinational federation comprising six republics and two autonomous provinces. In the course of economic reform, the federal government has gradually delegated its powers to the republics and provinces. Yet the latter have not delegated their own powers to enterprises and direct producers as required. Within their own jurisdictions, the various republics exercise a vital impact on such crucial issues as investments, prices, and taxes, with local communities playing a vital role in economic affairs. The republics have both interests to protect and the power to do so. Inevitably they have sought to exclude one another and resorted to empire-building. Driven by sectionalism, the various republics and autonomous provinces all want to have small but self-contained economies, resulting in extensive project duplication. Production capacity made possible by massive investments is under-utilized, while economic imbalances are exacerbated. The Yugoslavian federal government has long been aware of the proportionate imbalances in the economic structure, but has been powerless to do anything about them.

The basic characteristic of economic reform in Hungary is to combine state planning with market regulation, making enterprises much more autonomous. Mandatory state planning in production has basically been abolished and enterprises are free to draw up their own production plans based on market demand. In case of a major discrepancy between the plan of an enterprise and state plan, the state and enterprise will get together to work out a

compromise. If necessary, the enterprise plan may be modified by administrative mechanisms. Centralized allocation and distribution of materials were abolished. In most cases enterprises do their procurement on the open market. However, certain materials in short supply and vital to the national economy and people's livelihood are still allocated and distributed by the state in a centralized way. Enterprises can choose to sell its products domestically or export them. They also have the power to set the prices of part of their output, whereas essential commodities impacting the national economy and people's livelihood remain under state price control. After paying the various taxes as required, enterprises are allowed to dispose of the profits as they see fit.

As a commodity producer and commercial operator, a Hungarian enterprise is dependent on the market, that is, it depends on the input of purchases and the output of sales. Yet as Ke Er Nei has pointed out, state-owned enterprises in Hungary have a dual dependency--on the government authorities above as well as the market. Enterprises are still administratively subordinate to the bureaucracy with the power to make binding decisions.

Although Hungary has abolished command planning in commodity production and passed laws and regulations prohibiting interference in enterprise operations, command planning in disguise still exists. It is just that today what comes out of the bureaucracy is no longer "orders" but "requests." And these "requests" are made by people who influence the appointment and promotion of enterprise leaders. Clearly these "requests" are actually no different from orders and are therefore also known as "orders in disguise" and "informational orders." Moreover, there exists in Hungary a maze of taxes and subsidies. In their myriad shapes and forms, these taxes and subsidies are the products of different agencies which control the enterprises and interfere in their microeconomic activities. Intervention distorts prices. Instead of devoting themselves to lowering internal costs and improving product quality to increase earnings, enterprises must spend their energies haggling with the bureaucracy and thinking of ways to have their taxes lowered and secure subsidies, thus further removing themselves from effective management and profitability. It can therefore be seen that enterprises in Hungary watch the bureaucracy more closely than they watch the market.

II. That different economic models obtain in the Soviet Union and the various Eastern European nations certainly has something to do with the fact that circumstances vary from state to state. But another reason is that they subscribe to different schools of reform thought, as shown in the following three aspects:

1. Varying interpretations of the socialist system of ownership.

The public ownership of means of production is dominant in the Soviet Union and throughout Eastern Europe, but these countries vary in the way they see the formation of public ownership.

Historically the Soviet Union has equated socialist state ownership with socialist state public ownership, arguing that socialist state ownership is the only form, in fact the highest and best form, of socialist public ownership. The Soviet Union stresses the state ownership of the means of

production and direct state management of enterprises. Although the worker is legally the master of the state and enterprises, in reality he exercises no leadership in enterprise management. Enterprises remain subordinate to the administrative agency above. Guided by this school of thought, it is no wonder that the Soviet Union has fashioned an economic management system characterized only by vertical dependency and lacking horizontal economic interactions.

Yugoslavia was the first to make a break with the traditional view that socialist state ownership was socialist public ownership and that state ownership was the best and highest form of socialist public ownership. The Yugoslavians believe that one cannot evaluate the social historical functions of the different forms of public ownership in a static way without taking time and place into account. To them, the socialization of mass production is a process and not a one-shot move. They refuse to equate the state ownership of means of production with their socialization, that is, they refuse to assume simplistically that once means of production cease being private property and become socialist state property, their socialization is accomplished. They argue that state ownership is only the first stage in the socialization of means of production. As means of production become more and more genuinely socialized public property, the need for self-management also arises. Consequently, as early as the 1950's, Yugoslavia began worker self-management and replaced state ownership with social ownership. Their social ownership differs from both state ownership and collective ownership, not to mention private ownership. First and foremost, social ownership is essentially self-management by direct producers. And every individual must work before he can claim the power of self-management. The relations between self-managed enterprises and the state are not those of administrative subordination. As separate independent economic entities, self-managed enterprises can only maintain horizontal interactions with one another through commodity and monetary exchange and through the market.

Like the Soviet Union, Hungary adheres to the state ownership of means of production and the state ownership of enterprises. Now and then, however, Hungary also insists on the expansion of enterprise autonomy. It believes that "it is impossible to run the national economy like a giant enterprise." Accordingly, Hungary advocates a functional separation between the owners and managers of enterprises, arguing that since there is internal separation within state ownership, enterprises should also be separated from the state. It is thus clear that as owners of enterprises, the state can directly intervene in their operations and that the relations between the former and latter are still one of vertical subordination. As independent operators, enterprises can interact horizontally and economically with one another only through the market. State ownership determines that even as they develop a dual dependency--both vertical and horizontal--enterprises more often look to the bureaucracy above.

2. Varying interpretations of the nature of a socialist economy.  
The Soviet Union has stressed for years that a socialist economy is a planned economy. Yet the Soviet model of a planned economy is in effect a commodity planned economy. The Soviets argue that all economic activities--not only social production, but also goods and material distribution, exchange, and

consumption--must be managed and coordinated by the state through centralized planning. Moreover, the Soviet Union equates command planning with a planned economy and regards a strict adherence to command planning as the universal law of a socialist economy. In the Soviet view, command planning is a manifestation of the state ownership of the means of production. To deny command planning is to deny state ownership and a planned economy.

While the Soviet Union acknowledges the existence of commodity production and commodity exchange in a socialist society, many Soviet economists have for a long time dismissed commodity and monetary relations as alien to a socialist planned economy and demanded their restriction. Before and after the economic reforms of the mid-1960's, some reform-minded economists contended that socialist production was commodity production and that the regulatory role of the law of value in socialist production and circulation should be affirmed. Although the Soviet Union too recognizes the value of the market and pays lip service to the need for the law of value, it believes that all the elements of the market--prices, consumer demand, and commodity supply--must be incorporated into the plan. It opposes market regulation, the spontaneity of the law of value, and competition.

Since the Soviet Union emphasizes that a socialist economy is a planned economy with mandatory targets handed down by the state and denies that it is still a commodity economy, it follows that as the basic unit in such an economy, the enterprise cannot function in the market as a commodity producer. Inevitably horizontal economic interactions between enterprises are replaced by vertical dependency.

Yugoslavia was the first to discard the traditional notion that a commodity economy was incompatible with a socialist planned economy and that planning and the market were mutually exclusive and was the first to affirm that a socialist economy is still a commodity economy. This is because enterprise self-management is closely related to a commodity economy. Self-managed enterprises decide such major matters as production, distribution, exchange, and consumption. Their autonomy in those matters must be realized through commodity and monetary relations and their activities in the market. That is why Ma Er Sai Ni Ji, the Yugoslavian economist, said, "So far self-management cannot be separated from the market and the commodity economy."

Yugoslavia stresses that a socialist economy is still a commodity economy and that as basic units in a socialist self-managed system, joint labor organizations can only interact with one another through commodity and monetary relations and not administrative orders from the state. For this reason, it takes the market very seriously. Since it began worker self-management in the 1950's, Yugoslavia has abandoned centralized state planning in favor of social planning. Under social planning, the state first puts forward a basic proportionate relationship and sets a direction. Joint labor organizations will then work out their own self-management plans through consultation at all levels in the light of market demand. In general, therefore, market determines planning. Since the 1970's, Yugoslavia has made much of the need to strengthen social planning as a guide and integrate planning guidance with the market. But as Yugoslavia's social planning only stresses democratic consultation, and as the consultation process is problem-

ridden, social planning is not an effective guide in the overall complex of social economic activities.

Yugoslavia advocates horizontal economic interactions in the sense that it emphasizes that a socialist economy is a commodity economy. On the other hand, social planning as a guide has been weakened and the necessary degree of centralization is nonexistent. The inevitable result is that the various republics have resorted to empire-building and sealed off their own markets to the detriment of inter-enterprise horizontal economic intercourse.

Hungary holds that a socialist economy is essentially a planned economy and that the goal of economic reform is not to abolish the planned economy as such but to make the planned economy more effective. Hence the need to combine planned management with the positive functions of the market. Theoretically, Hungarian economists argue, a socialist society can organize its social economy in two ways, ie., on the basis of a natural economy or a commodity economy. In reality, however, the only period in which human society practiced a natural economy was during the age of the primitive commune. In a socialist society, commodity relations exist not only between the state and collectives, between the state and individuals, and in foreign trade, but also between the various units in the state. They suggest, therefore, that commodity and monetary relations are no longer the remnants of capitalism, but an integral part of the socialist mode of production. As pointed out in the book, "Socialist Political Economy," edited by An Dao Er, "Socialist production must be planned commodity production. But it is also genuine commodity production." Hungary rejects both the erroneous viewpoint that belittles the value of commodity relations and the idealization of the function of the law of value and the market.

Hungary upholds economic planning, but refuses to equate economic planning with command planning. They allow a variety of approaches to planned development. Command planning undermines the positive role of commodity and monetary relations, stifles the initiative and enthusiasm of enterprises, prevents them from using human, material, and financial resources in the shrewdest way, leads to the divorce between production and demand, impedes technical progress, militates against the improvement of economic efficiency, and is incompatible with the demand that the overall national economy shift from extensive to intensive operations and the need to expand international trade. It is exactly this realization that prompted the Hungarian government to do away with command planning following the 1968 reform and adopt a planning system that combines economic and administrative mechanisms, while giving pride of place to the former. Thus was born a system with dual--vertical and horizontal--dependency.

3. Varying interpretations of the economic functions of a socialist nation. The traditional Soviet view of the economic functions of a socialist state is that in a socialist society, as the domestic exploiting class disappears, the suppressive function of the state gradually recedes while its economic function expands and strengthens by the day. As production becomes more socialized and more and more economic activities are planned, the need arises for the state, the organizer and commander of social production, to play an economic role to ensure that economic activities are conducted in accordance

with the wishes of the central government. Guided by this theory, the Soviet bureaucracy has for years assumed responsibility for and exercised direct control over all economic activities, microeconomic as well as macroeconomic, ranging from the important, such as 10 to 20-year long-range state planning to the trivial, including the day-to-day production, supply, and marketing activities of enterprises. The result is vertical enterprise dependency on the state.

Since it began reforming its economic system in the 1950's, Yugoslavia was the first to dissent from this traditional view. As the Yugoslavians see it, what the teachers of proletarian revolution said about the withering away of the state applies to the socialist stage as well as the period after the achievement of communism. As Marx said, the state "will gradually wither away." Yugoslavia also proposed that in a socialist society, the economic, cultural, and educational functions of the state are the first to wither away. In suggesting that the economic function of the state will wither away, the Yugoslavians do not mean that the economic function itself should be abolished, but that it should gradually be turned over to direct producers who should run the enterprises and the entire social economic life. Yugoslavia contends that the withering away of the state and its economic function is a gradual, long-term, yet spontaneous, process. And worker self-management is exactly the embodiment of this spontaneous phenomenon. Yugoslavia claims that emphasizing the withering away of the state does not imply a denial of the function of the state at the present stage. Since the economic reform of the mid-1960's, however, as the power of the federal government was continuously decentralized, the federal functions were whittled down to the extent that the necessary centralization is absent. Instead, sectionalism and nationalism have grown increasingly rampant and many difficulties and problems have surfaced in economic life. Since the 1970's, Yugoslavia has been playing up the function of the state. Ka De Er said, "We should dispel the illusion that at our current level of productive forces, self-management can solve on its own unaided by mandatory state mechanisms all the problems related to the economic development of our society, the distribution of social product, the leading role of the working class, and the equality of workers." As economic difficulties mounted in the 1980's, Yugoslavia has again stressed the need to strengthen the state function. In a letter in late 1984 to the Yugoslavian federal parliament outlining the economic situation in 1985, the Yugoslavian federal presidium said, "Emasculating the functions of the state explicitly conferred on it by the constitution and laws has brought about and will bring about adverse social consequences. Consequently, the institutionalization, quality, and efficiency of state organs should be enhanced and functions constitutionally and statutorily reserved for the state organs strengthened."

In Hungary, the planned development of the national economy is thought to require society's spontaneous, centralized management. Centralized management means more than bringing together various interests and coordinating, supervising, and regulating all economic processes in a society-wide context. It also means the passage of laws and the adoption of other compulsory administrative measures if necessary to effect economic activities consistent with socialist social interests. At the present stage of development, only

socialist nations can carry out this kind of centralized management. Hungary holds that a socialist state does not intervene in economic life from the outside but appears as the owner of the bulk of the means of production.

By and large, reforms in Hungary have reduced direct state intervention in enterprises. To the Hungarians, however, reform does not mean paring down to the minimum the functions of state agencies in economic work. It does mean requiring the state agencies to replace formalistic and bureaucratic functions with those that effectively influence the economy. Since it began reform, Hungary has also changed the methods whereby the state manages the economy. Instead of stressing administrative tools, as in the past, it has now let economic mechanisms take center stage, without, however, rejecting or excluding the former.

III. The Soviet, Yugoslavian, and Hungarian models differ from one another, but common to all three is the underdevelopment of horizontal economic interactions. This problem has different causes in different nations and require different solutions.

The present Soviet economic system is characterized by excessive vertical administrative dependency and too little horizontal economic cooperation. If this state of affairs remains unchanged, the Soviet economy cannot make much headway. Remedies have been and will be proposed, such as those intended to improve the effectiveness of centralized economic leadership and broaden the functions of the state in realizing the party's basic strategic economic objectives, determining the rate and proportions of economic growth and the balance of the national economy. But there should be concurrent efforts to end the intervention by the central government in the activities of subordinate economic agencies, firmly widen the scope in which joint companies and enterprises can exercise their autonomy, and increase their responsibility for achieving the optimal final results. Accordingly, companies and enterprises must adopt economic accounting, raise their own funds and be responsible for their losses and profits so that how much a collective earns depends on how efficient it is. If economic agencies at all levels are to shift to economic methods of leadership, the supply of materials and technology must be improved. (The wholesale of means of production must be developed.) The price, appropriations, and credit systems must be perfected and effective anti-waste policies and incentives instituted. (Prices should be made more flexible. Price levels should be related not only to consumption, but also to the quality and performance of a product and the supply-demand factor.) Limited prices and contractual prices should be used more effectively. The aim of all this is to ensure that as centralized state leadership is strengthened, administrative intervention in the economic activities of enterprises is reduced, enterprise autonomy is increased, and inter-enterprise horizontal economic interactions are promoted. In order that economic reform can be carried out successfully, Gorbachev has suggested that some theoretical viewpoints and concepts be reexamined afresh. At stake is a number of critical issues, such as the interactions between productive forces and production relations, socialist ownership, the economic forms for realizing such ownership, commodity and monetary relations, and the integration of centralization with enterprise autonomy. If all the measures

proposed by Gorbachev in his political report to the 27th Congress of the Communist Party of the Soviet Union are implemented and if the Soviet Union manages to free itself from the straitjacket of traditional ideology, then the vertical administrative dependency relations in the Soviet economic system will diminish and horizontal cooperation will intensify.

In the self-managed economic system in Yugoslavia, the lack of horizontal guidance, cooperation, and supervision, ie., the necessary centralization, has resulted in local separatism and undermined the unified national market and hence inter-enterprise horizontal economic interactions. The solution, therefore, is to strengthen the necessary federal centralization, reverse the trend toward local decentralization, and establish a nationwide unified socialist market. To overcome economic difficulties, Yugoslavia has in recent years stepped up state intervention in economic life and is planning to further reform the planning, price, distribution, and banking systems, among other things. Under new planning legislation, social planning will no longer be a mere declaration of intent or a collection of plans from various sectors, as in the past, but a strategic blueprint steering the development of the entire economy. Under the new banking law, the People's Bank of Yugoslavia will play an expanded leadership role in finance, banking, credit, and so on, including supervision over investments and the international balance of payments. Seeking truth from realities, comrades in Yugoslavia have also conducted critical research and come to the general conclusion that the "most crucial" and "most profound" factor for "economic chaos" was "multi-centered centralism." Motivated by localism and sectionalism, the republics and autonomous provinces have carried their independence and autonomy to excess, isolating themselves from and keeping one another out. As a result, the unity of the market and the organic integrity of the economy have suffered. Limited and expedient economic measures alone will not alter this situation. What is needed is urgent reforms in the sociopolitical and economic systems.

As the famous Hungarian economist Ke Er Nei has pointed out, horizontal interactions among Hungarian enterprises are too tenuous while vertical control is overly restrictive. In Ke Er Nei's view, the solution is to consolidate inter-enterprise horizontal interactions and reduce to a minimum the vertical connections so that enterprises can gear themselves to the market and adapt to market demand as much as possible. Clearly the central government must plan and even tighten its grip on some macroeconomic issues, but the economist advises against intervening in microeconomic activities administratively and advocates an economy more oriented toward the market.

To sum up, the issues of developing horizontal economic interactions and correctly handling horizontal and vertical relations occurred in economic reforms in the Soviet Union and various Eastern European nations. The so-called horizontal interactions refer to the division of labor and cooperation between the various production units in socialized mass production. Since socialist production is still a kind of commodity production and since the various production units remain independent or relatively independent commodity producers and operators, their division of labor and cooperation remain a form of commodity production and commodity exchange relations, which is mutually beneficial yet competitive and is based on the public ownership of the means of production. The more developed these economic relations, the

greater their capacity for promoting socialist economic development. Vertical relations refer to the relations between state administrative agencies and economic organizations at all levels. This kind of relations can be subdivided into two groups; first, direct administrative subordinate relations, ie., relations between the controller and the controlled, or between those who issue orders and those who obey orders; second, relations between the guide and the guided, between the supervisor and the supervised. The former is effected through direct administrative intervention in economic activities. The latter is effected through policies and principles, economic planning, economic, legal, and the necessary administrative tools. The economic reform experience of the Soviet Union and various Eastern European nations makes it clear that exclusive emphasis on horizontal economic interactions in the absence of such essential vertical intercourse as guidance, coordination, and supervision makes for shortsighted and chaotic economic decision-making. On the other hand, if we preoccupy ourselves with vertical intercourse, particularly the use of administrative mechanisms to intervene in the activities of economic organizations, our economic work will be marred by commandism and the issue of misguided, arbitrary orders to the detriment of the economy. As a result, both vertical and horizontal intercourse are necessary and we must combine the two organically. How? Strengthen the guidance of vertical intercourse on the basis of sound horizontal economic relations and make sure that horizontal economic interactions can proceed smoothly under the guidance of vertical intercourse.

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PUBLICATIONS

BRIEFS

BRANCH ESTABLISHED IN JILIN--The Jilin branch of DONGBEI JINGJI BAO was officially established in Changchun on 4 August. Leading comrades of the Jilin Provincial Party Committee, People's Congress Standing Committee, People's Government, and CPPCC Committee attended the inaugural meeting. Liu Jingzhi, chairman of the Jilin Provincial CPPCC Committee and adviser to DONGBEI JINGJI BAO, attended to extend congratulations and delivered a speech. Li Mo, deputy secretary general of the Jilin Provincial Government and vice president of DONGBEI JINGJI GAO, also attended and spoke. Others attending to extend congratulations were responsible comrades of the Jilin Branch of the XINHUA NEWS AGENCY, JILIN RIBAO, the Jilin Broadcasting Station, CHANGCHUN RIBAO, and the DISAN CHANYE BAO [THE TERTIARY PAPER] [Text] [Shenyang DONGBEI JINGJI BAO in Chinese No 71, 9 Aug 86 p 1 SK] /12624

CSO: 4006/65

HONG KONG

# JULY RETAIL SALES UP 7 PERCENT OVER 1985

HK030319 Hong Kong HONG KONG STANDARD in English 3 Oct 86 BUSINESS STANDARD  
p 1

[Text] The value of total retail sales in July 1986 -- provisionally estimated at \$5,852 million -- was 7 percent higher than in July 1985, while volume was 3 percent higher.

According to the results of a survey released yesterday by the Census and Statistics Department, compared with July 1985, retail sales of motor vehicles and parts increased substantially in value.

But they rose only moderately in volume -- reflecting the effects of the depreciation of Hong Kong dollar against currencies of Japan and West Germany, which are Hong Kong's major suppliers of motor vehicles.

Retail sales of clothing and footwear increased by 22 percent in value and 15 percent in volume. Consumer durables also went up by 13 percent in sales value and 4 percent in sales volume.

Retail sales of foodstuffs alcohol drinks and tobacco rose by 4 percent in value and 1 percent in volume.

Fuels, on the other hand, went down by 14 percent in sales value but experienced a slight 2 percent increase in volume.

Comparing the three month period May-July 1986 with the same period in 1985, total retail sales increased by 5 percent in value.

Retail sales of clothing and footwear showed increases of 20 percent in value and 13 percent in volume.

Fuels dropped by 15 percent in sales value but registered almost no change in volume. Retail sales of motor vehicles and parts recorded a considerable increase in value but a slight increase in volume.

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HONG KONG

BRIEFS

HONG KONG STOCK MARKET BOOSTED--Hong Kong, 2 Oct (XINHUA)--A major property transaction of 1,425 million Hong Kong dollars (about 182.69 million U.S. dollars) announced this morning has boosted the local market to a new height. The Hang Seng index closed at 2120.14 this afternoon, 29.9 points up compared with yesterday's closing, and the turnover reached 1,379 million Hong Kong dollars (176.8 million U.S. dollars). The average daily turnover was only 586 million Hong Kong dollars (75.12 million U.S. dollars) last week after a 58 percent jump over the week before. The Hong Kong Land Property Company Ltd. and the Bond Corporation of Western Australia jointly announced this morning that Hong Kong land property has agreed to sell the bulk of its residential portfolio to an affiliate of the Bond Corporation. It is the biggest residential property transaction ever recorded in Hong Kong, according to a spokesman for Hong Kong land. The sale involves 407 individual units in some 20 prime residential developments and their owning companies. A spokesman for the Bond Corporation said: "This substantial investment is an indication of the confidence Bond Corporation has in the future of Hong Kong and is in line with the company's strategy of expanding its operations internationally." [Text] [Beijing XINHUA in English 1509 GMT 2 Oct 86 OW] /12624

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