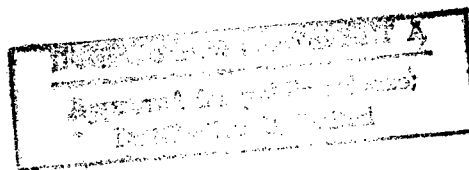


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JPRS-CEA-85-086

25 September 1985



China Report

ECONOMIC AFFAIRS

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25 September 1985

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PROVINCIAL AFFAIRS

HU PING CHAIRS FUJIAN MEETING ON PRODUCT QUALITY

OW091315 Fuzhou FUJIAN RIBAO in Chinese 21 Jul 85 p 1

[Excerpts] Governor Hu Ping presided over an executive meeting of the provincial people's government on the afternoon of 16 July. The meeting studied and discussed the instructions given by central leading comrades on improving product quality. Drawing a lesson from the Jinjiang fake drug case, the meeting participants decided to launch provincewide examination of the quality of industrial products and other commodities on market shelves. They also decided to exert great efforts in the second half of this year to improve the quality of all merchandise while performing other economic work.

The meeting stressed: In the final analysis, the fundamental way to improve product quality is to rely on scientific and technological advances. Our province should draw up plans, exert greater efforts, and invest more money in science and technology. while encouraging enterprises to do the same. At the same time, it is also necessary to strengthen leadership over the work of improving merchandise quality. Governments at all levels, every economic department, and every industrial and commercial enterprise must pay great attention to quality, and their principal leaders are required to personally take charge of quality improvement work.

In addition to adopting a decision on launching a provincewide examination of the quality of industrial products and other commodities, the executive meeting of the provincial people's government decided to launch a large-scale provincial propaganda campaign on the importance of quality and to launch a comprehensive education program. While it is necessary to sum up the results of the campaign and the program, it is imperative to establish exemplary models, commend advanced collectives and individuals, find the root cause of the quality problem, and expose contradictions as well as bad elements and their misdeeds so that we can usher in a new situation in merchandise quality improvement in our province within a short period of time.

CSO: 4006/905

PROVINCIAL AFFAIRS

YUNNAN STRICTLY CONTROLS FIXED ASSETS INVESTMENT

HK310330 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 28 Aug 85

[Text] Since the beginning of this year, the province has adopted measures to strictly control the size of fixed assets investment to ensure continuation of priority energy and communications projects. They have achieved fairly good economic results. At the beginning of this year, there was a tendency to expand the size of the province's fixed assets investment. At that time nonproductive construction squeezed out productive construction, ordinary construction projects squeezed out priority construction projects, and projects not covered by plans squeezed out projects covered by plans. This phenomenon resulted in a serious shortage of construction materials, steel in particular, and in increases in negotiated prices for steel and transaction prices for project contracts.

In order to promote the smooth progress of reform of the economic structure and avoid blind expansion of fixed assets investment, the relevant departments and areas in the province have adopted measures to bring fixed assets investment under the strict control of the state plan. They have also reclassified projects to ensure that final-stage work of priority projects related to other projects and the construction of priority projects to be done. In addition, they have delayed or cancelled some projects which did not have guarantees for funds and materials or which had very poor economic results. Due to the control over the size of fixed assets investment, the investment in this field has become more and more rational; construction of priority projects has been guaranteed; and construction has been accelerated. In the first half of this year, the province's investment in electrical and communications projects increased by 47.4 percent, that in educational construction by 190 percent, and that in public health construction by 55.4 percent, as compared with the same period last year.

CSO: 4006/906

PROVINCIAL AFFAIRS

BRIEFS

HEBEI WATER SUPPLY PROJECTS--Since last May when the Hebei Provincial Government issued a decision on concentrating manpower as well as financial and material resources to solve the water supply problems of mountainous areas within 3 to 5 years, the province has allocated 5 million yuan from its limited flexible funds for the people of the mountainous areas to solve such problems. Adding the funds distributed by the central authorities or raised by various cities and counties, the total investment for this year will exceed 16 million yuan, the largest annual amount of funds used to solve water supply problems of the mountainous areas. It is planned that some 3,000 wells, water supply stations and reservoirs will be built this year. Upon completion, the water supply problems of some 344,900 people and 55,000 draught animals in 608 villages with serious water shortages will be solved. [Excerpt] [Shijiazhuang HEBEI RIBAO in Chinese 10 Aug 85 p 1]

CSO: 4006/905

ECONOMIC DEVELOPMENT ZONES

INFORMATION NETWORK FOR OPEN CITIES, ECONOMIC ZONES

OW141738 Beijing XINHUA in English 1612 GMT 14 Aug 85

[Text] Guangzhou, 14 Aug (XINHUA)--A network to supply economic and technological information to China's 11 cities newly-opened to the outside world and three special economic zones is now in operation, a Guangzhou official said today.

The network was formed on the initiative of Guangzhou, one of the open cities. It also includes Shanghai, Tianjin, Qingdao, Qinhuangdao, Lianyungang, Ningbo, Wenzhou, Nantong, Beihai, and Zhanjiang; and the Shenzhen, Zhuhai and Shantou, special economic zones, all in south China.

The network aims to exchange information among the cities and zones so as to avoid overlapping and reckless importing, the official noted.

The network will also provide information for other provinces and cities, he added.

The volume of business achieved by the cities and zones in importing foreign technology and equipment accounts for more than one-third of the country's total.

The information turnaround will be once every three months.

CSO: 4020/337

ECONOMIC DEVELOPMENT ZONES

KEY PROJECTS COMPLETED ON HAINAN ISLAND

OW200922 Beijing XINHUA in English 0856 GMT 20 Aug 85

[Text] Guangzhou, 20 August (XINHUA)--Seven key projects went into operation in the first half of this year on the Hainan Island, the second largest in China.

Another eight transport, communications and industrial projects will be completed by the end of the year, bringing the total since April 1983 to 23.

The state council decided at that time to speed up Hainan's construction. By the end of last year, the island invested 536 million yuan in construction of these basic projects, according to the local statistical bureau. This year's investment is planned at 403 million yuan, 12.9 percent more than for 1984.

The first phase of expansion of the airport in Haikow was completed on 10 February, making it possible for big passenger planes from Guangzhou and Hong Kong to land. The second phase, to be completed in September, consists of widening runways and parking apron.

Of the 68 natural harbors, 14 have been developed. They have 38 berths with an annual cargo handling capacity of 6.4 million tons.

Haikou Harbor has renovated an old dock and built a 10,000 sq m. dumping yard, increasing the annual handling capacity of 120,000 passengers and 330,000 tons of cargo. Traffic congestion has been reduced.

Basuo Harbor is building berths to accommodate general cargo ships and Sanya has completed a passenger dock and put the route to Hong Kong into operation.

Construction of two 10,000-ton berths will be started at Yangpu harbor this winter.

Construction of a 1,047 km highway around the island, a trunk road from Haikou to Sanya through the central part of island and an east-west coast road are all being undertaken.

The railway linking the iron mine in the southwest, Basuo Harbor, Saltern on the Yingge Sea and Sanya will be completed within this year.

Development of coal and oil shale deposits in Changpo and construction of a nearby 200,000 kw thermopower station are underway and several power transmission lines are being added.

By the end of 1984, the island had 11,850 lines of inner city telephone lines and 18,690 lines extending to the countryside. It also had 192 lines of carrier telephones linked with the mainland and 74 telegram lines. A 1,800-line microwave telephone communications project is expected to be completed within the year.

A number of mines, sugar refineries and ore dressing and rubber plants are newly built, updated or expanded.

In 1984, the island's industry turned out more than one billion yuan in output value, 25 percent more than the previous year.

CSO: 4020/355

ECONOMIC DEVELOPMENT ZONES

HAINAN OPEN POLICY SAID STILL IN FORCE

OW261736 Beijing XINHUA in English 1456 GMT 26 Aug 85

[Text] Guangzhou, 26 August (XINHUA)--Hainan Island's welcome for overseas investment continues unchanged, despite the recent profiteering scandal.

Meng Qingping, a newly-appointed senior official of the Hainan administrative region, said here today that government offices and enterprises on China's second-largest island welcome overseas Chinese, Hong Kong and Macao compatriots and foreign investors to join in local development schemes, just as before.

The policy of the central authorities on speeding up the pace of development of Hainan has not changed since the incident of reselling imported cars involving certain officials, he added.

"With the help of the central authorities and Guangdong Province," he said, "we have learned a lesson from this incident and, as a result, the construction will surely progress faster and better in the future."

Foreign investors are welcome to exploit both onshore and offshore petroleum and other deposits, and develop import and export businesses, and tourism, he said. The regulations on preferential treatment hold good.

Since the state council decided to speed up the pace of Hainan construction in April 1983, he said, remarkable achievements have been made in the use of foreign funds, import of technology and equipment, and foreign trade.

Over the past two years and more, Hainan has completed 15 key basic projects, covering air, land and sea transport, telecommunications, hotels and energy supply; another eight projects will go into operation this year.

Nearly 30,000 hectares of rubber, coconuts, pepper, tung oil, sugar cane, fruit and medicinal herbs were planted from reclaimed land, bringing the total area under industrial crops to 341,000 hectares.

A number of Chinese-foreign, Hainan-mainland joint ventures were set up and many existing enterprises updated. As a result, the industrial output value topped one billion yuan in 1984, 29.2 percent more than in the previous year, and a record of over 50 million U.S. dollars were earned from exports.

In the first half of this year, 48 agreements involving total investments of more than 48 million U.S. dollars were signed with overseas businessmen. The import and export volume reached 151 million U.S. dollars.

All these achievements prove the correctness of the development and open policies of the Chinese Communist Party Central Committee and the state council, Meng said.

Foreign investment negotiations are proceeding normally in Hainan, he pointed out.

CSO: 4020/355

ECONOMIC DEVELOPMENT ZONES

NEW JOINT-VENTURE SHANGHAI TRADE CENTER PLANNED

OW160924 Beijing XINHUA in English 0904 GMT 16 Aug 85

[Text] Shanghai, 16 Aug (XINHUA)--An international trade center will be jointly built by the Shanghai Foreign Service Company and the Industrial Bank of Japan, Ltd, according to a Shanghai trade official today.

The joint venture, located in the Hongqiao Development Zone, 6.5 kilometers west of the city center, will consist of two 40-storey towers. Construction of one will start at the end of this year.

The building will have offices and apartments to accommodate foreign business personnel of financial, trading and industrial companies. It is expected to be completed in 1987.

About 159 foreign firms and companies have set up permanent representative offices in Shanghai.

The Shanghai Foreign Service Company offers services which include providing 100 taxis, introducing secretaries, drivers and housemaids for them.

CSO: 4020/337

ECONOMIC DEVELOPMENT ZONES

GUANGZHOU'S DEVELOPMENT PLANS, FOREIGN TRADE WORK DISCUSSED

Guangzhou GUANGZHOU YANJIU [STUDIES ON GUANGZHOU] in Chinese No 1, Jan-Feb 85
pp 1-4

[Article by Xu Shijie [6079 1102 0267]: "The Possibility of and Measures To Be Taken for Achieving the 'Four Threes' in Guangzhou Within 3 Years"]

[Text] Last year was a year of great achievement in Guangzhou, and great economic and social developments await us in the new year. We are faced with an excellent situation, a situation that spurs us on to do more, a situation of high demands and a situation with a heavy task.

The excellent situation became mainly evident with the "Resolution of the CPC Central Committee on the Transformation of the Economic System." It provided us with a policy, we were supported by the provincial party committee, the ideology of our cadres is fairly uniform and the Central Committee and State Council have ranked Guangzhou among the cities to be further opened up for foreign contacts. The State Council approved Guangzhou to resume listing its own separate plan and to exercise provincial-rank authority in economic management. It also approved Guangzhou setting up its own economic and technological development zone, which broadened Guangzhou's authority in the management of its economy and in granting favorable treatment to foreign investors. It strengthened the vitality of the enterprises, loosened the restrictive bonds on Guangzhou's economic development, for which favorable conditions were now newly created. The problems of our organizational system, on which people had voiced many opinions in the past, were basically resolved. The excellent situation is also evident from the comparatively great developments in industrial and agricultural production and in tertiary industry. Last year, the total value of Guangzhou's industrial output was 13.325 billion yuan, a 12.24 percent increase over 1983 and a faster growth rate than in any previous year. The total agricultural output value of 1.915 billion yuan (estimate) was 3.5 percent more than in 1983. The total industrial and agricultural output value of 15.12 billion yuan constitutes an increase of 11.06 percent over 1983. The retail sales of social commodities amounted to 6 billion yuan. The excellent situation was, furthermore, evident in the momentum achieved in our opening up to foreign contacts and in our reforms. Economic work became invigorated, and quite a few things have initially been learned in the application of the law of value. Progress was made in the production and circulation of commodities. After deregulating

pond fish and fowl, vegetables and other items have been freed from controls. Furthermore, many trade centers, markets and warehouses have been established. Great strides have been made in the work of importing foreign capital, technology and equipment. Between the start of 1978 and November last year, 14,175 contracts have been signed, including more than 4,000 last year alone. The contracts involved a total of over \$1.4 billion, of which over \$300 million were contracted for last year. Generally speaking, the situation last year was excellent; it was a year of great achievements.

The situation also spurs us on to do more. There are now 4 special economic zones and 14 cities, plus Hainan Island, that have been opened up to foreign contacts. All are competing with each other and rushing on, while the speed of Guangzhou's economic development is not fast enough; there is a large disparity in this respect if we compare the situation nationwide, or throughout the entire province, or in certain medium- and small-sized cities. If no effort is made to catch up, the disparity will grow wider. Certain medium-sized cities of our province display great vigor and great momentum. If Guangzhou will not immediately bestir itself, develop strong momentum and forge ahead, it might quite possibly be left behind. This is undoubtedly a very serious situation for Guangzhou.

The demands are very high. After his inspection of the Zhu Jiang delta, Premier Zhao Ziyang pointed out that a large city like Guangzhou should play the role of a "two-way swing door and a hub," meaning that there are to be two wings, one swinging toward the inside and one toward the outside, with Guangzhou serving as the hub. In its "Response to a Report on the Work of Opening Guangzhou to Foreign Trade," the State Council remarked that Guangzhou should serve the economic development of the entire province of Guangdong and of the whole of South China. That implies that Guangzhou, in the center, must function as the hub, open its wings wider and exert an even stronger radiating economic effect. It also demands that its traditional products be upgraded and updated, that new products be developed, that hot-selling goods for the international market be developed and that efforts be exerted to move ahead of the other cities that have been opened up. These are high demands indeed, but the demands on us must be regarded as our task ahead. In addition to these demands, there is the problem of achieving a doubling of the annual industrial and agricultural output value 3 years ahead of time.

According to the demands of the central and provincial authorities, and in view of the actual conditions in Guangzhou, the task that is set for us is called the "four threes," namely "doubling output value 3 years ahead of time, completing renovation of equipment (referring to major equipment) within 3 years, marching ahead in 3 demands and beautifying the city of Guangzhou in 3 years."

Is it possible to make such dispositions in our work that we can meet these demands? I believe "the foundation is there, the conditions are there, the possibility is there and there are also difficulties."

We have a comparatively good industrial foundation with great potential for development. The industrial enterprises of the entire city number over 4,000, its collective enterprises over 5,000. Last year, the total of almost 10,000

state-operated and collective enterprises produced a total industrial and agricultural output value of more than 15.2 billion yuan. We performed outstanding work in utilizing foreign capital, importing advanced technology and equipment for the building of new factories, and restructuring old enterprises. More than 14,000 contracts have been signed with foreign businessmen worth \$1.4 billion and involving many large-and medium-sized projects. Some are comparatively advanced technical installations; these projects will play a very important role in constituting new productive forces this year or in coming years. Completion of our capital construction projects is now faster than in the past, and less time is required from the selection of the location and pile driving until actual production is started up. Enterprises also show themselves comparatively strong in economic respects and in their ability to undergo transformations. Many a point has initially been learned in the application of the law of value. We have, moreover, a number of good enterprises that have done pioneering work and provided us with valuable experiences. In the industrial field there are the bicycle company, the sewing machine company, the Baiyunshan Pharmaceutical Factory, the silk and ramie mills, an electric refrigerator factory, a synthetic fiber plant, etc. In the commercial field there are the Nanfang Mansion, the Dongfang Hotel, etc. All these constitute an excellent foundation for a speedy economic development.

Conditions are favorable. Guangzhou is a city opened up for foreign trade, it is a unit with a separate plan of its own and a city enjoying provincial-rank authority in managing its own economy. These are the major favorable conditions that will allow us to speed up Guangzhou's economic development. In the past, we were able to achieve an industrial growth rate of from 6 to 10 percent. Now, with the above-mentioned favorable conditions and the additional establishment of an economic and technological development zone, the growth rate must--and moreover can be--accelerated. The many preferential conditions that we are now granting investors attract foreign businessmen. We have broader authority to check and approve, and the checking and approving has also been expedited. We have also gained experience in the work of importing from abroad. We have greater decision-making powers with regard to domestic as well as foreign economic activities. All these factors provide extremely favorable conditions for a faster pace in the economic development of Guangzhou and for the achievement, ahead of time, of a doubling and redoubling of production.

It is possible to achieve a doubling of production 3 years ahead of time. Taking the 1980 industrial and agricultural output value of 10.4 billion yuan as base figure, a doubling would mean a figure of 20.8 billion yuan. As we have already achieved 15.24 billion yuan by 1984, the balance is only 5.56 billion yuan. If the annual increase in the next 3 years is somewhat over 1.8 billion yuan, this growth rate of 10.97 percent in each year can indeed achieve a doubling 3 years ahead of time. In the last few years, Guangzhou's growth rate was around 10 percent. Now, with our relatively favorable foundation and many more favorable conditions, the growth rate could be accelerated even more.

It is also possible to basically renovate the major items of equipment in Guangzhou. Since last year, the enterprises of our city have carried out

their technological transformation and the renovation of their equipment much more rapidly than before. Taking the knitting industry as an example, an industry which has performed comparatively well in importing technology and renovating equipment, we see that this industry has imported 138 large circular machines in recent years, and the renovation of equipment throughout the industry can be basically completed this year. As long as the enterprises display vitality and momentum, to which must be added the advantage of our proximity to Hong Kong and Macao, enabling us to be comparatively well informed, it is quite possible to complete renovation of Guangzhou's major installations within 3 years, and to have our major products attain the world levels of the late 1970s and early 1980s.

The industries and trades of Guangzhou show great strength in upgrading and updating their traditional products and in the ability to develop new products. The new products which Guangzhou's domestic electric appliance industry put into production in recent years, such as two-door direct-cooling refrigerators, all-plastic washing machines, heat-retaining automatic rice cookers, compound acoustical machines and other products, are most advanced items of China's domestic electric appliance industry. The value and profit earned from new products, trial produced by the foodstuffs, pharmaceutical and machine building industries, account for a comparatively high proportion of the total output value and profits of these industries in the years in question.

Guangzhou has the three advantages of climate, geographical location, and popular support. Located in the subtropical zone, Guangzhou's climate knows no frost all year round, and farming cycles are short. Geographically, Guangzhou is close to Hong Kong and Macao and has many relations with and organizations in Hong Kong and Macao, which facilitates contacts and keeping well informed. As to the well-disposed people, there are many overseas Chinese, many compatriots in Hong Kong and Macao, and twice a year export commodity fairs are held in Guangzhou, which attract businessmen from all over the world to trade, so that, geographically, Guangzhou is superior to all other cities.

It is also possible to beautify Guangzhou within 3 years.

In sum, achievement of the "four threes" is not only necessary, but there are the foundation, the conditions, and the possibility to accomplish it. Of course, there are also certain difficulties, mainly the result of two factors. One is that our thinking is insufficiently liberated. Antiquated ideologies, conventions, institutions and methods restrain the pace of our reforms and the opening up to the outside world; ideologies and workstyle are not consonant with the demands of the new era. The second factor is the serious shortage of electric power, which impedes our economic development.

It would appear from the above that there are favorable as well as unfavorable factors for the accomplishment of the "four threes" in Guangzhou within 3 years. What measures must we adopt in order to accomplish this goal?

We must institute a great transformation. This is the major prerequisite for a realization of the "four threes." First, we must assiduously study and

completely familiarize ourselves with the documents issued by the Central Committee and the State Council containing their resolutions on restructuring the economy. In an integration with realities, we must properly, courageously, and skillfully utilize the powers that we have received from the central authorities. How are we to carry out the reform?

First, we must simplify administration and delegate power. We must separate government administration from enterprise management and must truly revitalize the enterprises. We must run the enterprises according to the ways prescribed in the documents of the central authorities. Governments at all levels must delegate to the enterprises whatever powers need to be delegated. The enterprises are the cells of the socioeconomic body. As long as there is vitality in our enterprises, our entire economic body will be alive, while the primary condition for vitality in our enterprises is that they genuinely become comparatively independent economic entities. Our enterprises must become socialist commodity producers and traders with decision-making power in their business operations and sole responsibility for their profits and losses, and with the ability for self-restructuring and self-development; they must become legal persons with certain rights and obligations of their own. In observing the principle of separating administrative and enterprise responsibilities, and of the possibility of appropriately separating property right and right of business management, we must genuinely delegate down to the enterprises the authority to operate and manage business activities, particularly in such affairs as finance, planning, labor and personnel, bonus distribution, foreign trade, and exports.

Second, we must effectively institute the economic responsibility system within the enterprises and speed up instituting the plant director (manager) responsibility system. We must set up a system of general meetings of staff and workers delegates and various organizational systems of democratic management. When establishing the economic responsibility system, the anticipated economic objectives must be fixed level by level or contractually secured, with an integration of responsibility, authority and benefits. Last year, several enterprises in Guangzhou instituted the plant director responsibility system, and those enterprises that have not yet done so should proceed without delay, so as to make the plant director responsibility system a major component of the enterprise readjustment.

Third, we must reform our planning system. The objective in the reform of our planning system is to revitalize enterprises and enable market regulation to play its due role. Centered on these objectives, we must increase guidance-style planning and reduce command-style planning to a portion of the products that have to be delivered to the state and to the range of products designated by the state. All bureaus (corporation head offices) and branch offices of corporations will have to gradually shift from being controlled by administrative departments to control by their trades. They may set up trade associations.

Fourth, we must do a good job of reforming our financial system and set up a finance leading group to study finance work throughout the municipality, unify coordinating policies, and concentrate financial resources for the accomplishment of several large projects. We must let the banks play their

role as economic levers, adopting various feasible measures to accumulate or attract funds, and issue shares and bonds to collect capital from among the general public. At the same time, available capital must be used effectively and flexibly, and rational policies must be adopted to encourage enterprises to bravely contract loans, expand their credit, and enhance their credit management. Controls must be unified, the utilization of foreign exchange must be accelerated and the acceptance of foreign currency deposits must be initiated.

Fifth, we must do a good job of restructuring tax revenue, commodity prices and wages. We must effectively work in completion of the second stage of changing all enterprises from the system of profit delivery to that of taxation, and continue the reform whereby enterprises pay wages at their own expense. Increases in wages and bonuses must be linked to the enterprise's economic results. The restructuring of prices must be consonant with market regulation. There must be a relaxation in plan price control of products outside the state plan, and the scope and magnitude of floating prices must be expanded.

Sixth, we must further reform the system of commodity circulation, particularly the wholesale system. We must stress and vigorously promote abolition of the process of joint operation of wholesale business by grades and by levels, exploit the strengths of the key cities in state-operated wholesale business, and set up our wholesale business with a minimum of intermediary links and with an open nature. We must establish trade centers which as a principle will have wholesale as their main line of business, but which will integrate wholesale with retail business.

We must further pursue opening up towards foreign countries as well as toward the interior. We must effectively "attract foreign trade and establish domestic contacts," develop Guangzhou into a key open city and gradually enable Guangzhou's economic construction to become the pivot in a two-way swinging door. At the start, we should seize upon comparatively large projects that promise high economic results, early production and quickest effectiveness. Projects with industrial imports must have preference. Our expanded powers in matters of foreign exchange must be primarily used for the importation of technology and equipment, and to transform antiquated enterprises. Imports must primarily consist of advanced technologies appropriate for use. We must stress dovetailing the utilization of foreign capital with the restructuring of the entire trade; foreign capital and foreign advanced technologies must be used for the technological restructuring of enterprises. In the importation of foreign advanced technologies and business management experiences, attention must be paid to absorption, restructuring, sifting and filtering, following which we may transfer the imports and distribute them for use in the interior. On the basis of thorough market investigations, market forecasting and feasibility studies, certain distinctive enterprises may be encouraged to establish factories abroad or in Hong Kong, to actively set up transnational corporations for our city, thus moving our forward position in the absorption of foreign advanced technologies into foreign territory. Certain enterprises which mainly produce export goods and show good economic results may organize extensions to Hong Kong and foreign countries. In the domestic field, we must effectively establish

domestic contacts. We must first resolve to do a good job of linking up with the suburbs and the eight counties, we must on our own initiative break out of our borders, orient ourselves toward the entire province, the entire South China and toward the entire country. The dual action of "attracting foreign trade and establishing domestic contacts" must become the long-term strategic policy for the economic development of Guangzhou, to fully exercise Guangzhou's function and advantageous position as "the two-way swing door with one pivot," as a point of linkage, and for the further revitalization of our city's economy.

Electric power is the conspicuous weak link in Guangzhou's economic development. The solution to our deficiency in electric power must be resolutely undertaken through multiple channels, on a large number of levels and by many different methods, considering both present-day and long-term solutions, with present-day concerns predominant. In a planned way and step by step, certain enterprises that are large consumers and have labor-intensive operations may be moved to counties with abundant hydroelectric power resources. In addition, we may also adopt the method of accumulating funds to build power plants, or issue bonds and collect idle capital from among the general public. Apart from having the municipality undertake the building of power plants, the various trades and enterprises could also, if suitable conditions exist, buy their own diesel power-generating equipment and thereby ensure uninterrupted production.

We must accelerate development of tertiary industries and thereby increase Guangzhou's attraction and power to radiate economic potential. The development of tertiary industry is one of the reasons for Guangzhou's rather brisk economic development in recent years. The total output value of Guangzhou's tertiary industries accounted last year for about 32 percent of the entire city's output value. However, if we compare this with the conditions in economically developed countries and areas, there is still a large disparity. Tertiary industries in Japan, the United States and the FRG account for over 50 percent of GNP in these countries. As Guangzhou is now striving to achieve the "four threes" in 3 years, demand on the tertiary industries will naturally increase. We must therefore continue to develop these industries, enable them to reach new heights of development, quantitatively and qualitatively, and improve their structure, their diversity, and their quality.

We must adjust the structure of rural production, strengthen small town construction, develop rural and township enterprises, and speed up economic construction in mountainous areas. We must accelerate comprehensive adjustments in our agricultural structure, institute the comprehensive operation of agriculture, forestry and animal husbandry, and coordinate development of soil cultivation, breeding and processing. Agriculture must progress toward a system of commodity production and toward specialization and modernization. In productive achievements it must rely on science, and must rely on technology to bring about prosperity. In readjusting the agricultural structure, we must also integrate it with the development of rural and township enterprises. These enterprises must take full advantage of their local natural resources in the development of their production, must process

their rural products on site and must actively engage in processing and assembling for urban industries.

Major changes in the economic activities of the people are bound to precipitate great changes in the mental attitude and lifestyle of the people. The "beautification of Guangzhou in 3 years" aims at beautifying the lives of individuals, their homes, the collective units and public places. In enhancing construction of the two civilizations, we must emphasize the simultaneous development of ideology, ethics, and the legal system, and must firmly and comprehensively take in hand the creation of cultural units and the establishment of public welfare undertakings. We must attain new levels of perfection in the control of filth, disorder and shortcomings, and in creating the "three excellent conditions" (excellent environment, excellent public order and excellent service). We must attain new and higher levels in our activities for the creation of urban and rural culture units, we must actively advocate a cultured, healthy and scientific lifestyle throughout our entire society, and vigorously promote an enthusiastic, upward-oriented and progressive mentality.

We must strengthen the administration and the structural development of Guangzhou. We must build large bridges, elevated traffic lines, overline bridges, highways, and gradually arrive at three-dimensional traffic, clear sidewalks for pedestrians and open up traffic lines in all directions. We must pay attention erecting sculptures and building fountains. As patriotic public health mass movements, we must launch eradication of the "three harmful pests" (mosquitoes, flies, rats), control the "three wastes" (waste water, garbage, night soil), and effect the "three changes" (change to cleanliness, greening, beautification). We must teach professional ethics and launch emulation drives of various kinds for the "three merits and one subject to learn," to have the attitude, appearance and speech of service personnel conform to the demands of beauty, and learn to speak and spread the use of standard Chinese. We must actively build facilities for cultural and sports activities, establish a lifestyle of spiritual beauty, and establish various kinds of cultural and recreational centers. Every region, county and their neighborhood organizations, wards and villages should establish culture centers, culture stations and culture rooms; all enterprise units should operate clubs, libraries, and broadcasting stations, establish various kinds of organizations for after-hour cultural and sports activities for staff and workers, persuade the people to develop good ethics and values, and provide abundant and varied cultural and sports activities for the masses. We must widely propagate implementation of the "Pledge of the Citizens of Guangzhou," have the pledge observed by every single person and make it a conscious act of upholding Guangzhou's beauty.

In our strenuous efforts to achieve the "four threes" within 3 years, much work still needs to be done, and many more measures to ensure success could be suggested. However, if the major work as described above is effectively carried out, it will certainly be a great encouragement to all citizens, and it will guarantee the accomplishment of the great transformation, of great development and the realization of all objectives of the "four threes."

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CSO: 4006/854

ECONOMIC MANAGEMENT

BRIEFS

STATE-DISTRIBUTED PRODUCTS--Beijing, 8 Aug (XINHUA)--Supply contracts for the first half of this year covering the 18 major products under the state's unified distribution plan were not fulfilled as expected, according to the State Statistical Bureau. In the case of coal, rolled steel, pig iron, cement, aluminum, sulfuric acid, caustic soda, rubber, tires, and four other products, the proportion of supply contracts fulfilled was even less than that for the same period last year. An initial analysis gives the following reasons: 1) inadequate supplies of certain raw materials and fuels required for the manufacture of these products; 2) poor transportation facilities; 3) inadequate electric power supply; and 4) the price set in the contract was lower than the negotiated price in the market, so the supplier was not enthusiastic to fulfill the contracts. [Summary] [Beijing XINHUA Domestic Service in Chinese 1232 GMT 8 Aug 85 OW]

CSO: 4006/910

FINANCE AND BANKING

STATE COUNCIL APPROVES FINANCIAL INSPECTION

OW310540 Beijing XINHUA Domestic Service in Chinese 1315 GMT 28 Aug 85

[Text] Beijing, 28 Aug (XINHUA)--The State Council recently approved and transmitted the Finance Ministry's "report on carrying out a General Inspection of Taxation and Financial Affairs." The State Council called on the respective departments in all localities to conscientiously implement the report in light of actual situations. The state council maintained that conscientiously carrying out a general inspection of taxation and financial affairs throughout the country is very necessary.

In its circular on the approval and transmission of this Finance Ministry's report, the State Council pointed out: Currently, tax evasion and violations of state financial and economic discipline are quite prevalent, and some of them are even of a very serious nature. Not only do these acts in violation of law and discipline seriously affect the implementation of the state taxation laws and reduce the state financial revenue but they also interfere with the reform, corrode cadres, and damage the party's work style and social practice. Governments at all levels must pay intensive attention to them and must not regard them as ordinary.

The State Council stressed in its circular: The inspection must be conscientiously carried out according to the requirements. All problems discovered must be sternly handled and must never be left unsolved. Besides reclaiming the due payments in cases of willful evasion of state tax and violation of financial and economic discipline, it is also necessary to impose disciplinary punishments on those directly responsible in serious cases and to investigate criminal responsibilities to those violating the criminal code according to law. It is necessary to carry out, through the inspection, education among the cadres and masses on the observation of discipline and law and the concept of the legal system and the whole situation.

In its "report on carrying out a General Inspection of Taxation and Financial Affairs," the Ministry of Finance made clear stipulations regarding the scope, content, and other questions of the inspection.

The scope of inspection includes mainly the industrial, transport, commercial, grain, foreign trade, supply and marketing, supplies, banking, and other state-run enterprises. State institutions and administrative organizations will also be inspected. Inspection of taxation should also be carried out on collectively run enterprises and individually run enterprises.

The content of inspection includes mainly whether the tax-paying units and individual persons have paid the various taxes in full and in good time according to the stipulations of the tax law, and whether they have evaded taxes, or owed taxes; whether the enterprise have turned over the state profits, as well as the key energy and transport construction fund and other income to the state treasury in full and in good time; whether they have retained, borrowed, or delayed the payment of profit and income; whether the tabulations of the cost and expenses of enterprise are in conformity with situations; whether the retained portion of profits after payment of taxes is in conformity with the state regulations; whether they have raised the proportions of retained profits and other special funds; whether they have turned state interests into private interests, avoided entering income into the account, or set up "small money-lockers" for private use in violations of the state regulations; whether they have unscrupulously increased prices, or illegally purchased and sold important means of state industrial production and durable consumer products in short supply in violation of state regulations; whether they have illegally bought and sold foreign exchange; whether they have spent money on sudden impulse and used public funds for entertaining guests, presenting gifts, feasting, or extravagant and wasteful activities, or have squandered state funds and property; and whether they have committed acts of corruption, embezzlement, theft, speculation, or bribery.

The Ministry of Finance stated in its report: The general inspection of taxation and financial affairs will start in this August and end before the Spring Festival. All units should clean up their own affairs first and may handle the problems discovered by themselves in an appropriately lenient manner. It is absolutely impermissible to allow the enterprises and units that have violated law and discipline to obtain economic benefits. In serious cases, it is also necessary to investigate the responsibilities of the leaders and personnel concerned.

CSO: 4006/906

FINANCE AND BANKING

JINGJI RIBAO EDITORIAL URGES REMOVING BUDGET'S RED INK

HK280853 Beijing JINGJI RIBAO in Chinese 23 Aug 85 p 1

[Editorial: "Eliminate Financial Deficit to Attain Balance in Revenue and Expenditure"]

[Text] In line with current economic developments and the state's financial condition, the State Council has decided to wipe out this year's estimated deficit of 3 billion yuan in a bid for a budget of balanced revenues and expenditures. This is an important measure to consolidate and carry forward the existing excellent situation and insure the smooth progress of economic reforms.

To remove the budget's red ink and achieve a balanced budget is an important indicator of a fundamental turn for the better in the state's financial condition. In the past few years, on the basis of the development of production, the financial condition of the state has gradually turned for the better, with a year-to-year drop in revenue giving way to a steady increase. In the past 2 years, there have also appeared the beginnings of a situation marked with a simultaneous increase in production. There has been some red ink in the past few years. But compared with the 1979 and 1980 red ink, the situation has been quite different. This is reflected in the considerably reduced size of the deficit, with a fundamental balance achieved from year to year. Moreover, the deficit in the past few years has no longer been one arising in a situation marked by shrinking revenues and expenditures but one based on relatively big increases in both revenues and expenditures. This situation shows that conditions exist for the complete removal of the budget's red ink. This will greatly help in bringing about a fundamental turn for the better in the state's financial condition.

The very favorable economic situation prevailing at present provides a good opportunity for carrying out economic reforms. The problem was since the second half of last year and especially since the fourth quarter, there has been too great an investment in fixed assets, too rapid an increase in loan and consumption funds, and too large a supply of money, causing a rise in the prices of certain commodities. To get rid of the above unfavorable factors, the state has promptly adopted a series of important measures and achieved conspicuous results. The current call for removing this year's red ink is another important measure. The further implementation of all these measures will surely create a more favorable and stable economic environment for economic reforms.

This will also create favorable conditions for a balance in revenues and expenditures and in loan funds and for economic development in the period of the Seventh 5-Year Plan beginning next year.

To achieve a balanced budget this year requires us to act in concert, take the whole situation into consideration and do a good job of boosting income and reducing expenses in a down-to-earth manner.

When it comes to boosting income, we must energetically support and supervise enterprises in increasing production to augment income. Enterprises must strive to increase the production of salable products suited for the market, thus adding to state and enterprise income. Financial departments and departments in charge of enterprises must urge enterprises to establish and perfect their economic responsibility system, improve economic results, guarantee output value and bring about a simultaneous increase in profits and the share of profits and taxes handed over to the higher authorities. Various areas and departments must energetically support tax departments in collecting taxes according to the law and arranging for the timely payment into the treasury of the full amount of money due. Tax departments must strengthen controls over taxation and impose fines on those units or individuals cheating on and evading taxes and falling behind in tax payments according to the stipulated regulations. Those seriously guilty must be held legally responsible. Tax departments must strictly observe the tax law related to the prescribed power to grant tax exemptions or reductions and cannot go beyond the limits of the power to do so.

To strictly control expenditure is a key to the realization of a balanced budget this year. Certain outlays in the first half of this year, and especially too rapid increases in expenditures for capital construction and administrative outlays, have rendered more difficult the control of expenditure in the second half of the year. In the several months ahead, we must keep the investment in capital construction within the limits of the state plan. After efforts from all sides, administrative outlays since the beginning of June have shown a drop, but not in an ideal enough manner. We must make continued efforts and keep at it, controlling expenditure in line with the requirements of the State Council. Various areas and departments must show more foresight and overcome blindness, guarding against such an abnormal situation as marked by sudden year-end spending and big increases in expenditure.

For the realization of a balanced budget, financial departments bear a great part of the responsibility, while other departments also share the responsibility. Various departments must act in close cooperation with the financial departments in doing a good job of boosting income and reducing expenses. Financial departments at all levels must in the coming several months go all out, strengthening the organization of sources of income, strictly controlling expenditure and guaranteeing a balanced budget for the year without any red ink. They must also strive for a surplus contributing toward a balanced national budget.

CSO: 4006/910

FINANCE AND BANKING

HARMFUL ECONOMIC EFFECTS OF LOW COAL PRICES DETAILED

Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 6, 11 Jun 85
pp 47-50

[Article by Zhang Chunyin [1728 4783 7299], Economic Research Institute of the Chinese Academy of Social Sciences: "Urgency and Complexity of Coal Price Reform"]

[Text] The reform of our economic structure has now entered a new stage, and price reforms are on the agenda of the day. The most conspicuous problem in our present price system is the particularly low level of our coal prices. The coal industry during 1983 incurred losses which ranged up to 53.4 percent of state-owned enterprises and 65.6 percent of enterprises working under unified distribution of coal. The Coal Mining Bureau, which nationwide suffered the largest losses, lost more than 10 yuan per ton of coal. The main reasons for the particularly low prices for coal are the restraints imposed on coal production by the laws that are bound up with its extraction, an extraction that progresses from rich to poor and from shallow to deep seams. Extraction of known deposits will always start with rich deposits that occur nearest the surface and thus are geologically most conveniently available. With the passing of time and progress of development, extraction will become increasingly difficult. Since there are no spectacular breakthroughs coal extraction technology, it is inevitable that extraction costs will rise. The average per-unit cost of raw coal in mines under unified distribution increased 1.45-fold from 1958 to 1983, which is an average annual increase of 3.6 percent in the cost of each unit during these 25 years. In Shanxi Province, with its more favorable mining conditions, the average annual increase per unit was 3 percent, in Hunan Province with rather unfavorable mining conditions the average annual increase per unit was 4.7 percent, and in the old mining areas of Liaoning Province the average annual increase per unit was 4.9 percent. Owing to the fact that little attention was paid to the role of the law of value for a long time, coal prices were not gradually adjusted in accordance with rising production costs. As the coal prices were kept particularly low over a long period of time, the law of value exerted its penalty on us.

The primary dangers arising from the prevailing low coal prices are:

1. They seriously impede increased coal production: Coal is the main source of China's energy; it has long constituted about 70 percent of China's energy consumption structure. Because of China's abundant coal reserves, it will remain our main source of energy for a long time to come. Because of China's shortage of energy resources, about 20 to 30 percent of its industrial production capacity cannot be fully utilized. To solve the problems caused by the energy shortage, the state has assigned first priority to developing coal production. The demand for quadrupling energy resources by the end of this century amounts to demanding that China's coal production, currently about 700 million tons, reach 1.2 billion tons by the end of the century, an enormous and arduous task indeed. It took the United States over 200 years to attain a coal output of 700 million tons. In the Soviet Union, which has abundant coal deposits, and which for a long time has expended much effort in coal extraction, coal production has by now only reached about 700 million tons. We must also mention that among China's current output of 700 million tons, somewhat over 100 million tons are produced in small-scale coal pits, a production that is highly unstable. Peasants dig small-scale coal pits because they find it profitable. Some day when better profits beckon elsewhere, they will stop digging for coal. Furthermore, if small coal pits are not strictly controlled, they damage the country's natural resources. The rate of recovery at small-scale coal pits is currently only 20 percent; this is one aspect of the matter.

Another aspect is that with low coal prices, state-operated coal production becomes unprofitable; as a consequence such enterprises will "eat the fat and leave the lean." China's technical standards stipulate that the rate of recovery in coal mines should be 70 percent, but state-run mines currently achieve only 50 percent, which again amounts to damaging our natural resources. The fact that recovery of this natural resource is at a rate lower than the stipulated standard implies that every year hundreds of thousands of tons of coal that should be extracted are not being extracted. In the Datong coalfield alone, millions or even tens of millions of tons of coal are lost every year. Due to the particularly low coal prices, the state-run collieries cannot make a profit or are even operating at a loss for many years. Thus without any capital of their own, this is another factor that dampens their enthusiasm to increase their coal production. In the 1982 nationwide investment in capital construction, either through funds raised by the enterprises themselves or by bank loans, only 2.3 percent went for coal, which was far less than the 9.2 percent investment in coal production budgeted by the state. The low coal prices were also detrimental to possibly inducing local authorities to raise funds and allot them for the development of coal mining. Local authorities always treat the unprofitable coal mines as a burden. Some coal mines where output could have easily been increased, limit themselves under present conditions to producing only enough to satisfy local requirements. They are unwilling to increase their production because the surplus would have to be shipped out, in which case it would be the local county that would lose money. Low coal prices also prevent renovating coal extraction technology, because the introduction of modern extraction machinery would increase costs. In short, the particularly low coal prices have a serious adverse effect on increased production in the coal industry.

With the low prices for coal and without the possibility of reducing costs by subsidies, the insistence by the state on increasing production is in the end countered by the adoption of production methods that give preference to extracting over digging, a method that enables a certain reduction in production costs. However, there is a hidden danger in this method, namely a problematic imbalance between coal extracting and drilling for new deposits. As the incubation period of this malady is a long one, it will at first be little noticed by anyone, but once the problem surfaces and requires adjustment, the consequences may adversely affect the entire national economy.

2. The low coal prices are detrimental to any economizing in the use of coal: As the coal price is cheap, it has little effect on production costs in the enterprises that use coal; they will, therefore, naturally feel little urgency to conserve coal. Some coal-consuming enterprises could very well effect technical improvements to save coal consumption, but with the low coal prices they figure that whatever their technical renovations might save in coal expenditure would not even compensate for the interest on loans necessary to install coal saving devices. This type of consumer will be disinclined to use capital funds for coal-saving renovations. According to statistics, it would require the investment of 250 to 300 yuan to save 1 ton of standard coal, an investment which, according to the current coal prices, it would take 8 to 10 years to recover. Such departments or enterprises will prefer to invest in the expansion of production capacities, where recovery generally takes only 2 years. As coal prices are low, there is much wastage of coal. In certain places coal is cheaper than sand or soil; little attention therefore is given to economizing, and at some boilers coal is discarded that is only half burnt. Antiquated boilers are not only not eliminated; some are even reactivated. In Shanxi Province, where coal prices are low, coal consumption by certain types of equipment is more than 4 times higher than in Zhejiang Province, where coal prices are high. The utilization ratio of energy sources in China has all along been rather low. In the early 1980s, Japan's utilization ratio of energy resources was 57 percent, in the United States 51 percent, in the EEC 40 percent, but in China only 28 percent. In China more than 20 percent more coal is consumed for each kWh compared with Japan. All this is directly related to our particularly low coal prices, which also causes coal-consuming enterprises to be lax in the management of their coal; huge shortages and serious losses occur every year in coal stocks at coal-consuming units. The price of coal in Fujian Province was originally 23.5 yuan per ton; when it was later increased to 33.5 yuan, the immediate result was an economizing in coal use. In 1983, 14 factories in Fujian Province consumed more than 50,000 tons of coal. Their coal consumption dropped 3.5 percent as soon as coal prices had gone up. This shows that there is great potential for further economizing on coal use in our industries. The reduction in the consumption of coal by coal-consuming enterprises can make up for the additional costs of coal at higher prices. The same holds for coal consumption by the general public. In Shanghai, coal for civilian use costs 50 yuan per ton, and because the price is high, a family of four will burn only 150 jin of coal briquets and will be extremely careful in their use. In Beijing the honeycomb briquets are too cheap, the price of one portion of ice cream can buy five honeycomb briquets, the price of 1 jin of pork can buy 56 honeycomb briquets, and in this situation the citizens will pay little attention to saving coal. In the rural areas, 1 jin of firewood costs 0.10 yuan, or the equivalent of 3 jin of coal,

but 1 jin of coal burns as much as 3 jin of firewood. As a result, there is a black market in the rural areas for coal tickets, with 1 coal ticket costing 1 yuan. It appears that raising the coal prices somewhat in the rural areas will not create any problem, because coal will still be much cheaper than the fuel arrangements the peasants are now having to make. Generally speaking, the situation in China is extremely contradictory: on the one hand we have an extreme shortage of energy sources, which are by far insufficient to satisfy the needs of the development of our national economy, and on the other hand we allow the coal prices to remain low, creating much wastage. In fact, economizing on coal is an extremely important matter, because if we are able to only double the sources of energy by the end of the century, it will hardly be possible to quadruple the gross industrial and agricultural output value; to resolve the problem of the deficiency, we shall have to rely on economizing in energy consumption.

3. As long as low coal prices prevail, it will not be possible to speed up the elimination of factories which should not be allowed to continue operations under present conditions, a state of affairs which is detrimental to carrying out the closing, suspending, merging or retooling of such enterprises: Currently, as we have particularly low prices for coal and also for grain, it is profitable to operate factories; as a result, factories are started up one after another. In this way, the small-scale will squeeze out the large-scale factories, and backward factories will squeeze out the advanced, a situation that grows more serious with every passing day, while the backward enterprises keep using up large amounts of the nation's energy resources. For instance, the increased output of electricity is being consumed by small enterprises. There are some small chemical fertilizer plants and small building materials factories which are of limited economic benefit and long due for elimination; their ability to continue operations is mainly due to the low coal prices. Furthermore, about 80 percent of all locomotives in China are steam locomotives, which are actually backward engines with very low heat efficiency (about 8 to 10 percent). The reason these engines account for such a high proportion and are responsible for so large a consumption of coal is directly related to our low coal prices. Sixty percent of China's transportation is now concentrated on railways, so that highways are not utilized to their fullest extent. This is also an inevitable consequence of our low coal prices and high gasoline prices. Seen within the framework of an overall accounting for our national economy, these circumstances appear highly irrational.

4. Low coal prices are detrimental to economic accounting: Since coal prices are particularly low, costs cannot be realistically determined, and when production incurs losses, pressures mount to lower costs by hook or by crook, even going so far as to falsify costs, thus creating the problem that costs for coal production are shown quite unrealistically. Unrealistic costs paralyze the function of economic accounting in the enterprises, because the profits of an enterprise will then not truly reflect the economic effectiveness of its business operations. Some now consider coal production costs to be the area where pressure has to be applied. By not including depreciation charges in the cost of coal production, but including a so-called simple maintenance charge per each ton of coal, is an outstanding example of unrealistic cost accounting. As we understand, starting in 1964, there is no depreciation charge included in the cost of coal, but in its place there is a

simple maintenance charge of 1.46 yuan per ton of coal. Before that change, the depreciation charge for coal averaged 2.78 yuan per ton. By this change the simple maintenance charge in production costs has become unrelated to the actual amounts used by the equipment during the production process.

Implementation of this method created many problems: in some collieries the depreciation charge per ton of coal was below 1.46 yuan, in some mines as high as 7+ yuan. As the computation was now done according to unified standards, people no longer cared for the maintenance of machinery and equipment and for its rational use. From 1964 until today, the simple maintenance charges have been completely unrelated to the depreciation expenses that actually occurred. The simple maintenance charges in the costs were later increased from 1.46 yuan per ton to 1.5 yuan, then again to 2 yuan and now to 2.75 yuan. This simple maintenance charge covers many things, mainly depreciation expenses and development and expansion expenses. It originated from three channels: 2.75 yuan from the cost of production; a 1.25-yuan subsidy from state finances (tantamount to a reduction in revenue); and later, because coal production was to be increased on a large scale, the users had to pay 2 to 4 yuan simple maintenance fee when buying coal (tantamount to a disguised price increase). The simplified maintenance charge amounts to 6 yuan, but only 2.75 yuan appear as costs. This method not only gives a false picture of the costs, but also creates a big problem: some large sets of equipment, such as comprehensive mechanized mining equipment, are imported at a cost of 12 to 20 million yuan a set (without auxiliary equipment), or cost about 8 million if domestically produced. In foreign countries, comprehensive mechanized mining equipment is written off after 8 years, in China after 10 years. For each set of such equipment there is an annual depreciation charge of 800,000 to 2 million yuan. If computed per ton of coal, the depreciation charge for comprehensive mining equipment would be about 4 to 6 yuan, but in actual fact not even one cent is now being charged against the cost of coal as depreciation of comprehensive mining equipment, and the simplified maintenance charge is merely 2.75 yuan. On the surface, the production costs of coal do not appear to be high, but when the time comes to write off the comprehensive mining machinery, where will the money come from to renew or replenish it?

5. Low coal prices are throwing the pricing of coal into a state of confusion: The disguised increases in coal prices create a serious situation. Apart from the prices for state allocations, there are also so-called cooperative prices, fund-raising prices, and numerous other prices with a variety of names. Ever larger amounts of coal are sold at disguised price increases or at so-called "negotiated prices," an undesirable state of affairs, which is apt to clash in the future with planned coal allocations by the state and apt to seize from the state its freedom of action in planned coal allocations. The collieries, mining bureaus and even coal-producing provinces are less and less interested in producing coal that is to be supplied according to state allotment prices, and are therefore regularly not fulfilling the production and supply plans. Their greater interest is to produce coal which they will supply outside of the state plan at negotiated prices, and there they will indeed overfulfill any quantities that are due. Moreover, the excess of the negotiated prices and increased coal prices over the regular prices is not entered into the public finance accounts. The state finance organs will not get it, as it will all be distributed among the various coal-producing units themselves. This is a serious problem.

6. Low coal prices are detrimental to the safety of coal production: An important benefit from the mechanization of coal mining is safety, but mechanization of coal extraction has been implemented in only 40 percent of operations (including comprehensive mechanized mining machinery, high-grade ordinary mechanized mining and ordinary mechanized mining); over half of our mining uses explosives, which is extremely dangerous. However, the collieries can install safety equipment only if they have the money to do so. It costs several hundred million yuan to install the most important safety devices, such as gas detectors and self-rescue equipment. All this requires capital funds, and with the particularly low coal prices and the lack of working capital, the collieries cannot possibly install safety equipment.

The dangers posed by the particularly low level of our coal prices is the reason why coal price reform is so urgent. This reform must proceed with extreme care because it affects all aspects of production as it also affects the livelihood of the people. Price reform must not only have an objective economic base, but must also be performed with perfect knowledge of the field, namely knowledge as to what objectives it can reasonably attain. If this difficulty in reforming coal prices is handled effectively, it can well precipitate a beneficial cycle of increased production and economies in the use of coal. In my opinion, the following problems must receive consideration in the adjustment of coal prices:

1. We must give consideration to the fact that current coal production costs are unrealistic. We must add to them all items that should be but are not yet included in the costs, and delete items that do not belong as costs so as to render the cost figures more realistic. After the coal cost figures have thus been adjusted upward, we must add honest depreciation charges so that there will be no further accounting discrepancies between the real wear and tear of the production equipment and the depreciation charges. All other charges that should be, but have not been, included in the costs, such as development and expansion charges, geological prospecting charges, and safety equipment charges, must also be included in the costs. Superficially, it would appear that returning borrowed funds is merely a financial transaction, but actually it is absolutely essential to accurate cost computation, and borrowed funds must always be repaid.

Another point that requires consideration is that the different conditions of natural resources cause a great disparity in production costs among collieries of the same type. In 1981 the difference was more than 100 percent between the average cost of raw coal of unified distribution mines and key collieries in provinces with the highest and provinces with the lowest costs. The difference would be even greater if the statistics were based upon the costs of particular collieries.

2. We must give consideration to all factors responsible for the continuing rise in coal mining costs. Herein let us disregard the external factors and look at those related to the coal extraction process itself. Following the development and expansion of mining shafts and the gradual increases in the depth and expanse of coal extraction, the average depth of key collieries taken into production throughout the country during the First 5-Year Plan was 187.65 meters (directly from surface to shaft base, not including galleries).

By the time of the Fifth 5-Year Plan, the average depth of newly opened key collieries was 436 meters. The depth of old and new mines increased at an average annual rate of about 10 meters. This implies that there is a constant increase in the transport distance in the mine shafts, in the volume of water to be drained and in added maintenance of galleries, also, consequently, in electric power consumption, materials consumption, in the demands made on equipment, and in labor. Moreover, looking at the overall trend of development, conditions of coal deposits become more and more unfavorable, guaranteeing that coal production costs will continue to increase. In 1958 the production cost of 1 ton of coal at all unified distribution collieries was 9.13 yuan; by 1980 it was 20.09 yuan, an average annual increase of 3.6 percent in 22 years. Continuously increasing coal production costs are not peculiar to China, but are also the trend in foreign countries. In England, for instance, coal production costs per ton have increased 325 percent from 1968 to 1978, an average annual increase of 2.9 percent (the inflation factor having been discounted). Losses incurred by state-run enterprises now extend to 65 percent of the industry. If future price adjustments are not sufficiently substantial, losses will again be incurred by a large portion of the enterprises in 2 or 3 years as a consequence of the increasing costs.

3. After the upward adjustment of coal prices, the chaotic conditions that now exists in the pricing of coal must be eradicated as much as possible, just as it was necessary after the reform of the graded wage system to eliminate the great variety of subsidies and so-called bonuses that existed in addition to salaries. Why do we say that these chaotic conditions must be eliminated "as much as possible," and not "radically and completely"? On the one hand, there is the force of custom which cannot be thoroughly eliminated at one stroke; there has to be a period of transition. More importantly, however, the reasons for disguised coal price increases are very complex. This is not only a question of coal prices being particularly low, but also one of material shortages, of improperly regulated cooperative activities, and other such problems.

4. The problem of a possible chain reaction from price adjustments: Coal is the energy source for many industrial sectors, as it is also a daily necessity of the people. The adjustment of coal prices is of course bound to evoke some chain reaction, but it will not be as serious as people imagine; it will never be so strong as to cause the collapse of our economy. The following five sectors are the largest coal consumers: thermal power plants, railways, the metallurgical industry, the chemical industry and the construction materials industry. Coal consumption accounts for 70 percent of the costs of thermal power production. In the other four sectors, coal accounts for 30 to 70 percent of production costs. In other industries and trades, coal consumption accounts for only a small portion of production costs. The coal price increases could best be absorbed within those industries whose main raw material or fuel is coal. This would not precipitate a great chain reaction. If higher coal prices effectively induce the coal-consuming enterprises to adopt coal saving measures, that would further reduce the chances of a chain reaction. We also must realize that in the newly established industries, productivity is fast increasing and coal consumption is small, so that any coal price increases will have little impact on these industries and would be easily absorbed. As to coal supplies to the general market, the quantity

involved is now 125 million tons, of which only 45 million tons is for civilian use. Thus the problem is mainly one of insufficient supply relative to social demand, while mild price increases would be a lesser problem. In the 1970s, world petroleum prices increased several times over. In that situation, Japan instituted oil saving measures on a large scale, and no economic confusion whatsoever resulted.

5. The principle should be to price coal according to its quality, but implementing this principle is a problem of considerable complexity. The main index for the quality of coal for motive or power purposes is its calorific value. In the case of coking coal and other types of coal, other criteria must be adopted; one must not "cut everything with one knife" and fix calorific value as the sole quality index.

6. Coal price reform will certainly cost the treasury some money, because paying accounts will increase fiscal expenditures and reduce revenues. Of course, the promotion of production and economies in the use of coal that result from the coal price increases will increase future revenues. However, for the year in which the prices will be adjusted, financial preparations must be made to have a price adjustment fund ready, as a dangerous situation may otherwise arise.

7. In implementing the price reform, attention must be paid simultaneously to prices, tax revenues, and salaries, which means that nothing but a comprehensive regulation will do. In concrete terms, when coal prices are raised, financial affairs must be under firm control, and nothing must be allowed to fall between two stools. The supply of coal for the people's daily use affects thousands upon thousands of households, and after the price increase, wages should be somewhat adjusted. Paying coal allowances to staff and workers after the price increase for civilian coal is not a good method. There are many drawbacks to the current monthly payment of 5 yuan per staff and worker as subsidiary food allowance; families that have many members working enjoy an increasingly better livelihood, and their allowances are also increasing. Moreover, as "food will come from separate kitchens" in the future, in financial terms, it will become even less manageable to pay staff and workers allowances, because areas experiencing financial difficulties will not be able to pay allowances, and this will have an adverse effect on the people's livelihood.

9808

CSO: 4006/845

FINANCE AND BANKING

BRIEFS

BANK AUTHORIZED BOND ISSUE--With the approval of the People's Bank of China, the China Bank of Industry and Commerce will sell 500 million yuan's worth of bonds in various cities throughout the country in order to use the money in granting special loans to qualified customers. The bonds will be issued in three denominations: 20, 50 and 100 yuan; mature in 1 year; and carry an interest rate of 9 percent. Urban individuals who voluntarily buy the bonds will be paid back together with interest by banks upon maturity. The money obtained from selling the bonds will be used in granting special loans to urban collective enterprises to carry out technical transformation projects or capital construction projects that do not cost much but will bring about quick economic returns. [Text] [Shanghai City Service in Mandarin 0100 GMT 31 Aug 85]

SAVINGS DEPOSITS INCREASE--Beijing, 30 Aug (Zhongguo XINWEN SHE)--It has been learned from the industrial and Commercial Bank that savings deposits in China in recent years have steadily increased. To date they total 83 billion yuan. The per capita saving deposits of the residents in towns and cities are 390 yuan, an increase of 64.3 percent over 1983. Since the implementation of the policies of urban reform, opening to the outside world, and enlivening the economy, staff members and residents have been living under a situation characterized by political stability, and their standard of living has improved. They generally have surplus money. Since 1979, banks have increased interest rates for savings by five times in order to encourage residents' savings. [Text] [Beijing Zhongguo XINWEN SHE in Chinese 0235 GMT 30 Aug 85]

DEPOSIT-TAKING A PRIORITY--At a meeting of the provincial industrial and commercial bank on deposit-taking yesterday, Vice Governor Guo Zhenqian stressed: The finance departments at all levels must give priority in the second half of the year to organizing savings deposits and enterprise deposits. Deposit-taking and the withdrawal of currency from circulation in Hubei in the first half of the year were relatively successful, and basically ensured the capital requirements for production and circulation. However, due to excessive capital construction

in the urban areas and excessive growth in some industrial sectors, urban capital is in rather short supply. Guo Zhenqian therefore demanded that the provincial industrial and commercial bank and other departments launch deposit-taking on an all-round scale and expand their field of service. [Excerpt] [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 1 Sep 85]

BONUS TAX LEVYING--Beijing, 30 Aug (XINHUA)--The State Council announced a provisional regulation on levying tax on bonuses issued by collective enterprises. The regulation says: In order to help collective enterprises strengthen their economic responsibility system, gradually raise workers' income, and prevent consumption funds from growing too fast, a tax on bonuses issued by all collective enterprises will be levied from 1985. The tax on bonuses issued by collective enterprises will be levied and managed in the same way as stipulated in the "provisional regulation on levying tax on bonuses issued by state-run enterprises." The regulation says: Taxes on bonuses issued by a collective enterprise will be determined in the same way as those of a state-run enterprise of the same trade, if the wage scale of the collective enterprise is the same as that of the state-run enterprise of the same trade. The tax will be determined on the basis of a monthly wage of 60 yen per person if the wage scale of the collective enterprise is not the same as that of a state-run enterprise of the same trade; any amount in excess of 60 yen will be regarded as part of the bonus. [Text] [Beijing XINHUA Domestic Service in Chinese 0735 GMT 30 Aug 85]

BEIJING ECONOMIC INCOME--The total economic income of the suburban areas in Beijing reached 3.26 billion yuan in the first half of 1985, an increase of 48.2 percent over the same period last year. The net income of the suburban areas reached 1.35 billion yuan, an increase of 44.2 percent over the same period last year. The amount of taxes handed over to the state increased by 51 percent over the same period last year. [Excerpt] [Beijing City Service in Mandarin 1000 GMT 18 Jul 85 SK]

BEIJING TOWNSHIP ENTERPRISE INCOME--Beijing Municipality's township enterprises continued to develop steadily and coordinatively in the first half of 1985. The total income of the municipal township enterprises reached 2 billion yuan by the end of June, an increase of 49 percent over the same period last year, fulfilling 50 percent of the annual plan. The total industrial output value of township enterprises reached 1.77 billion yuan, an increase of 46 percent over the same period last year, and the amount of profits increased 36 percent over the same period of last year. [Summary] [Beijing City Service in Mandarin 1000 GMT 19 Jul 85 SK]

CSO: 4006/910

MINERAL RESOURCES

PRC GOLD PRODUCTION UP; STATE INVESTMENT INCREASED

OW200234 Beijing XINHUA in English 1512 GMT 19 Aug 85

[Text] Beijing, 19 Aug (XINHUA)--A state loan fund of 160 million yuan annually has been set up for gold miners in a bid to expand mining of the precious metal, according to a recent meeting on gold production here.

At present state investment stands at about 60 million yuan a year, officials at the meeting said.

Huang Yuheng, manager of the China Gold Company said that China has more than 100,000 gold miners and construction workers who are now working at 100 gold mines.

Another 200,000 people work in small local gold mines opened by collectives or individuals, double the number of 1983. They produce 40 percent of China's total gold.

Recently gold production policies have been relaxed and the purchasing price raised to about world market level.

Flexible policies include allowing small investors to have more gold resources and providing technical and financial assistance to individual miners.

Gold mines which the state has no plans to exploit in the near future will be offered to individuals to mine. Peripheral gold seams in state-owned mines will also be opened to individual miners, Zhou Chuandian, vice-minister of the industry of metallurgy told the meeting.

These individually-run mines will also receive preferential treatment in supply of electricity, transportation, materials and funds. In addition, the state has raised the gold purchasing price from 696.64 yuan to 895.70 yuan a troy ounce in order to boost production and crack down on gold smuggling, Zhou said.

But, he added, all individual or collective mines must be licensed and all products must be turned over to the state.

He disclosed that strict regulations on gold marketing are being drawn up by the China Gold Company and the People's Bank of China. The new rules

will come into force after being approved by the National People's Congress, he said.

He also revealed that China will increase technical cooperation with the United States, Canada and the Netherlands to get modern equipment for the 139 mines to be opened or expanded during the Seventh 5-Year Plan period beginning next year.

Talks are under way on opening Sino-foreign joint venture gold mines in Guinea and Papua New Guinea, the meeting was told.

CSO: 4020/338

MINERAL RESOURCES

PRC TO UPGRADE COPPER MINING, PROCESSING

HK240638 Beijing CHINA DAILY in English 24 Aug 85 p 1

[By staff reporter Zhu Ling]

[Text] China's copper industry, a weak link in the economy, is launching a massive development drive to upgrade mining and processing techniques and greatly increase output.

A China Nonferrous Metals Industrial Corporation official said yesterday a giant copper smelter in south central China would go a long way towards achieving that goal.

Trial production at the Guixi Copper Smelter in east Jiangxi Province is due to begin soon. Planned output is 60,000 to 90,000 tons of raw copper and up to 360,000 tons of sulphuric acid annually.

As the nation's largest and most modern copper smelter, it is expected to greatly alleviate China's copper shortage, the official said.

China is endowed with some of the largest copper reserves in the world and yet--due to backward technology and transport--they are mostly untapped.

"Our copper mining and smelting capabilities are low because many of the copper reserves are in remote areas where transportation is next to impossible," said the official.

Tibet, for instance, has verified copper reserves of more than 7 million tons. But its remoteness precludes exploitation of the rich resources for the time being.

However, Jiangxi Province, where the new giant smelter is located, has one-fifth of the nation's estimated copper reserves. China's economic planners have targeted the region as a national copper base.

The Guixi smelter is located at the intersection of two national railway lines. And four of the five copper mines around it have verified reserves of more than one million tons, the official said.

The main equipment and technology for the smeltery has been imported from Sumitomo Company of Japan and Outokumpu Oy of Finland under a contract signed in late 1978. So far, more than 100 workers have been sent by the smeltery to study equipment maintenance, production techniques and managing in the two nations.

Most of China's 17 smelteries are using 1950's technology and urgently need updating. Their main problems are lack of environmental safeguards and high energy costs.

China has rich nonferrous metal resources but they are mostly untapped.

Over the past two years, the demand for nonferrous metals in the production of alloys for industry has grown more than 18 percent. Within the next five years, planners say industrial demand will increase by more than 50 percent.

The current push to upgrade mining and production of nonferrous metals aims to double the current output. The corporation official declined to give estimates of current nonferrous metal output.

The new drive's top priority is to develop aluminium, zinc and copper. Several mining restrictions have been lifted to encourage individuals to open small pits.

Meanwhile, the China Nonferrous Metals Industrial Corporation is seeking foreign investment and technology in 18 projects to help boost output.

They have opened discussions with foreign firms at a current exhibition in Tokyo. The projects involve mining and production of aluminium, copper, lead, zinc and beryllium oxide. Investment required for the co-operative projects will total more than \$100 million.

Businessmen from Canada, the United States, Japan, Britain, Federal Germany, France and Australia have expressed strong interest in the projects, the corporation said.

CSO: 4020/338

MINERAL RESOURCES

ENGINEER REPORTS ON XIZANG MINERAL DEPOSITS

OW170529 Beijing XINHUA in English 0655 GMT 14 Aug 85

[Text] Lhasa, 14 Aug (XINHUA)--Geologists in Tibet here discovered a copper mine in Sangri County, Shannan Prefecture.

The mine has been verified to have two ore bodies, but their reserves are still being studied.

It is in a 200-kilometer ore belt consisting of copper, lead and zinc in Sangri and the neighboring county of Nedong.

Exploration of a chromite deposit is underway in southern Tibet. Work is expected to be completed by the end of June next year. Local geologists believe it will be the largest ever found in Tibet.

Xu Jincai, chief engineer of the Regional Bureau of Geology and Mineral Resources, said that Tibet has proved rich in mineral resources.

More than 70 minerals have been found, including chromium, copper, boron, sulphur and arsenic.

Geological workers in recent years have also found two alluvial gold deposits in northern Tibet, a primary gold mine in southern Tibet and a tin mine in Qamdo area in eastern Tibet.

In addition, two new geothermal spots have been located near Xigaze, and Yangbajan north of Lhasa, where a geothermal power station with a generating capacity of 10,000 kw is in operation. More than 600 spots have been verified to have geothermal resources.

The 47-year-old chief engineer said that more than 3,600 geological workers were working on the roof of the world. Much bigger progress could have been made if they were better equipped, he said.

CSO: 4020/338

MINERAL RESOURCES

BRIEFS

MINING OUTPUT UP--In the first half of this year, the province achieved a breakthrough in developing the mining industry by the masses. Some 250,000 people in the province have gone up to the mountains to engage in mining. In the province there are about 6,900 small mining businesses established and run by town and township enterprises, combined peasant households, and individuals. The mining industry and the processing industry of mineral products are now becoming the province's major economic mainstays. As a result, the output of the province's mineral products increased greatly. The average output of 10 nonferrous metals, including tin, lead, and zinc increased by 20 percent compared with the same period last year. [Excerpts] [Kunming Yunnan Provincial Service in Mandarin 1100 GMT 28 Aug 85]

CSO: 4006/906

INDUSTRY

USE OF DOMESTIC PRODUCTS URGED TO DEVELOP POWER INDUSTRY

Beijing ZHONGGUO JIXIE BAO in Chinese 12 Apr 85 p 1

/Article by Deng Bin /6722 2430/ of the Central People's Broadcasting Station, and this newspaper's reporter Zhu Shichuan /2612 4258 1557/: "Li Peng, Vice Premier of the State Council Points Out: Development of Our Power Industry Must Base Itself on the Domestic Supply of Equipment"

/Text/ In his report, given in the morning of 8 April, at the All-China Conference of Manufacturers of Power-Generating Equipment To Plan and Make Advance Arrangements for the Seventh 5-Year Plan, Li Peng, vice premier of the State Council, pointed out: Our policy in the development of the power industry, be it for the immediate future or from a long-range view, must base itself on domestic resources and must rely on domestic equipment. When touching on the current and future needs to import some parts for our power generating units, Vice Premier Li Peng said: On the one hand there is the technological need and on the other hand the need to balance our foreign trade, but generally speaking the equipment needed by our power industry must rely on domestic resources.

On the reasons for relying on domestic resources, Li Peng said: First, in their over 30 years of hard work, our manufacturers of power generating equipment have developed a fairly complete production capacity. We have three large bases where power generating equipment is being manufactured, and these bases are backed by large-scale machine building plants. In addition, a number of medium-scale plants manufacture electrical machinery, boilers and steam turbines. We have great potential indeed. Second, our electric generating equipment industry has already attained a certain technological level. Through the importation of technologies, some of their products and parts are up to advanced international standards. Third, the state has decided that our power industry shall advance synchronously with the growth of our national economy. This opens up a broad market for the industry manufacturing power generating equipment, and this market must not rely on foreign imports, but rather be in our own hands.

He said, we still have a seller's market, but it will become a buyer's market. Under these conditions, the manufacturers of power generating equipment will certainly make every effort to raise production capacity and quality standards; there will be a certain latitude for users to make selections, and socialist competition will then prevail.

Li Peng expressed the hope that Chinese manufacturers of power generating equipment will endeavor to produce equipment of high quality, economically priced, will furnish complete sets as required and that are best suited for the requirements of the users, and that they will render satisfactory service to all users, especially service in coordinating parts into whole sets. All these are important factors needed to truly guarantee the successful development of our electrical power industry.

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CSO: 4013/131

INDUSTRY

BRIEFS

NEI MONGGOL INDUSTRIAL ACHIEVEMENTS--In the first half of 1985, Nei Monggol Autonomous Region realized 4.451 billion yuan of industrial output value, accounting for 51 percent of the annual target and an 18.18 percent increase over the figure of the corresponding 1984 period. State industrial enterprises surpassed the output value of the corresponding 1984 period by 16.07 percent; the collective-owned enterprises, by 30.25 percent; heavy industrial enterprises, by 14.37 percent; and light industrial enterprises, by 2.435 percent. [Excerpt] [Hohhot NEI MENGGU RIBAO in Chinese 10 Jul 85 p 1]

CSO: 4006/905

CONSTRUCTION

HAINAN PLAN FOR NEW DEEP HARBOR APPROVED

HK300843 Beijing XINHUA HONG KONG SERVICE in Chinese 0235 GMT 28 Aug 85

[Report: "Hianan Island will build a deep harbor in Yangpu"]

[Text] Guangzhou, 28 Aug (XINHUA)--According to sources in the Hainan Island Harbor Management Burea, the state has formally approved the plan to build a new deep harbor on Hainan Island--Yangpu Harbor. This key construction project will start soon.

The new harbor will be built in Yangpu Bay, which is situated at the northwest end of the island. The bay is wide and deep and it is not silted, so it is a naturally fine harbor and can provide a haven for many ships.

The first phase of the harbor construction project includes the building of two berths for ships over 10,000 tons and three berths for ships over 5,000 tons, which will be completed in 3 years' time. The second phase of the harbor project will include three more berths for ships over 10,000 tons and three berths for ships over 5,000 tons so that the harbor can berth 30,000- or even 50,000-ton-class ships and function as an international shipping center. In 1985, the state will invest 180 million yuan in this harbor construction project.

According to the overall development plan for Hainan Island, the Yangpu area will gradually be developed into a new comprehensive district which includes building materials, metallurgical, oil refining, petrochemical, fertilizer, and forestry product processing industries.

At present, there are three major ports on Hainan Island, namely, Haikou Port, Basuo Port, and Sanya Port.

Meng Qingping, a major responsible person of the Hai Nan Regional Government, said that an important part of the plan to develop the island is to speed up the construction of harbors. Hainan Island plans to increase the total handling capacity of all its harbors from some 7.6 million tons a year at present to 12 million tons in 1990 so as to meet the needs of the island's economic development.

CSO: 4006/906

CONSTRUCTION

GUANGXI SENDS CADRES TO HELP WITH CAPITAL CONSTRUCTION

HK030206 Nanning Guangxi Regional Service in Mandarin 1130 GMT 2 Sep 85

[Text] Recently, the regional CPC committee and the regional government decided that in order to strengthen capital construction in both urban and rural areas, the region will, from now until the spring festival, transfer 30,000 cadres, in work teams from the region's organs and institutions at regional, prefectural, city, county and town levels to urban and rural areas to engage in capital construction.

The regional CPC committee and the regional government urged the work teams which will be sent to the rural areas to do well in the following tasks on the basis of publicizing the party's principles and policies:

First, the work teams should form perfect leading groups for the rural areas, and strengthen the party's and CYL organizations.

Second, they should train rural cadres.

Third, they should conduct education on the legal system, and maintain a good social order.

Fourth, they should perfect the responsibility system, and help the masses to attain prosperity.

For the work teams which will be sent to the urban areas, they should emphatically grasp well the building of spiritual civilization, in particular consolidating the social order, and help one or two large or medium-sized enterprises to do well in the economic structural reform.

CSO: 4006/906

CONSTRUCTION

BEIJING FACES SHORTAGE OF CONSTRUCTION MATERIALS

OW301121 Beijing XINHUA Domestic Service in Chinese 0017 GMT 27 Aug 85

[Journalistic Note by XINHUA reporter Xia Junsheng: "Act According to Availability of Materials in Capital Construction"]

[Text] Beijing, 27 Jul (XINHUA)--While gathering news in Beijing, this reporter found that capital construction in the municipality is facing an acute shortage of raw materials. Many comrades point out that, given the current acute shortage of construction materials, capital construction should be carried out according to the availability of materials.

We must do what we are capable of in capital construction. As for how to measure our "capability," for many years we have often determined the scale of capital construction on the basis of the funds available, giving little consideration to the availability of material resources. As a result, the supply of construction materials has fallen behind capital construction plans and the contradiction between supply and demand has become very acute.

According to comrades of Beijing construction materials supply departments, the number of locally run capital construction projects in Beijing has increased year after year, but the amount of cement distributed to Beijing by the state has decreased year after year, from 480,000 tons in 1983 to 410,000 tons in 1984 and again to 300,000 tons this year. Capital construction, technological facilities construction, housing repair, farmland water works, and other projects in Beijing require 1.5 million tons of cement this year. The city is 80 percent short of the cement needed. To alleviate the contradiction, the city could not do otherwise both barter some of its above-quota vehicles for cement with other parts of the country. At present, we have, after tremendous efforts, only secured 880,000 tons of cement. Besides, we need 60,000 tons of asphalt, of which 20,000 tons have been secured. We are also short of 100,000 tons of steel products, 70,000 cubic meters of timber, and 20,000 tons of cast iron products.

Because the scale of capital construction in Beijing far exceeds the actual supply capacity of construction materials, not only steel products, timber, and cement far from meet demand, but asphalt, cast iron products, sanitary pottery and porcelain products, and other materials also cannot meet demand. Locally produced construction materials such as bricks, tiles, lime, sand, and stone have also become increasingly short of supply, and even nails and lead wire cannot be easily purchased on the market.

Because of the shortage of construction materials, the prices of construction materials have risen sharply in the market. Construction units often have to buy construction materials on the market at double or even much higher prices. Consequently, construction costs have gone out of control. Some materials cannot be purchased even at higher prices, and projects often have to be suspended pending the supply of materials. In the first half of this year, housing totaling 17 million square meters was under construction in Beijing, up 38 percent over the corresponding 1984 figure, but housing completed in the first half of this year was less than the corresponding 1984 figure by nearly 100,000 square meters.

If the scale of capital construction was determined solely on the basis of the availability of funds, a unit undertaking construction could apply for loans from a bank if it were short of capital or utilize foreign funds if domestic funds were inadequate. Moreover, capital construction projects undertaken by urban collective enterprises or rural village and town enterprises are not subject to control because they do not require state investment. All these factors contribute to the expansion of the scale of capital construction. Furthermore, many unplanned projects have been started, intensifying the shortage of construction materials.

Some comrades contend that we cannot build capital construction projects with money alone. We must also give consideration to the availability of adequate construction materials. Construction projects cannot be carried out without construction materials.

CSO: 4006/906

CONSTRUCTION

EXCESSIVE CAPITAL CONSTRUCTION INVESTMENT REPORTED

HK310331 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 30 Aug 85

[Text] Capital construction investment in Kunming City has risen too fast this year. Total investment from January to July was 370 million yuan, 150 million more than in the whole of last year. According to estimates, the figure may reach 450 million yuan by year end, more than double that for last year. This excessive growth has caused a whole series of problems:

1. There is blindness in construction projects. The city has now built 216 drinks plants and 22 steel-rolling mills.
2. There is a shortage of capital. Projects that should be started cannot get going, key projects that should be guaranteed cannot be, and some projects have been abandoned half-way.
3. The quality of construction work cannot be ensured. According to a check by the departments concerned, only 50 percent of the work on new projects is up to standard. None of the five projects built by Lunan County this year was up to standard.
4. There is a wild scramble for raw materials and markets. There are already too many dyeing plants for the market, yet Yilinag and other places are building new ones. Chenggong County has spent over 1 million yuan on building a steel-rolling mill which has no raw material sources whatever.

The main reason for the excessive growth in capital construction investment is that no authoritative departments has carried out checks in a unified way. For a time a laissez-faire situation has developed in which anyone who sees an outlet builds a project of whatever type he likes. The problem is particularly serious in the case of certain collective enterprises and township and town enterprises.

CSO: 4006/906

CONSTRUCTION

BRIEFS

OLD BEIJING BUILDING RESTRICTIONS--Beijing, 23 Aug (XINHUA)--New buildings to be constructed within the capital's old city area should be no more than 45 meters in height, according to a decision made here today. The limit is 60 meters for buildings outside old Beijing. The decision, made by the Municipal City Planning Committee, said that the limit was aimed at keeping the style and features of Beijing as a cultural center and ancient city with a history of 3,000 years. It also requires new buildings to be concordant with the city's original style in architectural design. [Text] [Beijing XINHUA in English 1850 GMT 23 Aug 85 OW]

SHANGHAI SINTERING PLANT--Shanghai, 16 Aug (XINHUA)--China's biggest sintering plant, with an annual capacity of 4.9 million tons, went into official production at the Baoshan Iron and Steel Complex near Shanghai today. The computerized plant, one of 22 key projects in the first-phase construction of the complex, is designed to supply sintered ore for Baoshan's No 1 blast furnace, which will go into operation in September this year. [Text] [Beijing XINHUA in English 1522 GMT 16 Aug 85 OW]

CSO: 4020/338

DOMESTIC TRADE

JIANGSU ENTERPRISES IMPROVE SUPPLIES, MARKETING

OW300815 Nanjing XINHUA RIBAO in Chinese 23 Aug 85 p 1

[Dispatch by correspondent Ding Feng]

[Excerpts] While subjecting themselves to macroscopic control, village and town enterprises in our province have actively and flexibly carried out microscopic readjustments and improved work in supply and marketing, thereby maintaining steady progress during the first half of this year. Their total industrial output value was 16.3 billion yuan, topping that of the same period last year by 79 percent. Sales incomes, volume of profits, and revenue from sales taxes rose 76, 74, and 77 percent respectively.

Raw and semifinished materials for our province's village and town enterprises are obtained mainly from the market. Cadres and workers of supply and marketing departments and companies in the province have made various arrangements and coordinated efforts with one another to meet the needs of production and ensure sustained and steady development of production.

To change the passive situation in the past when supply and marketing agents were everywhere looking for buyers for their products, many village and town enterprises as well as supply and marketing companies in cities and counties in our province have improved, developed, and consolidated economic cooperation with other provinces and cities, and have established fairly stable bases for the supply of raw and semifinished materials and energy. They have developed economic cooperation with Shanxi, New Monggol, Yunnan, Guizhou, and other areas that produce energy, iron and steel, and nonferrous metals. They have developed joint operation with large state-run enterprises in Shanghai and other large and medium-sized cities. The latter have become quite stable and reliable sources of raw and semifinished materials.

CSO: 4006/906

DOMESTIC TRADE

COOPERATION BETWEEN TWO ENTERPRISES TURNS WEAKER ONE AROUND

Beijing LIAOWANG [OUTLOOK] in Chinese No 28, 15 Jul 85 p 6

[Article by Ren Xinfu [0117 2946 4099]: "Advanced Enterprises Should Fulfill Role of 'Lead Geese' "]

[Text] The Ma'anshan Instrument and Meter Plant, whose products were found substandard in the 1982 nationwide investigation of the instrument and meter trade, and which was therefore disqualified, made an arrangement in 1983 with the Shanghai Decompressor Plant for the transfer of technology and technical cooperation for a certain remuneration. In 1984, the plant made its comeback; the quality of its goods had improved, production costs had been lowered and economic results had increased, so that the plant had moved to the forefront in its trade. When considering this case one cannot help thinking of the lead goose in a flight of geese high in the sky.

How advanced units and advanced enterprises can act the role of "lead geese" in the course of the four modernizations and economic revitalization well deserves our study. In the process of developing our socialist commodity economy, it is undoubtedly very necessary and of great real significance that we vigorously advocate the spirit of mutual cooperation amidst the pursuit of competition.

China's industrial enterprises number in the hundreds of thousands, many of which manufacture similar products. Owing to differences in the quality of their personnel, their technological strength, the condition of their equipment and the quality of their management, product quality and economic results often differ widely. For instance, prior to its technological restructuring, the Ma'anshan Instrument and Meter Plant made an average annual profit of only 15,000 yuan for more than 10 years, which amounts to the annual profits of one employee or worker in the Shanghai Decompressor Plant.

By establishing the mutually beneficial arrangement between the Shanghai and the Ma'anshan plants for the transfer of technologies and production cooperation, against a certain remuneration, and the subsequent technological restructuring of the Ma'anshan Instrument and Meter Plant, a backward enterprise could be transformed into an advanced enterprise within the short time of only 1 year. This forcefully demonstrates the remarkable

effectiveness of having an advanced enterprise assume the role of "lead goose," and also that cooperation amidst competition is possible and, furthermore, extremely beneficial.

China is a socialist country engaged in modernization; on the one hand we permit competition and on the other hand advocate cooperation. Cooperation in the same trade facilitates technological exports and imports and speeds up economic results. The great undertaking of the four modernizations requires this workstyle. Less advanced enterprises must show more initiative in these types of cooperation. The Ma'anshan Instrument and Meter Plant courageously acknowledged its backwardness, sought advice on its own initiative and made earnest efforts to reform technologically. For this reason, the plant needed only 1 year to end the more than 10-year old state of hesitation and stagnation, and avoided the imminent danger that had threatened.

Advanced enterprises acting the role of "lead geese" by the remunerated transfer of technologies accords with the law of "gradient transformation" in science and technology. Such transfers can not only raise product quality, reduce production costs and provide the consumer with a better and cheaper product--a concern of the entire trade--but can, furthermore, free the hands of the advanced enterprises to develop new technologies and new products, also have their own trade raise their level of perfection, so as to be able, on the basis of this new foundation, to meet the challenge of competition in domestic and foreign markets. It is therefore necessary, and indeed a good thing, for the advanced enterprises to boldly act the role of "lead geese."

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CSO: 4006/855

FOREIGN TRADE AND INVESTMENT

TIANJIN TO EXPLORE ALTERNATIVES TO BARTER TRADE WITH USSR

HK230417 Beijing CHINA DAILY in English 23 Jul 85 p 2

[By staff reporter Huo Zhenyi]

[Text] Tianjin--Tianjin intends to expand trade ties with the Soviet Union by exploring alternatives to barter trade, according to the city's Foreign Trade Bureau.

Zhao Chengzhang, director of the bureau's administrative office, told CHINA DAILY that the barter trade currently under-way between Tianjin and the Soviet Union is inadequate to fully exploit trade opportunities.

Zhao said the port city would adopt a more flexible policy towards trade with the Soviet Union, which has much to offer to the city. However, he said, many Tianjin industries are ignorant about Soviet products. A publicity campaign may be launched, he added.

Machinery, precision instruments and other products manufactured by Czechoslovakia, the German Democratic Republic and other Eastern European countries are needed in the city, Zhao said.

He suggested that China's technology imports should not only come from Western countries, but also from the Soviet Union and Eastern European countries.

The city attaches great importance to joint ventures with overseas companies, said He Shunguan, director of the Export Division. Tianjin now processes frozen fish supplied by Japanese companies and sells the finished products on the world market.

Tianjin operates a fur coat factory in tandem with a Hong Kong company, and a bicycle plant in partnership with Denmark is expected to go into production later this year.

The city's exports are expected to top \$1.1 billion this year, exceeding this target by \$100 million, Hu said. In the first six months of this year the city exported \$700 million worth of goods, he added.

To accelerate imports and exports, Tianjin will sponsor a major trade fair in November and will dispatch more than 70 trade missions overseas to promote sales of city products.

Zhao said adequate supplies of raw materials for export production is the city's current headache. The city is now bartering colour TVs, automobiles and bicycles made in its factories with domestic raw material suppliers.

Tianjin currently maintains business ties with Hong Kong, Macao and 130 countries to export its clothing, textiles, chemical products, food products, arts and crafts and machinery.

CSO: 4020/337

FOREIGN TRADE AND INVESTMENT

FOREIGN INVESTMENT DOUBLES IN HEILONGJIANG

OW231809 Beijing XINHUA in English 1621 GMT 23 Aug 85

[Text] Harbin, 23 August (XINHUA)--Foreign investment has doubled in Heilongjiang Province this year, an official of the Provincial Bureau of Foreign Economic Relations and Trade told XINHUA today.

The province made use of the equivalent of 31 million U.S. dollars in foreign funds in the first six months of this year, an increase of 100 percent over the same period of last year. The funds covered low and interest-free loans, direct foreign investment and commodity credits provided by foreign business firms.

According to the official, negotiations on further foreign investment to be used to import technology and equipment are under way.

The official said 14 Sino-foreign joint ventures valued at 18.7 million U.S. dollars were set up in the first half of this year, bringing the province's total joint ventures to 25 with combined foreign investment of 21 million U.S. dollars.

A Sino-French joint venture to produce high quality furniture was set up here early this year to make use of Heilongjiang's timber resources. The province is China's largest timber-growing center. The furniture company with a total investment of 79 million yuan will use the very latest equipment. It will produce 300,000 pieces of furniture, 50,000 cubic meters of fiberboard, 45,000 cubic meters of facing materials, and seven million cubic meters of blotting paper annually.

The official said priority in use of foreign investment will be given to exploiting provincial mineral resources, making comprehensive use of timber, developing light industry, textiles and agriculture, and processing farm and sideline produce.

CSO: 4020/355

FOREIGN TRADE AND INVESTMENT

HEILONGJIANG WELCOMES FOREIGN COOPERATION

OW241850 Beijing XINHUA in English 1836 GMT 24 Aug 85

[Text] Harbin, 24 August (XINHUA)--Among 290 projects listed for foreign cooperation, Heilongjiang Province is giving priority to those exploiting mineral resources and developing petrochemicals, He Shoulun, deputy governor of the province announced here today.

He was speaking at an international seminar on economical cooperation and trade, which opened this morning in Harbin, provincial capital.

The projects involve exploring for, smelting and processing such minerals as copper, molybdenum, coal, graphite and marble.

Others include building hydroelectric stations, thermal power plants and railways, opening international air routes, developing the petrochemical, textile, paper-making, sugar refining and dairy industries, processing grain and edible oils, utilizing timber and herbal medicinal resources and expanding tourism.

Some of these will be joint ventures or co-management projects; others will have sole foreign investment or be financed by seller's credits, compensation trade, and foreign investment for technology and equipment.

More than 300 business people from 15 foreign countries and Hong Kong and Macao are attending the 12-day seminar.

Heilongjiang is one of China's major grain producers. Output of corn, beans and timber rank first in the country. The province has proven deposits of 50 minerals and rich waterpower resources suitable for building 200 hydroelectric power stations with a total generating capacity of 60 million kw.

The province has established economic, technical and trade contacts with over 100 countries and regions. It has attracted foreign investment equivalent to 47 million U.S. dollars to upgrade its old factories, and imported 483 items of technology and equipment worth a total of 370 million U.S. dollars. The province has set up trade agencies and companies in Japan, the United States and Hong Kong.

CSO: 4020/355

FOREIGN TRADE AND INVESTMENT

NINGXIA EXPANDS EXTERNAL ECONOMIC COOPERATION

OW241152 Beijing XINHUA in English 1128 GMT 24 Aug 85

[Text] Yinchuan, 24 August (XINHUA)--Northwest China's Ningxia Hui autonomous region has established economic relations with more than 50 countries and regions in the past few years, according to local authorities.

Being one of the more backward areas of China, Ningxia has used its legislative powers within the framework of the national constitution to introduce measures concerning foreign trade, with preferential treatment for overseas partners in economic cooperation.

An international conference for economic and technical cooperation held here last September has yielded initial results.

Out of the 20 million U.S. dollar contracts, signed with 90 firms from 14 countries and regions, several factories have started operations and brought in profits.

These include a plastic bag factory with equipment from Federal Germany and Austria, a Sino-U.S. joint venture making environment monitoring instruments, and a factory making valves with Japanese machinery.

The region used to export only several dozen agricultural products in the 1970s. Now it is exporting more than 10,000 varieties including coal, machinery, tires, carpets and light and chemical industry products.

Government officials, journalists, scholars, engineers, businessmen, and artists from 25 countries and regions as well as experts from the United Nations have visited Ningxia.

The region has also expanded cultural relations with foreign countries. Several theatrical troupes have come to Ningxia, while a local Beijing opera troupe and song and dance ensemble have visited Tunisia and Canada.

The Italian government has contributed four million U.S. dollars to help build an engineering college in Ningxia, and foreign scholars come to lecture here every year.

The Moslem region has paid special attention to its relations with Islamic states. It has sent medical and construction teams to some Arab countries.

The region plans to hold an international conference for economic and technological cooperation with Islamic countries this coming September in Yinchuan.

CSO: 4020/355

FOREIGN TRADE AND INVESTMENT

SHENYANG CONTRACTS FOR FOREIGN JOINT VENTURES

OW241634 Beijing XINHUA in English 1518 GMT 24 Aug 85

[Text] Shenyang, 24 August (XINHUA)--Shenyang, capital of Liaoning Province, has signed three new joint venture contracts with foreign investors, an official from the city's foreign economic relations bureau said here today.

Two are for chemical plants and the third is for an engineering company in the Federal Republic of Germany.

A 10-year joint venture between the Shenyang Auxiliary Agent Factory, and Nihon Parkerizing Company and Chori Company of Japan involves an investment of three million yuan and will produce 300 chemicals for treating metal surfaces using Japanese technology and equipment. Output next year is expected to reach 1,000 tons valued at 3.5 million yuan.

The Shenxing Polyurethane Products Company, a venture between the Shenyang Petrochemical Works and Chee Eng Hang (PTE) Ltd. of Singapore has an investment of 600,000 U.S. dollars. It will produce 500,000 pairs of special galoshes and 10,000 pieces of high quality furniture with a value of one million U.S. dollars annually from next year. Eighty percent of the products will be exported.

New World Trade and Engineering (NWTE), which will be based in Sprockhorde, Federal Germany is a long-term joint venture between three Shenyang companies and three German firms. It will mainly undertake construction designs and provide consultancy and trade services. The Chinese and German sides will share the investment of one million FRG marks.

Shenyang, which has provincial rights in handling foreign investment, is offering foreign investors additional preferential treatment in taxation, markets, hard currency and import and export management.

CSO: 4020/355

FOREIGN TRADE AND INVESTMENT

BEIJING'S MAYOR WELCOMES FOREIGN INVESTMENT

OW191052 Beijing XINHUA in English 1032 GMT 19 Aug 85

[Text] Beijing, 19 August (XINHUA)--Beijing has signed 1,100 contracts with overseas firms involving a total of two billion U.S. dollars in the past six years, according to Beijing's mayor, Chen Xitong.

In an interview with the overseas edition of the PEOPLE'S DAILY which appeared today, the mayor said that the contracts included 88 joint ventures and cooperative projects, which required an investment of more than one billion U.S. dollars.

He said the city had established trade links with more than 10,000 companies and factories all over the world and products from Beijing were being exported to 130 countries and regions.

Beijing was ready to open its doors to all types of countries, socialist and capitalist, developed or developing, the mayor added.

He said Beijing welcomed more foreign investment, noting that the city had several advantages in further opening to the rest of the world, which was China's national policy.

First, the city had formulated its development policy with focus on food, textile, electronics, optics, printing, electrical appliances, instruments, construction materials, and arts and crafts industries.

Second, the city with a metropolitan area of 16,800 square km was capable of absorbing more foreign investment. Its railway system transported 40 million passengers and 50 air services carried 2.5 million a year. Postal and telecommunications services linked the city with 150 cities in 110 countries and regions.

Third, the city's population of nearly 10 million and a daily mobile population of 900,000 made it a large potential market.

Fourth, Beijing's industrial development in the past 36 years and its many tourist attractions had given it a strong exchange earning ability, Mayor Chen said.

CSO: 4020/355

FOREIGN TRADE AND INVESTMENT

FOREIGN BIDS FOR RAILWAY PROJECTS RECEIVED

OW291840 Beijing XINHUA in English 1441 GMT 29 Aug 85

[Text] Beijing, 29 August (XINHUA)--Bids for the supply of machinery and equipment for China's railway projects opened at the import building on the western outskirts of Beijing today.

Over 100 Chinese and foreign bids were received. Representatives of more than 40 manufacturing firms from Austria, Britain, Canada, the Federal Republic of Germany, France, Japan, the United States, Yugoslavia, China and Hong Kong attended the bid-opening ceremony, which was held under the auspices of the International Tendering Company of the China National Technical Import Corporation.

The projects include construction of the Xinxiangheze Railway line from Henan Province to Shandong Province, technical upgrading of the Hezeyanzhou Railway line, and the electrification of the Datong-Taiyuan line in Shanxi Province.

The projects are financed by a World Bank loan equivalent to more than 200 million U.S. dollars. This is the first time for the bank to finance railway construction projects in China.

The loan is mainly for purchasing engineering equipment, materials like rolled steel, timber and cement, and electrical equipment.

Evaluation of the bids will start soon, and contracts are expected to be awarded in October, according to an official of the Tendering Company.

CSO: 4020/354

FOREIGN TRADE AND INVESTMENT

SHANGHAI EXPORTS DECLINE SINCE 1980 PEAK

HK270701 Beijing CHINA DAILY in English 27 Aug 85 p 2

[By Staff Reporter Su Zhen]

[Text] Shanghai--Since hitting a record of 4.3 billion yuan in 1980, Shanghai's foreign trade has been sluggish. Officials here agree that something must be done.

In the past three years, trade income has been hovering at about 3.7 billion yuan. Last year it dipped to 3.6 billion yuan.

The sluggishness has been blamed on several factors, including competition from other coastal cities opened to world trade last year. Increased domestic demand, too, has diminished supplies of commodities available for export.

As China's largest city and biggest industrial centre, Shanghai has extensive trade ties around the world. Its export volume accounts for one-sixth of the nation's total.

Jia Zhenzhi, director of Shanghai Foreign Trade Promotion Commission, told the People's Congress here last April that foreign trade must be stimulated to shake it out of the doldrums and earn more foreign currency.

Shanghai trade officials say they must also put their own house in order. Local goods are often not competitive and businesses involved in export are often riddled by poor management.

Many goods for export are outdated and lacking variety. While quartz clocks are the rage on international market, Shanghai clock makers are still peddling wind-up ones.

Foreign trade policies are often confusing.

Shanghai Piano Factory, for example, can earn 6,320 yuan for each Nie Er brand piano sold in the domestic market place, but only 5,000 yuan when sold for export.

Shanghai producers also suffer from a lack of up-to-the-minute market information. Most export transactions are conducted by telex or by foreign businessmen coming

to the door. Managers in local corporations have few means of tracking international sales trends.

Untapped opportunities remain vast. Shanghai exports into the United States last year, for example, accounted for less than a tenth of a percent of American imports. And trade volume between Shanghai and the Soviet Union, which had its heyday in the 1950s, is now virtually nil.

CSO: 4020/354

FOREIGN TRADE AND INVESTMENT

SHANXI PROVINCE TO FAVOR FOREIGN INVESTMENT

OW281146 Beijing XINHUA in English 1133 GMT 28 Aug 85

[Text] Taiyuan, 28 August (XINHUA)--Shanxi Province will sell raw materials, fuel and electricity at local market prices to enterprises with sole foreign investment, Sino-foreign joint ventures and cooperative enterprises.

Such prices, usually lower than in coastal regions, will be discounted by five to ten percent if paid in foreign exchange.

Deputy Governor Bai Qingcai announced this today at an on-going international economic, technical and trade symposium in the provincial capital of Taiyuan.

Shanxi provides over one fifth of the nation's coal output. It has rich and inexpensive power and raw materials, in addition to coal.

A discount of up to ten percent will be offered to investors using thier foreign exchange profit to purchase Shanxi's export goods.

Enterprises with sole foreign investment, joint ventures and cooperative enterprises may sell a portion of their export goods on the domestic market and at international market prices, if these are badly needed.

Funds, interest rate and period and methods of payment will be given on liberal terms within the limits permitted by the state to enterprises which apply to the bank of China for loans in foreign exchange or renminbi.

Local income tax, rent of real estate, industrial and commerce consolidate tax and tax in land use will be exempted or reduced.

Overseas Chinese, compatriots in Hong Kong, Macao and Taiwan will enjoy even more favorable treatment in interest, tax revenue and other aspects, the deputy governor said.

CSO: 4020/354

FOREIGN TRADE AND INVESTMENT

BUILDING MATERIALS CORPORATION ESTABLISHED

OW271142 Beijing XINHUA in English 1046 GMT 27 Aug 85

[Text] Beijing, 27 August (XINHUA)--A specialized corporation handling import and export of building materials was set up here and started business today.

The China National Building Materials and Equipment Import and Export Corporation, a national, state-run company, will trade in building materials, non-metallic minerals and complete equipment and machinery as well as instruments and tools for the building materials industry. The corporation will act independently, through an agency or in cooperation with other enterprises.

It will also set up joint ventures, co-production, compensation trade, processing with supplied materials and technical consulting services and receive technical personnel from abroad and dispatch Chinese personnel to other countries. The corporation will act as agent for foreign building materials companies on a commission basis.

A senior corporation official told XINHUA that over the past few years, China had exported dozens of kinds of building materials such as marble, graphite, talc, cement, glass, glazed tiles and mica to more than 80 countries, including Britain, Canada, France, the Federal Republic of Germany, Italy, Japan and the United States. It has during this same period, imported cement and glass production lines as well as the technology and machinery to process graphite, marble, and sanitary ware.

He said the newly established corporation would promote export of China's building materials and import of sophisticated technology, equipment and products not available on the domestic market.

CSO: 4020/354

FOREIGN TRADE AND INVESTMENT

PRC CUSTOMS CRACKING DOWN ON SUBSTANDARD IMPORTS

HK280343 Beijing CHINA DAILY in English 28 Aug 85 p 2

[Text] China's customs inspectors are continuing their crackdown on imports of substandard commodities.

Officials in Liaoning Province in northeastern China reported finding 1,172 cases of shoddy goods among shipments into the country through ports there last year.

According to the newspaper ECONOMIC INFORMATION, compensation claims totaling \$12 million were filed last year and damages in the sum of two million yuan have already been collected this year.

Provincial commodity inspectors said timber and steel import orders are often found to be shortchanged when they arrive.

According to ECONOMIC INFORMATION, 660,000 tons of metals were imported in the first five months of this year. Steel shipments from the Soviet Union fell about 470 tons short of order in that time. Japan and the Federal Republic of Germany were also listed among the countries failing to live up to order contracts, the paper said.

Among the other examples cited in the account, silicon steel plates from Italy showed up below contract standard, Japanese taps for oil pipes arrived with cracks in them and U.S. steel imports turned out to contain reject products.

In the first five year months of 1985, Liaoning Province imported more than 370,000 cubic metres of timber, the newspaper said. Some of the shipments arrived not only short of contract volume, but also failing to meet order specifications.

ECONOMIC INFORMATION said the Soviet Union has sent three investigation teams to the province because of import complaints involving timber and compensated Chinese businesses 500,000 yuan.

Ports up and down the Chinese coast have reported a surge in shoddy imports this year. They have ranged from television and automobiles to heavy equipment and synthetic fibres.

In addition to the foreign suppliers, Chinese importers have shared blame for the influx of substandard products.

Many importers, the paper pointed out, are negligent in inspecting arriving shipments. In the zeal to buy foreign-made products, too little attention is paid to the products themselves, and demands for compensation are not filed in a timely manner when discrepantcies are found.

Some importers are reportedly afraid to file damage claims for fear of jeopardizing relations with foreign suppliers.

The paper also said that some importers are so ignorant of Chinese port handling capacities that contracts are signed with inadequate time provided to file claims should faulty products be delivered.

Some importers, the newspaper said, simply put shipments in storage without examining them. Songling Machinery Company in Shenyang, for example, imported 40 tons of steel plates from the Federal Republic of Germany without noticing that 10 tons had uneven surfaces. By the time the problem was discovered, the State had suffered hefty losses.

CSO: 4020/354

FOREIGN TRADE AND INVESTMENT

LIAONING SIGNS CONTRACTS PROMOTING FOREIGN COOPERATION

OW131221 Beijing XINHUA in English 1147 GMT 13 Aug 85

[Text] Shenyang, 13 Aug (XINHUA)--Liaoning Province signed 502 contracts to import foreign funds and technology in the first seven months of this year, it was announced here today.

Zheng Silin, Liaoning's Foreign Economic Relations and Trade Committee director, said the contracts involved 320 million U.S. dollars, accounting for 72.19 percent of last year's total.

Fifty-six of them were contracts involving direct foreign investment of 75,660,000 U.S. dollars, almost equal to the total of last year, and 20 were big deals each involving more than two million dollars.

Ninety-one production lines are being imported, licence and other deals involve trade, and technical co-operation and consultancy in the textile, machinery, electronics, chemicals, building materials, metallurgical and light industries, service trades and agriculture and animal husbandry.

While Japan continues to have close economic relations with the province, Liaoning has extended economic and technical co-operation with West European countries last year, Zheng said.

The province has concluded 231 contracts with Japan involving 107,660,000 U.S. dollars this year, 55 contracts with the Federal Republic of Germany involving 44,180,000 dollars, and 45 with Italy (43,870,000 dollars).

Liaoning is one of China's centers of heavy industry. Apart from speeding up construction of the Dalian economic and technological zone and expanding Yingkou Port, the provincial government has empowered several cities in the south to use more foreign funds to import new technology.

CSO: 4020/337

FOREIGN TRADE AND INVESTMENT

FOOD PROCESSING EQUIPMENT SHOW OPENS IN NANJING

OW161839 Beijing XINHUA in English 1629 GMT 16 Aug 85

[Text] Nanjing, 16 Aug (XINHUA)--An international exhibition of up-to-date food and beverage processing equipment opened in this capital of Jiangsu Province today.

A total of 30 firms from Britain, the United States, Japan, Italy, Denmark, Federal Germany, Spain, Australia and Hong Kong are represented, with cold drink, refrigeration, flour-processing, instant food and packaging machines on display.

Concurrently, a similar exhibition is being held by the Jiangsu Commercial Management Office. Forty factories from Jiangsu and other parts of China are displaying their machinery.

The local commercial office intends to purchase most of the foreign machines after the close of the international exhibition, an official said here today.

CSO: 4020/337

FOREIGN TRADE AND INVESTMENT

EXPORT-ORIENTED AGRICULTURE IN GUANGDONG REGION

OW141322 Beijing XINHUA in English 1302 GMT 14 Aug 85

[Text] Guangzhou, 14 Aug (XINHUA)--The Pearl River Delta Economic Region, bordering Hong Kong and Macao, is adjusting its agricultural production to export-oriented processed foods, according to a local official.

The region, covering three cities and 13 counties, formerly exported agricultural produce which did not have a ready market in Hong Kong and Macao.

Nearly 200 production bases have been set up this year to grow flowers and process fruits, vegetables, fish, seafood, and meats.

The changeover to processed foods involved adjusting grain and cash crop production ratios as well as those between agriculture, forestry, animal husbandry and fishery.

About 33,000 hectares of rice paddies and other low-valued food grains have been turned over to cultivation of vegetables, fruits and flowers and are also used for raising aquatic products and livestock.

Many former farmers are now working in processing industry, transport, construction and services.

The export management system of the region has been restructured so that a number of producers can negotiate directly with buyers from Hong Kong, Macao and foreign companies. This work was previously done by export offices, which now do more coordinating of production.

The region has also taken advantage of its proximity to Hong Kong and Macao to cooperate with other provinces in the processing and marketing of their agricultural products.

CSO: 4020/337

FOREIGN TRADE AND INVESTMENT

TAX REVENUES ATTEST TO SHENZHEN SUCCESSES

OW151348 Beijing XINHUA in English 1144 GMT 15 Aug 85

[Text] Shenzhen, 15 Aug (XINHUA)--Between 1 January and 10 August this year, Shenzhen collected 366 million yuan in taxes, 150 percent more than in the same period of 1984, according to a spokesman for the city's tax bureau.

The tax official said the bureau expected to collect more than 500 million yuan in taxes this year, almost double the 263 million yuan of 1984.

About one-quarter of the tax revenue came from Sino-foreign joint ventures, co-operative enterprises and businesses with exclusive foreign investment.

The spokesman attributed the increase in taxes to the growing number of newly-established enterprises and more profits.

A preferential policy of tax exemption or reduction in the Shenzhen Special Economic Zone has successfully attracted foreign investment and encouraged enterprises to increase production, the official said.

CSO: 4020/337

FOREIGN TRADE AND INVESTMENT

CONSTRUCTING ECONOMIC ZONES AWAY FROM CITIES CRITICIZED

Shanghai SHIJIE JINGJI DAOBAO [WORLD ECONOMIC HERALD] in Chinese 22 Jul 85 p 6

[Article by Xia Xiaoxun [1115 2556 3065], China Institute of Economic System Reform: "Investment Environment Is a Comprehensive Concept; Moving Away from Old Cities and Starting New Development Zones Is Detrimental to Attracting Foreign Capital; Placing Foreign Capital 'Under House Arrest' in Designated Areas Will Serve Only To Increase Apprehension Concerning Foreign Capital"]

[Text] In China, development zones [EDZs] are now being constructed over an area of over 100 square kilometers, with an expenditure of tens of billions of yuan. Projects of such huge dimensions should of course at one time or another be subjected to a careful examination as to their economic, technical and social benefits.

Although this is now only the start of the EDZs, they have produced certain new problems that require conscientious research and solutions:

The ability of the EDZs to attract foreign capital is "congenitally deficient." Foreign capital has an affinity for urban areas; very few projects of great value have truly and actually moved into the EDZs. Projects introduced into the EDZs concentrate on such fields as hotels, restaurants and the assembly of electronic products.

The EDZs are structured on too lavish a scale, exceeding whatever the financial resources at all levels can bear and eating large holes into capital funds and material resources. They may well become long-drawn-out "folly projects," and once there is some economic fluctuation, they can be the cause of substantial economic losses.

Nothing has been determined regarding the returns from these investments or about the repayment of loans. For every 100 million RMB of investment, the annual interests amount to several million yuan. If several billions or more than tens of billions are invested, interest alone becomes a very heavy burden. However, the EDZs are administrative organizations, and if there is not much inflow of foreign capital, not only will there be no way to repay loans, but no economic responsibility of any sort will be assumed.

The most serious concern is that if the EDZs will not, on the one hand, bring in advanced technologies and products and, on the other, find it impossible to break into the international markets, they will rely on dumping their goods into the interior or transshipping imported goods to the interior to maintain themselves. By doing so they will not only fail to create foreign exchange for the state, they will also absorb foreign exchange and capital from the interior to support themselves. This is an import-guidance pattern, and not an export-guidance pattern, and exactly the opposite of what had originally been intended; it amounts to a complete failure of the policy of establishing EDZs.

The above-stated problems are absolutely related to the geographical separation of the EDZs from the urban areas. Imagine, starting a project of building the necessary connections and levelling the ground to have a piece of bleak and desolate real estate prepared into an excellent investment environment--what a lopsided undertaking! The investment environment is a comprehensive concept, which comprises natural resources, manpower resources, technological foundation, industrial foundation, market conditions, financial and circulation services, as well as a suitable political and legal environment, elements which to a very high degree have been accumulated and built up in long years of economic development. Apart from the natural resources, almost all of these elements are qualities found in the cities. The reason why our coastal cities have been so attractive to foreign capital is precisely because they have developed these comprehensive economic qualities to a very high degree. The main defect of moving away from the old urban areas and building new EDZs is the disruption of all these economic relationships and, as a consequence, a dampening of enthusiasm for introducing foreign capital into the EDZs.

The fact that we are adopting a method of administrative control by territorial separation demonstrates that we have not yet learned to exercise supervision and control by legal and economic means. We are always afraid that the entry of foreign capital will create disturbances in our domestic markets, in our price structure, in the labor and wage system, and, therefore, hope we can keep foreign capital "under house arrest" in designated areas. However, this will precisely increase apprehension among foreign capital.

The main purpose in opening up our coastal cities is to import advanced managerial experiences of foreign countries as well as their advanced technologies, and to have the foreign-owned enterprises serve as examples for our domestic enterprises. Geographical separation is a "divide and rule" system as far as Chinese and foreign enterprises are concerned. It means separating importing from transforming and weakening the effect of the foreign-owned enterprises as examples to emulate and as "windows."

The detachment of the EDZs is also detrimental to the use of domestic raw and processed materials or parts and components by foreign enterprises; it limits their effectiveness in indirectly promoting the domestic industry and reduces foreign exchange revenue. On the other hand, the increased cost of their products will weaken their competitive strength in the international markets. If products cannot be exported, the proportion of their domestic sales will be increased, and the foreign exchange imbalance will be aggravated.

In order to avoid these problems in our EDZs we must change the uniform pattern of geographical separation. We must start out from the national condition of China, resolutely go the road of opening up by an integration of the development of the investment environment with the transformation of the old cities. We must convert the small investment environment of building EDZs into a large investment environment of transforming entire old cities; we must fully exercise the economic advantages, urban qualities and the attraction for foreign capital of the old urban areas.

In view of the present discrepancy between the state's shortage of capital, foreign exchange and materials on the one hand, and the benefits from the EDZs on the other, we consider it necessary to reduce the overall scale of the EDZs. We may first select certain areas with favorable conditions and support them as key projects, but EDZs where conditions are other than ideal must be restrained in their initial stages, awaiting further results, be converted to areas linked with the interior, or be transformed into satellite cities.

9808

CSO: 4006/855

FOREIGN TRADE AND INVESTMENT

BRIEFS

NEW PETROCHEMICALS TRADING COMPANY--Dalian, 21 August (XINHUA)--The Dalian International Petrochemical Trade Company, started business Tuesday in Dalian, Liaoning Province. The company, approved by the ministry of foreign economic relations and trade, will deal in imports and exports of petrochemical technology and equipment, products, by-products and raw materials. It will cooperate with foreign firms through joint ventures, compensation trade, processing with materials provided, assembling provided parts and technical service. Liaoning has 66 large and medium-sized petrochemical plants. The crude oil processed by eight large oil refineries in the province accounts for 31 percent of the nation's total. [Text] [Beijing XINHUA in English 1641 GMT 21 Aug 85 OW]

FOREIGN TRADE INCREASES--Shenyang, 21 August (XINHUA)--Liaoning Province in northeast China exported goods worth three billion U.S. dollars in the first seven months this year, equal to that of last year, according to a provincial meeting which ended here today. The three-day meeting on foreign trade was told that the province imported 140 million U.S. dollars worth of goods during the same period, double last year's figure. Best sold items included animal and native products, textiles, hardware, minerals, pharmaceuticals and chemicals. Nearly 200 people have been sent abroad to study the market needs since the beginning of the year while more than 1,000 foreign business people came in for trade talks. Liaoning has adopted a series of policies to encourage exports. More funds have been allocated for bases producing export goods. Among the export goods were 130 new varieties. [Text] [Beijing XINHUA in English 1859 GMT 21 Aug 85]

INTERNATIONAL WOOL SECRETARIAT--Beijing, 24 August (XINHUA)--An agreement on cooperation in production of woolen fabrics and other wool products was signed here today by the Chinese Wool products Manufacturing Industries and the International Wool Secretariat (IWS). Under the agreement, the IWS will provide assistance in technological improvement in the Chinese woolen fabric manufacturing and trading industries by introducing quality control systems, expanding textile design skills, and developing marketing programs. IWS managing director J.R. McPhee said, "We will assist with the aim of achieving a continuous rise in the living standards of the Chinese people and a steady expansion of foreign trade." McPhee said a basic need for success in woolen products was collection and analysis of many types of industrial and marketing statistical information.

Woolmark, one of the world's best known textile trademarks is owned by the International Wool Secretariat. Woolmark marketing programs are being launched in Beijing and Shanghai and will eventually be brought to other parts of China. [Text] [Beijing XINHUA in English 1515 GMT 24 Aug 85]

XINJIANG CONTRACTS WITH HONG KONG--Hong Kong's industrial, commercial, and financial circles have cooperated well with the region in business talks. According to statistics, by 29 August, Hong Kong and the region had signed 12 contracts, agreements, and letters of intention. More than 100 businessmen from 65 companies in Hong Kong have come to the region to attend the regional external economic and technological cooperation and trade talks. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 29 Aug 85]

FOREIGN FIRMS SPEED COOPERATION--Tianjin, 28 August (XINHUA)--Some 33 agencies of foreign or Hong Kong firms have been set up in Tianjin to act as go-betweens for Sino-foreign economic and technological cooperation. These agencies, representing firms in Japan, the United States, Britain, France, India, Austria and Hong Kong, are mainly engaged in liaison and consultancy services to bring Chinese and foreign enterprises into joint ventures, cooperative production, compensation trade, and so on. They will also help promote the import and export business in this port city in North China. Since 1981, through these agencies, Tianjin has imported a dozen big production lines and technical transformation items including technology for mini-truck production, a color tv production line, a bulldozer production line and a 10,000-line program-controlled telephone exchange which went into operation in mid-August. These foreign offices are also active in promoting technology exchange by providing technological data for Chinese enterprises, passing product lists to foreign firms and arranging negotiations. [Text] [Beijing XINHUA in English 1537 GMT 28 Aug 85 OW]

TRUCK TECHNOLOGY IMPORT--Beijing, 27 August (XINHUA)--Nissan Diesel Motor Co., Ltd. of Japan today agreed to transfer eight-ton heavy-duty truck designing and manufacturing technology to China's second motor vehicle plant. A five-year contract on the transfer was signed here this morning. Under the contract, the Chinese plant will import from the Japanese firm the designing and manufacturing technology of its model 12 CPC truck cabins and some of the major parts of the truck chassis. Nissan will provide a technical consultancy service for the Chinese plant. [Text] [Beijing XINHUA in English 1914 GMT 27 Aug 85 OW]

FOREIGN INVESTMENT RULES STUDIED--Harbin, 27 August (XINHUA)--China's northernmost province of Heilongjiang is starting to formulate a series of economic regulations to attract more foreign investment within the framework of the central government's open policy. The regulations cover taxation, the sale of products, control of foreign exchange and salaries. The draft of the regulations has been made in line with the current preferential policies the province is taking in this field. The preferential terms include special treatment in the procuring of raw materials, energy, loans and transportation, and taxation privileges. They are available for joint ventures, cooperative enterprises and businesses with sole foreign investment. [Text] [Beijing XINHUA in English 0639 GMT 27 Aug 85 OW]

CATALOG SHOW OPENS--Beijing, 3 September (XINHUA)--An international electronics, instruments and meters product catalog exhibition opened here today under the sponsorship of the China Council for the Promotion of International Trade (CCPIT). On show are more than 1,300 catalogs covering over 270 subjects presented by nearly 70 trade organizations and corporations from Austria, the Democratic Republic of Germany, the Federal Republic of Germany, Ireland, Italy and the United States. They introduce to Chinese visitors new achievements in the electronics, instruments and meters industries. The exhibition will close 10 September, and then move to Chengdu and Nanjing. The exhibition is an effective vehicle for introducing information on overseas new products, and a new channel for promoting trade. In addition to a series of product exhibitions, CCPIT has, since 1980, hosted over 70 catalog exhibitions from more than 20 countries. A CCPIT official told XINHUA, more and more foreign firms and corporations have applied to hold catalog exhibitions in China. International food-processing and textile machinery product catalog exhibitions will be held in Beijing, Xian and Qingdao in September 1986. An Italian corporation also plans a new product catalog exhibition in 14 cities next year. [Text] [Beijing XINHUA in English 0641 GMT 3 Sept 85 OW]

CSO: 4020/354

SPECIAL ECONOMIC ZONES

SHENZHEN SEZ PROVIDES OPPORTUNITY FOR YOUTH

OW170910 Beijing XINHUA in English 0851 GMT 17 Aug 85

[Text] Shenzhen, 17 Aug (XINHUA)--The majority of young people in Shenzhen, one of China's four special economic zones (SEZ), want to become entrepreneurs while admiring strong personalities among their colleagues, according to a recent sample survey.

Most youth also said that studying is more attractive than entertainment activities, the survey indicated.

Officials of the Shenzhen Personnel Bureau said that ever larger numbers of young people want to come to work in the special economic zone.

Analysts here said the open policy and the current reform have provided a "stage" for young people to display their talents and capabilities.

"It is here that I have the opportunity to play a leading role, though we construction engineers have travelled around a lot of places," said Luo Jundong, 30 design section chief of a construction company in Shenzhen.

The construction company undertook to build the highest building in Shenzhen--the 53-story international trade center--and set a record in erecting one story every three days. The design section headed by Luo Jundong provided new techniques for the construction.

Luo said the previous leaders of the design section were senior engineers. When he was appointed section chief, he was determined to "make a success" of his job.

The rapid development of the SEZ is attracting a growing number of young people. In five years, Shenzhen has leaped from being a small, sleepy border town to China's biggest special economic zone. The investment in this SEZ totals 4.6 billion yuan, and foreign investors have supplied 700 million U.S. dollars.

New undertakings offer various opportunities for young people. The local personnel department disclosed that the age of the 20,000 officials averages 37, while 85 percent of the workers are under 30, the youngest average in China.

The development of the Xilihu vacation village is one example. Of the 32 managers, 17 are under 30 years old, and 26 of the 31 department chiefs are young people.

Under the guidance of these young people, workers here have turned the wasteland into a tourism center capable of accommodating 300,000 tourists a year.

A spokesman for the city government said that the SEZ attached great importance to the role of young people from the very beginning.

Enterprises in the SEZ adopted the contractual employment system when construction of the zone started.

The spokesman said the young managers, department heads and technicians have made valuable contributions to the SEZ's development.

In addition to promotion to higher posts, young people find other opportunities. Chen Hongxia, a graduate of the Beijing Central Institute of Artistic Handicrafts, said what she valued most is Shenzhen's proximity to Hong Kong, the "window of fashion," as she wants to become a top fashion designer.

A recent survey showed that 60 percent of the young people want to become entrepreneurs and 68 percent admire persons competent in professional skills, organizing and management.

In order to upgrade their skills, more than 70 percent of Shenzhen's young people study or attend various training courses after work hours.

Officials of the Shenzhen Book Store said book sales averaged 17 copies per capita last year, the highest in Guangdong Province.

CSO: 4020/338

SPECIAL ECONOMIC ZONES

XINHUA REPORTS ON SHENZHEN 'SUCCESS STORY'

OW281102 Beijing XINHUA in English 0747 GMT 28 Aug 85

["Success Story of Shenzhen Joint Venture Told"--XINHUA headline]

[Text] Shenzhen, 28 August (by XINHUA correspondent Jiang Shunzhang)--A Japanese executive expressed happiness with the Chinese workers and the "considerable profit" his company had made in China in the past year.

Yoshiyuki Tsujii, general manager of the Huaqiang-Sanyo Electric Co. Ltd. in Shenzhen, declined to comment on newspaper reports that the venture had recovered its investment just in the first year.

"But I am very happy with the profit anyway," he said in an interview with XINHUA.

The company, a joint venture between Japanese Sanyo Electric Co., Ltd. and the Chinese Huaqiang Electronic Industrial Company was set up last year in Shenzhen, one of China's four special economic zones where special policies are pursued to attract foreign investment.

Before that, Huaqiang had processed materials supplied by Sanyo for four years. Understanding and trust developed in the process led to the establishment of the joint venture.

The initial success of the joint venture was so good that both sides decided to invest in a video recorder plant and a plant to produce tape recorder, T.V. and video recorder cases.

Hanqiang-Sanyo, with a staff of 930 including three Japanese, produced 840,000 recorders with 99 percent up to standard in the first year after it went into operation in July, 1984.

The venture's daily output of color T.V. sets now exceeds the designed capacity by 50 percent, with over 95 percent of the products up to standard.

"The Chinese workers mastered the operating skills of the imported equipment and adapted to the strict management system soon after the venture was set up," Tsujii said.

The Chinese workers are "very good" in discipline, industriousness and skill, Tsujii said in English. A 1965 graduate of Osaka University of Foreign Languages, he has worked in Nigeria, the United States and China.

Now the venture's productivity and quality of products meet the standards set by Sanyo for its 40 domestic and overseas factories, he added.

Huaqiang and Sanyo invested three million U.S. dollars each in the joint venture for a cooperative term of 15 years.

According to the agreement, 75 percent of the recorders produced by the joint venture were to be sold by Sanyo on the foreign market and the rest, by the Chinese side in China.

Advantages to the Japanese side include lower production costs and tariffs, Tsujii said.

CSO: 4020/354

LABOR AND WAGES

TU LEADER URGES WORKER ROLE IN DECISION-MAKING

OW191636 Beijing XINHUA in English 1608 GMT 19 Aug 85

[Text] Beijing, 19 Aug (XINHUA)--"One of the main tasks of economic reform is to get the workers to participate in making major decisions," today's PEOPLE'S DAILY quoted a Chinese trade union leader as saying.

Chen Bingquan, member of the Secretariat of the Chinese Federation of Trade Unions, said the power of many workers' congresses now parallels that of factory directors.

The All-China Federation of Trade Unions sends representatives to meetings of the State Council to take part in discussions on wages, prices and housing.

According to a survey of 20,000 enterprises, most workers' congresses take part in making major management and administrative decisions.

Factory rules and matters concerning wages and bonuses must be approved by the workers' congresses. They also have the right to supervise management and recommend leaders.

The trade unions have set up 73 law consultation offices to offer legal advice and settle legal issues among workers.

Chen said that some enterprises have not paid enough attention to the work of the trade unions and some trade unions have not seen to it that workers exercise their rights.

CSO: 4020/338

LABOR AND WAGES

LABOR SERVICES COMPANIES HELP UNEMPLOYED

OW171452 Beijing XINHUA in English 1436 GMT 17 Aug 85

[Text] Beijing, 17 Aug (XINHUA)--The Ministry of Labor and Personnel and the All-China Labor Service Company Training Center will jointly hold an exhibition in the Beijing light industrial products exhibition hall from 1 to 15 September, today's CHINA YOUTH NEWS reported.

The labor service companies, 38,600 in all, help the unemployed find jobs and organize their own businesses, helping to cut the unemployment rate from the 5.9 percent in 1970 to 1.9 percent in 1984, and they have given 3.82 million people pre-job training.

The labor service companies have organized 210,000 collectively-run enterprises, which turned over 1.08 billion yuan as taxes in 1984, twice the subsidies given by the state in the same year.

The paper said that the labor service companies have not been developed in a balanced way among regions and trades. Employees in collectively run enterprises and the self-employed still suffer lower economic and political status. There are still problems with the employment of women and children, mining and frontier areas.

CSO: 4020/338

TRANSPORTATION

YANZHOU-SHIJIUSUO RAILWAY NEAR COMPLETION

SK300005 Jinan Shandong Provincial Service in Mandarin 2300 GMT 28 Aug 85

[Excerpts] Thanks to the attention of leaders at all levels and vigorous support from various fields, our province has thus far made relatively big progress in building key projects on the premise of ensuring quality. At present, the general projected budget for the Yanzhou-Shijiusuo Railway, which should be completed this year as demanded by the state, has been 85.6 percent fulfilled. The track-laying project for the 310-km-long trunk lines of various stations have been basically completed, and that for the rail lines of various stations have been more than 90 percent completed. Now preparations are being made for opening the entire railway line to traffic.

Construction of the Shujiu harbor is being accelerated. The whole project now has the conditions for a circular operation, and preparations are underway for comprehensive operations on a trial basis in order to ensure that this project will be completed put into operation within this year.

The general projected investment budget for wharf No 8 of Qingdao harbor has been fulfilled by 82.1 percent. Now work on the completion stage of the project is being accelerated in order to basically enable the wharf to handle up to 3.9 million tons of cargo yearly and yield results from investment.

CSO: 4006/906

TRANSPORTATION

BRIEFS

SUMMER-FALL FLIGHTS INCREASE--Nanjing, 3 Aug (XINHUA)--At the national aeronautical tourism and transport work meeting held in Nanjing on 1 August, Guo Hao, deputy director-general of the Civil Aviation Administration of China, said: The CAAC has increased its flights to 900 per week during the summer and fall seasons, an increase by more than 28 percent over the corresponding period last year. To meet the rapidly growing demand, the CAAC has increased the number of flights for main routes and used bigger airliners for some routes. In addition, the CAAC has opened Shenyang-Dandong, Shanghai-Lianyungang-Beijing, Dalian-Guangzhou, Guangzhou-Taiyuan, and other new air routes. CAAC has also ordered dozens of new airliners from abroad. [Summary]
[Beijing XINHUA Domestic Service in Chinese 0928 GMT 3 Aug 85]

CSO: 4006/905

PUBLICATIONS

BRIEFS

INSCRIPTION FOR ECONOMIC MAGAZINE--The first issue of JINGJI ZHANWANG [ECONOMIC PROSPECTS] was published in late June. This is the first comprehensive economic magazine in the province. This bimonthly magazine is sponsored by the Economic Research Center under the provincial people's government, and will be put on sale throughout the country. The first issue carried the inscriptions written by Li Lian, secretary of the provincial CPC Committee, Chen Lei, chairman of the provincial Advisory Commission, and Yu Guangyuan, a noted economist of our country. Governor Hou Jie wrote the congratulatory message for the first issue of the magazine, entitled "Congratulation and Hopes." [Excerpt] [Harbin HEILONGJIANG RIBAO in Chinese 3 Aug 85 p 3]

CSO: 4006/905

TAIWAN

WAYS TO REDUCE U.S. TRADE DEFICIT SUGGESTED

OW212124 Taipei Domestic Service in Mandarin 2300 GMT 20 Aug 85

[Short commentary: "Senator Dole's Visit to the ROC, and Sino-U.S. Trade"]

[Excerpts] A 30-member U.S. Senate delegation to the ROC [Republic of China] led by Senate Majority leader Robert Dole arrived in the ROC from Tokyo last night. The delegation is scheduled to stay in the ROC for 3 days. The trade relationship and trade balance between the United States and the ROC will be the major topic in talks between Senator Dole and his party and Chinese Government leaders. The ROC understands that the U.S. international trade balance has developed from an issue of world economy and an international financial issue to a domestic political issue this year. Many protectionist proposals have been put forward in the Congress. U.S. industrial and commercial circles such as those in the fields of textiles, shoes and steel, unanimously are calling for efforts to see import limits and raise tariffs. Most worrisome is the fact that if this goes on, it will hamper world trade and global economic development and will retard world prosperity. Our national economy largely depends on foreign trade. Our exports to the United States account for 38 percent of the total export goods.

Therefore, the ROC Government and the public are greatly concerned over any protectionist and retaliatory legislation that may pass in the U.S. Congress. Having understood the U.S. need for balanced trade, the ROC has already adopted various measures in the past few years to narrow the trade gap between the two sides. For example, we have lowered our tariffs each year, given priority to the purchase of U.S. products for major construction projects, and so on. In the past few years, we had dispatched 10 procurement delegations to the United States, and we have purchased \$7.5 billion worth of American products.

Let us soberly analyze the factors that have caused the trade imbalance between the ROC and the United States. There are actually two factors. First, the economic structure of the two nations is different. Our exports to the United States are mainly consumer goods that call for extensive labor in production. Our products are competitive in this regard. Our imports from the United States are mainly producer goods, technology and agricultural products. The rate of growth of such products is limited. Second, due to political considerations, the United States is unwilling to sell the ROC the crude oil

we need as well as advanced technologies and weapons of high precision. This has made it more difficult to tackle the issue of the trade imbalance between the ROC and the United States.

It is impossible to solve the trade-imbalance problem through the efforts of one side only. We hope that the United States will also make efforts to narrow the trade gap. Particularly, U.S. businessmen and factories should study the characteristics of the ROC market and turn out more producer goods and industrial products that cater to our country's needs so that the ROC will procure more U.S. products. On the other hand, we hope that the U.S. Government will adopt an even more positive attitude on the sale of weapons and advanced technology. We believe that all this would have a definite effect on narrowing the trade gap between the two countries.

CSO: 4006/890

TAIWAN

PRESIDENT RECEIVES DOLE TRADE DELEGATION

OW211606 Taipei CNA in English 1453 GMT 21 Aug 85

[Text] Taipei, 21 Aug (CNA)--President Chiang Ching-kuo said Wednesday the advancement of economic and trade relations is one of the major goals that the Republic of China and the United States are pursuing.

How to keep the relations growing, based on the present achievements, is what the two nations are striving for, President Chiang said.

Chiang made the remarks while receiving the visiting U.S. Senate delegation at the Presidential Office Wednesday.

The delegation, led by Senate Majority Leader Robert Dole, R-Kansas, arrived in Taipei Tuesday for a three-day visit.

In addition to Dole, members of the delegation met by the president included Pete V. Domenici, R-New Mexico; James A. McClure, R-Idaho; Patrick Moynihan, D-New York; William S. Cohen, R-Maine; Pete Wilson, R-California; Daniel J. Evans, R-Washington, and their wives.

In their talks, Chiang first extended his warm welcome to the guests for their visit to this country. He also exchanged views with them on matters of mutual concern.

CSO: 4020/340

TAIWAN

U.S. SENATORS EXCHANGE VIEWS WITH OFFICIALS

OW220353 Taipei CNA in English 0328 GMT 22 Aug 85

[Text] Taipei, 21 Aug (CNA)--Seven visiting U.S. Senators, led by Senate Majority Leader Robert Dole, R-Kansas, on Wednesday exchanged opinions with the ROC Government officials on a great variety of issues.

The contents of their talks were not made public, for Foreign Minister Chu Fu-sung told reporters after the meeting that he felt "very satisfied" with their talks.

Chu said that the discussions were primarily centered on U.S. arms sales to the Republic of China, the situation in the Taiwan Straits, the ROC's trade surplus with the United States, and American banking operations in Taiwan.

During the discussions, all seven senators expressed their views on the relationship between the two nations, Chu said.

In addition to himself, Chu said that the ROC Government officials present at the meeting included Defense Minister Soong Chang-chih, Economics Minister Lee Ta-hai, Acting Finance Minister Li Hung-ao, Communications Minister Lien Chan, Chairman of the Council of Agriculture Wang You-tsao, Vice Economics Minister Wang Chien-hsuan, Deputy Governor of the Central Bank of China Robert Chien, and Director General of the Board of Foreign Trade V. C. Siew.

Before attending the meeting, Dole and the six other senators visited the National Palace Museum in suburban Taipei. They are scheduled to depart Thursday.

CSO: 4020/340

TAIWAN

CENTRAL BANK DEPUTY GOVERNOR APPOINTED FINANCE MINISTER

HK210602 Hong Kong AFP in English 0457 GMT 21 Aug 85

[Text] Taipei, 21 Aug (AFP)--Taiwan named Central Bank Deputy Governor Chien Chun, Finance Minister today to replace Loh Jen-kang, who quit in the wake of the island's biggest business scandal, a reliable source said here.

The appointment was made by the Central Standing Committee of the ruling Kuomintang and is to [be] formally announced after rubber-stamp approval by Taiwan's cabinet, said the source.

Mr Loh resigned last week to assume responsibility for the scandal involving a group in the powerful Cathay commercial empire.

Mr Chien, 56, had served as director of the tax reform committee and director of secretariat in the Central Bank before becoming deputy governor in 1974.

The 31-member Standing Committee also named Ho Hsien-chung, 63, president of the City Bank of Taipei, as the new political vice-finance minister to replace Lee Hung-ao, the source said.

Mr Lee, who had also resigned in connection with the scandal--which came to light in February--was to be switched to another post, it said.

The new finance minister is to decide whether he would keep Day Lih-ning, director of the monetary department, who resigned last week after the Control Yuan--Taiwan's highest supervisory body--found him and 14 finance officials had been negligent in failing to halt illegal loan operations by the Tenth Credit Cooperative, a private bank in the Cathay empire.

CSO: 4020/340

TAIWAN

STATISTICS INDICATE HIGH STANDARD OF LIVING

OW210449 Taipei CNA in English 0253 GMT 21 Aug 85

[Text] Wufeng, Central Taiwan, 20 Aug (CNA)--Forty years after its retrocession from Japan, Taiwan now is a society in which people enjoy a high standard of living, prosperous economy, a democratic political system and convenient transportation, Taiwan Provincial Governor Chiu Chuang-huan said Tuesday.

On the eve of the 40th anniversary of Taiwan's retrocession, Chiu, in an administrative report to the Provincial Assembly, cited some facts to explain the progress and prosperity Taiwan has achieved over the past 40 years.

Chiu said the gross national products in the area reached about NT dollar 2,290 billion (U.S. dollar 57 billion) as of the end of 1984, 158 times more than the NT dollar 12.2 billion (U.S. dollar 300 million) of 1951.

The per capita income in Taiwan increased by nearly 20 times from U.S. dollar 140 in 1951 to U.S. dollar 2,820 in 1984, Chiu said.

Every person in Taiwan had an intake of some 2,700 calories daily in 1983, compared with 2,080 in 1953, Chiu added.

In 1984, life expectancy in the area was nearly 70 years for men and 76 for women, the figures in 1951 were 53 for men and 57 for women, an increase of about 17 and 18 respectively, Chiu said.

In terms of the number of schools, Chiu said that in 1946, Taiwan had around 1,400 schools of various levels, increasing to 5,500 in 1984. That was a climb of nearly three times.

As to the number of students in the area, Chiu said it reached to some 4.7 million in 1984, over four times more than the 0.9 million in 1946.

With regard to the standard of living, Chiu said that in 1984, on average every 100 families in the area had 101 TV sets, 96 refrigerators, 111 motorcycles and 77 telephone sets, compared with the 1964 figures of one TV set, less than two refrigerators, about three motorcycles and 1.5 telephone sets, increasing by 82 fold, 54, 38, and 49 fold respectively.

Moreover, every 1,000 persons in Taiwan owned less than three cars in 1955, Chiu said. In 1984, the number was more than 54 cars, a raise of nearly 39 times, Chiu added.

However, Chiu attributed all the achievements to the hardships of the people here, the able leadership of the late President Chiang Kai-shek and President Chiang Ching-kuo as well as the successful implementation of the three principles of the people here.

CSO: 4020/340

HONG KONG MEDIA ON CHINA

HONG KONG MAGAZINE ON SHENZHEN PROBLEMS

HK150441 Hong Kong CHIUSHIH NIENTAI in Chinese No 187, 1 Aug 85 pp 52-58

[Article by Chi Hsin [7871 6580]: "The Shenzhen Problem Fraught with Warning Signals" -- passage within slantlines published in boldface]

[Text] //Deng Xiaoping said something contrary to what everyone says in praise of the Shenzhen Special Zone. Liang Xiang reacted strongly to various reports. As to those at the central level, when people of the dominant group were exaggerating the achievements of the special zone, Chen Yun and others kept quiet and laid low. For various political reasons, Shenzhen Special Economic Zone will not be abandoned yet.

On 27 June, 10 days after the gambling house of a certain hotel in Shenzhen opened, it was closed down under an explicit order from the Shenzhen City Government. On 29 June, touching on the Shenzhen Special Zone in an interview with an Algerian delegation, Deng Xiaoping said: "The Shenzhen Special Zone is an experiment. Whether the road followed is right remains to be seen. In sum, it is a new socialist product. Making it a success is our wish. If a failure, it can be written off as an experiment."

Deng Xiaoping's Words Cause a Big Stir

Deng Xiaoping's words proved to be the very opposite of what Chinese communist newspapers and magazines had said in praise of the Shenzhen Special Zone and also what he formerly had said in full affirmation of the Shenzhen Special zone, with an assessment showing unusually great reservations. This left people with the impression that the serious problems existing in the Shenzhen Special Zone had aroused the attention of the Chinese Communists in the top echelons. This might very probably be the signal of a change in the policy about the special zone. For more than half a month after that, newspapers and magazines in both Chinese and foreign languages kept commenting on the likely earthquake in Shenzhen caused by Deng Xiaoping's words. The last issue of this magazine happened to have been out two days after Deng Xiaoping uttered the words. Therefore, the article entitled "Shenzhen: Being Incapacitated and Deprived of the Needle..." became the topic of people's talks. In that article, it had been predicted that the Chinese communists would come out with a "pollution" cleanup to counter the opening of the gambling house last month. What was unexpected by the writer was that before the issue had hit the streets action had started.

If there had been nothing but Deng Xiaoping's words, then there would not have been such a flurry of speculation about a likely retreat from the Shenzhen special zone. But before Deng Xiaoping said his words, Vice Premier Yao Yilin had, on a 25 April inspection trip to Shekou, said: "The economic development of the special zone by just relying on a permanent 'blood transfusion' from the state" is impossible. Now it seems that the "needle" should be decisively removed. (A report cited by the 4 June issue of MING PAO from the SHEKOU TONGXUN [Shekou News]). In an interview with Y.K. Pao on 21 May, State Councillor Gu Mu in charge of the special zone's economic policy also said something with great reservations: "The Shenzhen Special Zone should be externally oriented in its development and made a foreign exchange earner. At present, things remain unclear in this respect. But time should be given, because after all a relatively short period of time has been taken up with the building of the Shenzhen Special Zone. There have been results in the development of Shenzhen in the past few years."

The word "results," though still positive in tone, reveals great reservations compared with what a special edition of HONGKONG last year said of Shenzhen: "A vanguard in the reform of cities" and "A miracle of China in the 1980's." Besides, such a word "results" applies to any place in the country, even to the most slowly developing area.

In an interview with Hong Kong and Macao reporters on 28 March, Yao Yilin said: "The special zone makes money trading with people at home." "The state is a loser, as far as foreign exchange is concerned." Again given this, then Deng Xiaoping's statement, "If a failure, it can be written off as an experiment," seems to suggest readiness to take the Shenzhen Special Zone as nothing but "an experiment."

The comments of newspapers and magazines in both Chinese and foreign languages might have been generally based on such a way of interpreting things, as far as the meaning of Deng Xiaoping's words was concerned.

A Litchi Nut Sends Out the Heat of Three Torches

Liang Xiang, mayor of Shenzhen, reacted strongly to the reports of various newspapers and magazines in Hong Kong on the Shenzhen Special Zone. For several consecutive days from 6 July he invited Hong Kong people in industrial, commercial, and journalistic circles and well-known figures from all walks of life to attend a litchi forum in separate groups. The main purpose of the forum was for Shenzhen Mayor Liang Xiang to stress Shenzhen's developments over the past 5 years, refute "some media hints and adverse comments about Shenzhen," and deny the charge about Shenzhen relying on a "blood transfusion" for its development. It was also pointed out that "the claim about Shenzhen alone making money trading with other parts of the country" was "incompatible with facts." In addition, on 12 July, an announcement was made about the fundamental conditions of Shenzhen over the past 5 years or so. Figures were cited to highlight the big strides made in the Shenzhen Special Zone's economic development. It was shown that the special zone's policy was "entirely correct" and that "prospects for the Shenzhen Special Zone are broad and bright."

Just as a saying popular in Guangdong goes, "a litchi nut sends out the heat of three torches." It means that litchi is not a fruit with a cooling effect. On

the contrary, it is hot stuff that has a lingering burning effect on a person's innards. The CPC committee of the Shenzhen Special Zone inspired by a feast on litchis were quick to refute the charges of Hong Kong newspapers and magazines in Chinese and foreign languages against Shenzhen. This shows how the combination of the internal cause of Deng Xiaoping's words and the external cause arising from indulgence in eating litchis had worried the leaders of Shenzhen.

Various media in Hong Kong generally truthfully reported Liang Xiang's various speeches and the figures announced by Shenzhen. But their reports failed to dispel people's doubts about Shenzhen. Various newspapers' relevant comments were still inclined toward unbreathing and analyzing the existing problems in Shenzhen. This was because the figures made known by Shenzhen were not enough to show that the alleged problems linked to Shenzhen do not exist. Also, assessments of Shenzhen with reservations came from top Chinese Communist leaders and carried still greater authority.

Apart from relatively sweeping remarks made by Deng Xiaoping and Gu Mu, Vice Premier Yao Yilin made a concrete criticism of the Shenzhen Special Zone. His criticism of the special zone boils down to three points:

1. The special zone has spent much of the state's money. The special zone was set up "with national support." The problem especially concerns capital construction. "Capital construction is where no one invests money. Only with a good job made of capital construction would people come over to invest and to make money."
2. "It is a fact that the special zone has made money trading with other parts of the country. We can figure things out. One-third of the products of the special zone are exported and two-thirds sold in the country. If it can have two-thirds exported and one-third sold at home, then the special zone can hold its own."
3. "It takes several years" to have "the special zone gradually switch over to an economy focusing on exports." Only as a foreign exchange earner and not as a drain on the state's foreign exchange can it hold its own." This is to say that at present the special zone is still a drain on foreign exchange.

Apart from these three points, Yao Yilin also said at the end of March that at the present stage, the special zone needed to solve the two problems of "smuggling and tax evasion" and "illegal foreign exchange trading." But the solution of these two problems "also takes a period of time."

Juggling Figures in Connection With the "Blood Transfusion" Problem

The Shenzhen City Party Committee replied to the above criticisms through the groups invited to taste litchis.

First, it was the problem of relying on the state for a "blood transfusion." In the past 5 years or so, Shenzhen's "funds for large-scale urban capital construction had been derived by chiefly relying on bringing in foreign investments, accumulating local revenue, and boldly drawing upon bank loans. According to

statistics, funds from these three sources in the past 5 years accounted for 87 percent of the total investment in capital construction. Allocations from the state budget represented less than 6 percent. Funds from certain central departments and provinces and cities accounted for 7 percent."

What puzzles us most about the above figures is that the figures for foreign investments, accumulated local revenue and loan money used were all lumped together without being clearly set out in percentage terms. Basic figures released by Shenzhen City show that in the 5 years from 1980 to 1984, the investment in capital construction reached 3.5 billion yuan. The revenue in the past 5 years was 1.165 billion yuan. How much was left, after expenses, as reserves for use and how much was put to use were not spelled out. As to foreign investments, the total amount of money invested by businessmen from outside of the country put to use in the past 5 years reached HK [Hong Kong] \$4.5 billion or the equivalent of 1.6 billion yuan. In light of the actual situation, just as Yao Yilin said, "Capital construction is where no one invests money." It is believed that extremely few foreign and Hong Kong businessmen are willing to invest in capital construction involving "seven kinds of construction projects and the leveling of earth." Even if there has been foreign investment in capital construction, the amount involved must be extremely small.

Of 87 percent from the three sources, the percentages accounted for by the two preceding sources (foreign investments used and local revenue accumulated) are believed to have reached a very small proportion. What represents the greatest proportion must be "bank loans boldly drawn upon." If Shenzhen City had been able to obtain loans in the neighborhood of 1 billion from Hong Kong and foreign banks, the members of the Shenzhen City Party Committee would have gladly pointed this out. If the bank loans obtained only came from the Bank of China, then given the existing system of China, it can still be regarded as a "blood transfusion" from the state. There is no compensation for the state bank from any quarter for money lent out that cannot be recovered.

Therefore, as far as the "blood transfusion" problem is concerned, the figures made known by Shenzhen show that of the 3.5 billion yuan invested in capital construction in the past 5 years, 6 percent was money officially appropriated by the state and 7 percent money invested by certain central departments and provinces and cities, while most came from loans from the state for the special zone. Figures from these three sources actually all represent a "blood transfusion" from the state. The leaders of Shenzhen City lumped together the astronomical figure for bank loans and the small figure for foreign investments and for accumulated revenue, so that people were left with the impression that the three figures were approximately the same. This was undoubtedly juggling with figures.

A Play on Words About "Only Making Money" in Trading with the Inland Areas of China

Second, is the problem of the special zone making money by trading with other parts of the country. Through the groups invited to taste litchis, Liang Xiang made it known: "Last year those enterprises associated with other parts of the country made profits in the Shenzhen Special Zone far exceeding Shenzhen City's local revenue. The claim that Shenzhen only makes money trading with other areas of the country is incompatible with fact."

Many people (including Yao Yilin) have said that Shenzhen makes money trading with other parts of the country. But no one has said that Shenzhen "only makes money" trading with other parts of the country. Liang Xiang's refuting the so-called charge of "only making money" is a play on words. The denial of "only making money" is being used as an excuse to create the impression that Shenzhen has not made money trading with other parts of the country.

As to the claim that "those enterprises associated with other parts of the country made profits in the Shenzhen Special Zone far exceeding Shenzhen City's local revenues," this does not show that none of Shenzhen's revenues earned from trade with other parts of the country. Nor does it show that the enterprises set up by other parts of the country in Shenzhen earned more from Shenzhen than Shenzhen did from other parts of the country. The important thing is how the profits of these enterprises associated with other parts of the country have come about. If they have reaped profits on consumer goods resold to other parts of the country, then Shenzhen naturally has made money. So have the enterprises associated with other parts of the country. And it is those people in other parts of the country that have paid for it. If those enterprises associated with other parts of the country sell commodities under unified state export plans to Shenzhen at higher prices, then it is a fact that those enterprises associated with other parts of the country have made money while the country has lost foreign exchange on it.

It was quite appropriate for Yao Yilin to use the ratio between products sold at home and those sold abroad to indicate whether Shenzhen is an area chiefly devoted to earning money from the outside (a foreign exchange earner) or an area focusing on earning money from other parts of the country. In an interview with the bimonthly PAI HSING in March this year, Liang Xiang also provided an answer about the problem of domestic consumption or exports, with a show of great skill in the use of language: "Our industrial products, generally speaking, will gradually switch over to an emphasis on exports.... The principle of running the special zone is to bring in foreign capital and technology. Many items are for export. But domestic sales are not ruled out." It sounds like an emphasis being placed on exports. While domestic sales are not ruled out. But as a matter of fact, in answering Hong Kong and Macao reporters, Yao Yilin made it clearly known that it was a case of two-thirds for domestic sales and one-third for export.

Fundamental Conditions About "Income" Without "Expenditure"

Relevant to sales at home or abroad, or the earning of money from other parts of the country or from abroad is whether the Shenzhen Special Zone is a foreign exchange earner or a drain on the state's foreign exchange. Yao Yilin said that it takes several years to be able "to earn foreign exchange and not draw on the state's foreign exchange." Its meaning shows that at present, Shenzhen is still a drain on foreign exchange. To this, Liang Xiang's reply was: "Since the start of the special zone in Shenzhen, there has been a very rapid increase in local foreign exchange income. Overall, there has been a balance in foreign exchange receipts and payments, with a little surplus left. The state has not been relied upon for extra foreign exchange needs."

Whether Shenzhen itself has a balance in its foreign exchange receipts and payments and whether the state in carrying out a special policy for the special zone has lost foreign exchange are two different things. For example, Shenzhen reserves 70 percent of foreign exchange earned on commodities that it arranges for export to meet foreign market needs from other parts of the country. With this kind of foreign exchange retained, it may be able to achieve a balance in foreign exchange receipts and payments. But if these products are not exported through the arrangements of Shenzhen, they can still be foreign exchange earners as exports by the state. Therefore, it can be considered as a loss of foreign exchange for the state. As far as industrial products are concerned, Shenzhen relies on imports for its raw and other materials for the manufacturing industry. With the products (representing two-thirds) sold to other parts of the country, the RENMINBI earned is often used as payment for the purchase of foreign exchange at a high rate or as compensation for imports of raw and other materials for export product needs. This rather common way of operation is actually also a drain on the state's foreign exchange.

As far as the conditions of Shenzhen are concerned, its being a foreign exchange earner or a drain on foreign exchange depends not on whether there is a balance in foreign exchange receipts and payments but ultimately on whether the products are for domestic consumption or chiefly for export. In this respect, Gu Mu's 21 May statement can be described as a hint at the truth of things: "Shenzhen should be externally oriented in its development and made a foreign exchange earner. In this regard, things at present still remain unclear...."

In countering relevant accusations, the Shenzhen City Party Committee released a piece of data entitled "Shenzhen Special Economic Zone Moving Forward," providing figures to show the conditions of Shenzhen from 1980 to 1984 and in the first half of this year. Relevant figures given revealed foreign capital imports figures, total industrial output value, total agricultural output value, the total investment in capital construction, revenues, foreign exchange receipts, retail sales of social commercial undertakings, gross national product per capita, and so forth. The percentages of growth for various columns of figures were especially highlighted. But what is strange is that relevant figures had to do with only revenues, and foreign exchange receipts and said nothing about expenditures and foreign exchange payments. Therefore, we cannot see whether the balance in revenues or foreign exchange is favorable or unfavorable. A balance sheet of course looks very attractive with only receipts and no expenditures entered.

"Interpretation" of Deng Xiaoping's Words

Of course, discussions outside the country on the Shenzhen Special Zone, though based on concrete facts and Yao Yilin's concrete criticisms, focused on what Deng Xiaoping said on 29 June. Only because Deng Xiaoping was an advocate of the establishment of the special economic zone and because of the full affirmation of the special zone by Deng, Hu, and Zhao in the past, has his statement, "If a failure, it can be written off as an experiment," Caused such a big stir.

Therefore, apart from countering charges against the special zone with a play on words and a show of skill in the use of language, Liang Xiang had to provide an explanation for what Deng Xiaoping said. Through the groups invited to taste

litchis on the 12th, he said: "The other day a number of Algerian guests went on a 2-day tour of Shenzhen. Later, when they saw Deng Xiaoping in Beijing, they had high praise for Shenzhen's construction efforts. Given such a situation, what Deng Xiaoping said of course had in it an element of modesty toward foreign guests."

Deng Xiaoping's speech with the Algerian delegation on 29 June was released in XINHUA telegraph dispatch the same day and carried in all major newspapers throughout the country the next day. Because the full text was not lengthy, what was said on Shenzhen became quite significant. Deng Xiaoping, well trained in the art of politics, of course knew what signals his speech made known throughout the country by the XINHUA would send out and what effects it would produce. If it had been just one or two lines said with a guest as a matter of courtesy, then there would have been no need to record the main point of his words for dissemination throughout the country, thus shaking people's confidence in the operation of the special zone.

Moreover, if these words by Deng Xiaoping had appeared in April or May last year, given the then national chorus of praise for the special zone with Shenzhen made out as Dazhai in the past and Liang Xiang as Chen Yonggui in the past, then a line from Deng Xiaoping, "whether the road followed is right remains to be seen," could have been taken as an indication of modesty on his part and even as advice on his part that people must not be over excited or carried away and must instead observe things calmly. But what Deng Xiaoping said took place after the Hainan automobile case, after a serious slip in efforts to control foreign exchange, after Yao Yilin's statement that the special zone could not "just rely on a last- ing 'transfusion of blood' from the state to keep it going," after Gu Mu's statement that "things remain unclear" concerning the special zone's being externally oriented and capable of earning foreign exchange, and especially after action against several tens of enterprises involved in illegal foreign exchange trading, a crackdown on smuggling and the closure of a gambling house. His words thus could not be just treated as being modest with guests.

It was quite obvious that Deng wanted to make known, through his conversation with some disinterested guests, his view on the special zone being criticized by certain people in the country. The release of his words through XINHUA was also politically motivated.

The Shenzhen City Party Committee could not deny Deng Xiaoping's words openly published by XINHUA and could only write them off as an act of modesty. But it refuted Yao Yilin's remarks to Yuan Geng, a general director in charge of Shenzhen, carried in the internal journal SHEKOU TONGXUN.

On 12 July, Zou Erkang, member of the standing committee of the Shenzhen City Party Committee, "commented on a recent story about Shenzhen relying solely on a 'blood transfusion' from the state and being necessarily deprived of the needle. Mr Zou considered that there had never actually been such a thing." Again citing the figure of 87 percent of total investment in capital construction, as made up of foreign capital, accumulated revenue, and loans, Zou Erkang said that "the term 'blood transfusion' was improperly used." "Also, the story about being deprived of the needle being 'rumor' -- this shows that Yao Yilin's talk about 'blood transfusion' was not 'rumor' and only a term 'improperly used.'"

No matter that Liang Xiang and Zou Erkang could have interpreted Deng Xiaoping's words this way and also refuted Yao Yilin's words about "blood transfusion" without referring to his name was something unusual in Chinese Communist power politics. This shows that the dust of the internal debate among the Chinese Communists over the problem of the Shenzhen Special Zone has probably settled. Liang Xiang and others are believed to have again been given by the higher levels an "imperial sword" or authority to take charge. They know that the central policy about the special zone will basically not be changed. There will be only some readjustments.

Therefore, Deng Xiaoping's 29 June statement on the Shenzhen Special Zone does not mean recognizing the special zone as a "failure," as people on the outside said. Nor is it just an act of modesty toward guests, as Liang Xiang said. Instead, it carries political significance in weighing different views in inner circles. On 15 July, Deng Xiaoping again said something on the Shenzhen Special Zone to foreign guests, making things clearer about its political significance. This will be taken up in detail later in this article. Here, let us first discuss whether different views on the operation of the special zone exist among the top Chinese leaders.

Chen Yun Has Consistently Kept Quiet

It can hardly be said whether there are groups for and against the operation of the special zone among the Chinese top echelons. But it is a fact that when the dominant group was continuously exaggerating and preaching the successes of the special zone, leaders in the top echelons represented by Chen Yun all the time kept quiet, as far as the handling of the special zone and assessments of the special zone were concerned.

In 1980 or 1981 when the special zone was making its start, given the revitalization of Hong Kong's export trade and the stimulating effect of the real estate market, the development of Shenzhen was hailed by the dominant group as a case of "a roc taking off." At this time, Chen Yun said: "The overriding problem in the special zone is summing up experiences." Under this directive, there began in the second part of 1981, a "campaign to crack down on economic crimes" chiefly directed against smuggling, corruption, bribery, speculation, and deception in Shenzhen.

The campaign to crack down on economic crimes had a choking effect on the development of the special zone. At this time, the dominant group again said: "There has been no change in the central policy about running the special zone." It was also pointed out that "the special zone must be nothing but a success and must be made to succeed. We would die unhappy without seeing it a success." Chen Yun's response was a relatively well considered remark: "The special zone must be run. We must continuously sum up experiences and strive to run it well."

In early 1983, on an inspection trip to Shenzhen, Hu Yaobang said of the special zone in an assessment: "A new situation has been created." In early 1984, on an inspection tour of Shenzhen, Deng Xiaoping wrote an inscription affirming that "The developments and experiences of Shenzhen show that our policy in setting up the special zone is correct." Then a special edition of RENMIN RIBAO and also

a special edition of HONGQI described Shenzhen as "a vanguard in the reform of cities" and "a miracle of China in the 1980's." At a forum of a number of coastal cities called by the Secretariat of the CPC Central Committee and the State Council at the end of March and in early April in 1984, Liang Xiang recounted the experiences of Shenzhen "rapidly forming into a modern medium-sized city" from "a remote border town." Based on the achievements reported by Liang Xiang, the Secretariat of the CPC Central Committee wrote the "summary of a forum" for the reference of the Central Political Bureau. According to the magazine LIAOWANG, specially sent at that time was "Gu Mu, secretary of the Secretariat of the CPC Central Committee and state councillor, in charge of such work to brief Comrade Chen Yun in another area." Then the Central Political Bureau called a meeting at the end of April and approved the "summary of a forum" written by the Secretariat of the CPC Central Committee. It was decided to further run four special economic zones well and to further open up 14 coastal cities and Hainan Island. At a time when the Chinese Communist propaganda machinery was continuously hailing this "new step of opening up to the world" and "the birth of an important policy decision," Chen Yun still remained relatively quiet. He said: "The special zones have no 'fist' products at present. Shenzhen also has no such products, but it has new ways of management. These also represent 'fists'." ("Fist products" mean brand-name products with the ability to deliver strong punches.) These "new ways of management" are only where Chen Yun, an economic expert at the level of a senior Chinese Communist leader, was positive.

It is very hard to estimate how much weight Chen Yun carries in economic circles in China. But before the CPC Central Committee held the Political Bureau meeting in April last year, Gu Mu specially went to brief Chen Yun on the "summary of a forum" written by the Secretariat of the CPC Central Committee. This shows that without the approval of Chen Yun, the Political Bureau's policy decision on further opening up special zones could not be easily approved. In April last year, it was obviously a case of "unanimous approval." After understanding things about the "summary of a forum" based on Liang Xiang's report, Chen Yun agreed to the matter of "further opening up."

Outsiders could hardly have known how Liang Xiang reported Shenzhen's "miracles" at the forum held by the Secretariat of the CPC Central Committee and the State Council. They also could hardly have known how the "summary of a forum" based on this had been colored and how many optimistic assessments it had inspired. But no matter what, the bold step of opening up taken in four special economic zones and 14 open cities and on Hainan Island last year on the basis of the "summary of a forum" led to "a craze for imports" in the second half of last year. Activities to resell imported consumer goods in special zones to the inland areas of the mainland boomed. Smuggling and illegal foreign exchange trading ran wild. This resulted in a serious loss of foreign exchange. The CPC Central Committee was at last forced to order an emergency stop to all these activities and to send central work groups to various special zones to look into problems brought by the act of "boldly opening up."

What Yao Yilin said to Hong Kong and Macao reporters at the end of March should reflect the central authorities' initial knowledge about and views on special zones up to the end of March and after investigations. Yao Yilin's statement in Shekou on 25 April that the special zone could not just rely upon the state for a lasting "blood transfusion" was obviously also a view after an investigation of things.

Apart from Yao Yilin's remarks, indications in recent months show that the call for "summing up experiences" by the group represented by Chen Yun is actually a call for further looking into the facts about the economic development of the Shenzhen Special Zone and various criminal activities in the economic field. The Shenzhen Special Zone on its part has done its best to "justify" actual conditions brought to light. It has also energetically tried to cover up illegal economic activities involving the leading cadres of Shenzhen and the sons and daughters of top-ranking cadres. It has used the crackdown on certain enterprises not seriously involved as an excuse for having done its job.

Since the beginning of June, the press has also somewhat revealed the illegal economic activities in the Shenzhen Special Zone. Relatively important among them are:

On 1 June, Hong Kong WEN WEI PO reported that according to relevant sources in Shenzhen, some time ago when illegal trading in foreign exchange was all the rage, some 30 or 40 Shenzhen enterprises got involved in such activity. Among them were less than 10 joint-venture and cooperative enterprises.

On 22 June, citing a report from ZUZHI RENSHI XUNXI BAO [News on Organization of Personnel] in China, Hong Kong MING PAO said that on an inspection trip to the Xiamen Special Zone, Hu Giaomu revealed: "In checking the accounts of foreign financed and joint-venture enterprises in Shenzhen, the auditing organs uncovered quite a large number of problems. These enterprises have their accounts not in Shenzhen but in Hong Kong. There are no accounts to follow. Some enterprises have their accounts in Shenzhen, but the original receipts cannot be found. Some keep false accounts and some have two sets of books, cheating on and evading taxes."

On 11 July, a ZHONGGUO XINWEN SHE report said that the Liaoning Grain, Oil and Foodstuffs Import and Export Company acted in collusion with the Commercial Trade Company of Shenzhen City in illegally obtaining the state's foreign exchange for export purposes. The trick was for the Liaoning Provincial Grain, Oil and Foodstuffs Import and Export Company to utilize export permits for corn included in the state's plan. As a commodity exported by China in large quantities, an export permit should be issued for corn by the Ministry of Foreign Economic Relations and Trade.) Through the Liaoning-Shenzhen Trading Company set up on a cooperative basis by a integrated factory of the Liaoning Grain, Oil and Foodstuffs Import and Export Company and the Shenzhen City Commercial Trading Company, a contract for the export of 10,000 tons of corn was signed by the Shenzhen City Commercial Trading Company with a trading company in Hong Kong, with foreign exchange payment effected in Shenzhen. The foreign exchange reviewed by the Shenzhen City Commercial Trading Company after the shipment of corn was kept in the company's U.S. dollar deposit account. Based on the exchange rate of 5.15 yuan to a U.S. dollar (the official rate being 2.8 yuan), the profits realized were shared on a percentage basis, 60 percent for the Liaoning Grain, Oil, and Foodstuffs Import and Export Company, 20 percent for the integrated factory (a collective enterprise) under it and 20 percent retained for the Shenzhen City Commercial Trading Company itself. The Shenzhen City Commercial Trading Company then obtained a large amount of foreign exchange and used it to import commodities, making profits far exceeding what it had paid for the

foreign exchange at the rate of 5.15 yuan to a U.S. dollar. This case was unearthed by ZHONGGUO XINWEN SHE. There must have been many similar cases. Cases of this kind prove Liang Xiang's claim that those enterprises associated with other parts of the country (such as the Liaoning-Shenzhen Trading Company) obtained profits in Shenzhen more than Shenzhen's revenue and that Shenzhen's foreign exchange receipts and payments were generally "balanced with a little surplus." But it is clear that the state lost foreign exchange by it.

In Hong Kong, what has aroused the greatest concern is a statement by a narcotics investigation division of the police on 12 July that there had been a trend toward an obvious increase in the smuggling of raw opium into Hong Kong by drug syndicates through Shekou in Shenzhen by sea this year. Last year, the Hong Kong Police seized a total of 50 kilograms of raw opium. From the beginning of this year to 12 July, 50 Kilograms of raw opium were seized. The police of Hong Kong are finding ways to plug the loopholes.

The problem of drug peddling is an extremely sensitive one in Hong Kong and throughout the world. By questioning the drug offenders, the police definitely try to find things out about the relevant organizations and the ways of smuggling. Out of consideration for China's reputation, relevant details have not been announced. But contacts definitely must have been made with the public security departments of China. It is impossible to predict at present the ramifications of the case. But the existence of such a serious crime as drug peddling suffices to show the ruthless means resorted to by certain people of the Shenzhen Special Zone.

What has been revealed at present about the economic crimes of Shenzhen is only a tip of the iceberg. If the Central Discipline Inspection Commission should make a thorough check in Shenzhen, things would be greatly unfavorable for the special zone advocates, in regard to both figures and concrete cases.

Shenzhen Special Zone Unlikely to Make a Retreat

There are many problems with the Shenzhen Special Zone. But it seems unlikely that it will be negated or forced to make a retreat. There are many reasons behind this.

First, there are political considerations and especially considerations about the political impact on the world. This has traditionally been given primary consideration by the Chinese Communists. The Shenzhen Special Zone has in the past 2 or 3 years been built up as an example of China's policy of opening up. Not only have Party and state leaders (except Chen Yun) inspected the special zone in turn, but there has been a steady stream of visiting foreign leaders and guests. It is common knowledge that even some leaders (of socialist countries) of North Korea and Arkhipov, first deputy chairman of the USSR, visited Shenzhen to learn something. The situation was like that with Dazhai during the great cultural revolution. Under these circumstances, unless there is a change of top Chinese leadership with the existing policy thoroughly negated, to maintain the reputation of those in power with the outside world, it is unlikely for them to negate what they hold up as a model. Dazhai in its last stages held on to its title as a model by sole reliance on falsified figures. But so long as Mao Zedong was alive, it was not negated. Even before Hua Guofeng's loss of power, Dazhai was

once fully affirmed by him and was also not openly criticized.

Another political factor taken into consideration is the significance of the matter, as far as the "great cause of reunification" is concerned. On this, the book entitled "China's Special Economic Zones" published in Guangzhou in August last year said: "It is pointed out that 'Taiwan keeps track of things in Hong Kong, and Hong Kong in turn keeps track of things in Shenzhen.' What this means is that in the socialist special zone of Shenzhen, the capitalist economy is allowed to exist and develop and to make profits. This also helps in overcoming and dispelling some people's doubts. It carries great significance and plays an important role in reunifying the motherland and assuring stability and prosperity in the Hong Kong economy."

With things put on such a high plane, Shenzhen had reasons in the past to keep asking subsidies from the state and loans from state banks. Great rationale was also provided for the establishment of offices and companies in Shenzhen by many high-ranking cadres or their sons and daughters on the pretext of performing work related to Taiwan.

Given such strong arguments, even if Shenzhen continues to be a drain on foreign exchange and to require "blood transfusions" from the state, it is also unlikely to be negated and made to back out. If there should be a retreat, then would this not touch off a crisis of confidence in the "one state, two systems" and "the great cause of reunification," as far as what is said about "Taiwan keeping track of things in Hong Kong, and Hong Kong in turn keeping track of things in Shenzhen" is concerned? Therefore, the Shenzhen City Party committee knows well what a trump card it has with this "great cause of reunification." When the pressure of those opposing special zones is brought to bear, this trump card will be produced. The accusations by those outsiders against the Shenzhen Special Zone also provided the Shenzhen City Party Committee with an opportunity to use "the unfavorable influence on those outside" as an excuse to refute various charges, including those from those inside, in order to stabilize Shenzhen's position. Therefore, the act of inviting groups to taste litchis served two purposes. One was supposedly to counter "media from the outside." Another was actually to strengthen the important role of Shenzhen as "an influence on the outside world." What Deng Xiaoping said about Shenzhen being "a window on foreign policy" provided Shenzhen with the very "imperial sword" that it desires.

Another important political consideration is the structure of power within the Party ranks. As far as this is concerned, affirmation or negation of Shenzhen has to do with the special session of the Party National Congress in September this year. For a meeting held in September, proper preparations should all be made in July or August, especially in regard to matters of organization. If Shenzhen's various problems are seriously probed into and traced to their roots, this would very likely have an effect on the position of the dominant group keenly supporting the operation of the Shenzhen Special Zone when it comes time to speak. Especially if things are traced back to matters of investigation and study which formed the basis of the "summary of a forum" prepared by the Secretariat of the CPC Central Committee and the State Council last year in connection with a decision to further open up to the world, then the dominant group would encounter many obstacles in their demand for various organizational

readjustments at the special session of the Party National Congress. To tide over the period of September, the dominant group would not step up the investigation of a number of problems that it may have discovered with Shenzhen, so as to avoid any interference with their preparations for the Party National Congress. This is an extremely important political factor.

In addition, there is the matter of personnel to consider. The Shenzhen Special Zone is at present a haven for "dragons and tigers." Many sons and daughters of high-ranking cadres are in the field of foreign trade. Some go back and forth between Hong Kong and Shenzhen. Some take Hong Kong as a base with offices set up in Shenzhen. Those relatively well trained in relevant skills get hold of jobs with actual political power. For example, in the recent reshuffle, Ye Jianying's daughter-in-law Wu Shuilan, was appointed vice mayor of Shenzhen. These relatives of high-ranking cadres play an unusually great role in selling ideas to the higher levels. Their interests are also directly related to the affirmation and the continuous opening of the Shenzhen Special Zone. In the past 5 years, Shenzhen has obtained substantial subsidies from the state. Many enterprises associated with other parts of the country have organized exports on a large scale and imported consumer goods from abroad for transshipment to the inland areas of the country. They have even engaged in illegal foreign exchange trading under various pretexts. It is believed that relatives of high-ranking cadres have got involved. In a serious investigation, many top-ranking central leaders would also be quite nonplussed.

Considering the above several important factors, even given more problems, the Shenzhen Special Zone is believed unlikely to end up as Dazhai did for the foreseeable future.

The Real Meaning of Deng Xiaoping's Words

Now back to what Deng Xiaoping twice said on the Shenzhen Special Zone, and we can see their meaning very clearly.

An analysis of the background behind what Deng Xiaoping said shows the following: First, after the act of "boldly opening up" touched off a mad passion for imports, many problems were discovered with the special zone in an effort to tidy things up in February or March this year. Internal criticism was inevitable from the group opposing the operation of the special zone. Even pressure was likely in a demand for the special zone's retreat. Second, was considerations of political influence at home and abroad, especially the concrete influence on the two points -- preparations prior to the September Party National Congress and "a window on foreign policy."

Therefore, Deng Xiaoping's 29 June statement was first intended to mollify the dissatisfaction of the opponents. It was unlike the previous overall unreserved affirmation. His reserved tone actually pointed to recognition of the data and facts put forth by some opponents and of the continued existence of many problems in the Shenzhen Special Zone. Second, his statement was directed against various charges against Shenzhen and especially the view calling for a retreat. A compromise formula of "wait and see" was put forth. This is to say that the Shenzhen Special Zone must carry on, because it is "a new thing." "Making it a success is our wish. If a failure, it can be written off as an experiment."

On 15 July, in an interview with the premier of Trinidad and Tobago, Deng Xiaoping made things still clearer about this opinion of his. First he said: "Our original policy of setting up special economic zones is correct." This is to say that there is nothing wrong about the idea of establishing special economic zones. Second, he stressed that "this is after all an experiment." This is to say that the special zone policy has not yet reached the stage of being introduced throughout the country. It is only an experiment. Mistakes may be forgiven. Third, he admitted that "some problems now remain to be solved." Fourth, he said: "It is 3 years, or so since the beginning of the special zone. After another 3 years, ways can definitely be found to solve these problems."

In sum, his opinion is that we must recognize the existence of some problems in the special zone. But since it is an experiment, we must give it time and let the experiment continue for at least another 3 years. It is hoped that ways can definitely be found to solve the problems.

As regards the policy of opening up as a national policy (not an experiment) and the economic reform, Deng Xiaoping believed that "success can definitely be achieved."

Here, a line of distinction must be drawn. On the one hand, Deng Xiaoping believes that the policy of opening up as a national policy and the economic reform will "definitely succeed." On the other hand, the special zone is only an experiment. There are now some problems. But the experiment must continue. After another 3 years, these problems can definitely be solved.

Therefore, Deng Xiaoping's remarks do not mean admitting failure or expressing a desire for a retreat. Nor do they represent an act of modesty before guests. Instead, they mean admitting the existence of problems, but the special zone must carry on.

Shenzhen's Prospects

To carry on, what should be done?

"The meeting of governors and mayors related to 14 coastal open cities, four economic special zones and Hainan Island" called by the State Council in early July summed up "such problems as an imbalance in foreign exchange, the grant of too many loans, too large a scale of capital construction, how to effect mutual coordination, and so forth" involving special zones and open cities last year.

The meeting decided to reduce the investment in Shenzhen to 1.6 billion yuan from 2.5 billion yuan originally fixed for this year. There were also cutbacks for other special zones. This means a reduction in the "blood transfusion" for the Shenzhen Special Zone in regard to either credit or investment.

In addition, simultaneously with a cutback in the capital construction investment, Gu Mu said on 5 July that the special zone would again examine certain projects involving the use of foreign capital and the importation of foreign technology, and cut down on certain projects which overlap or are not too urgent, or relatively backward and not quite productive of economic results. Given the

adoption of these measures, the pace of trading with foreign countries is likely to slow down a bit. A slowdown in the development and construction of the special zone has not had the greatest effect on the special zone's prosperity. What has produced the greatest effect comes from the crackdown on smuggling and on illegal foreign exchange trading, tightened control over imports, a foreign exchange freeze, a reduction in the percentage of foreign exchange retained on commodities organized for export, and so forth since March this year. This has made it impossible for Shenzhen to continue to be a "paradise" for trading in consumer goods for foreign countries. Given tightened credit conditions in various areas, people's purchasing power of course has also suffered greatly.

Shenzhen's past prosperity was not built on a solid basis of industrial development. Shenzhen relied mainly on the importation of consumer goods, along with from smuggling, illegal foreign exchange trading, and activities under various pretexts. Its aim was to tranship raw and other materials to the interior part of the mainland for processing and to engage in compensatory trade and the like. If the central authorities should want to strictly plug these loopholes, then the prosperity of Shenzhen cannot be guaranteed.

It is understood that because of the likely influence abroad, the central authorities will maintain certain flexibility in plugging various loopholes in Shenzhen, thereby not leaving Shenzhen's economy a shambles. For example, concerning the percentage of foreign exchange retained on commodities organized for export, a special 75 percent allowance is made for Shenzhen in order to encourage Shenzhen to organize exports from various areas.

But it is feared that it is no simple thing for Shenzhen to develop in line with the Chinese Communist Leaders' idea: Being export-oriented and made to earn foreign exchange and bring in advanced technology...Western countries have in recent years been keen on practicing protectionism. There has been a reduction in quotas for various areas' exports to the West. It is not quite possible for Shenzhen to develop at this time into a special zone focusing on the exportation of industrial products. The importation of advanced technology is especially incompatible with the idea of focusing on processing products for export. The quality of Shenzhen's labor, its existing technical basis and its own shortage of resources disqualify Shenzhen from importing advanced technology.

Therefore, Deng Xiaoping's statement that after another 3 years, "ways can definitely be found to solve problems" is not talking in humble terms. He now at last knows that there is a gap between the original idea and reality.

Shenzhen will not make a retreat. Nor will it be negated. Its title as a special zone will be maintained. There will also be some "special policies" applied to it. But there has been a reduction in the state's investment and in credits. Control over imported consumer goods and the use of foreign exchange has been strengthened. If after a crackdown on open smuggling and illegal foreign exchange trading, a ban is imposed on disguised ways of trading in foreign exchange and reselling things for profit, false compensatory trade, and pretended acts of processing supplied raw materials, then Shenzhen can hardly return to the thriving state it was in half a year ago.

But no matter what, the preservation of the Shenzhen Special Zone is always a good thing. Even given problems of one kind or another and a drain on the state's foreign exchange, Shenzhen as a "window" on the capitalist economy and an influence on inland China, is still not likely to be negated. China's proceeding from being closed to opening up, as far as the whole policy or line is concerned, is a good thing for the people. For a certain area as an experiment, the price paid for too fast a pace of development due to lack of experience is also unavoidable. It can also be described as a matter of paying tuition, in the parlance of the Chinese Communists.

CSO: 4006/863-F

HONG KONG MEDIA ON CHINA

DEVELOPMENT OF NORTHERN FRONTIER MINING WELCOMED

Hong Kong WEN WEI PO in Chinese 3 Aug 85 p 2

[WEN WEI PO reporter Zhuang Bu from Jilin on 2 Aug. "Yan Bian Mineral Deposits are Waiting to be Developed",]

[Text] A press delegation from Hong Kong and Macao arrived on 31 July at Yanji, Jilin Province and was warmly welcomed by the Government of Autonomous Prefecture of Korean nationality in Yan Bian. The head of the prefecture, Mr Huang Dailin, told the visiting reporters, during an introductory briefing, that after the 3rd plenary session of the 11th Central Committee, some great changes had occurred in every aspect of their autonomous prefecture, that economic construction was booming and the people's living standard had improved noticeably. The total industrial and agricultural output for 1984 reached 1.5 billion RMB. The industrial output was 10.9 percent higher than that of 1983 while the agricultural output was 27.6 percent more than that of the previous year. The number of science and technology personnel in the prefecture was 2,600 and the number of students in the university had reached 4,200. Yan Bian is known as the "sea of the woods" and it has more than 30 varieties of mineral deposits. There are more than 1 billion tons in coal deposits. There are also abundant wollastonite and marble deposits. They are waiting to be developed. Mr Huang indicated that at the present time, 39 cases of investment from Hong Kong, Macao and foreign countries were under negotiation. He welcomed investors from Hong Kong, Macao and foreign countries, especially Koreans living overseas. Investors were to be given favorable terms.

The prefecture government plans to turn Bai Tou Shan [White Head Mountain] into a year-round tourist attraction by using helicopters and cable cars to lift tourists up to the mountain. At the moment, a Hong Kong businessman has already invested in 150 automobiles and made them available for tourism in the Chang Bai Shan area.

CSO: 4006/856

HONG KONG MEDIA ON CHINA

BRIEFS

TOURIST CABLE CAR PLANNED--The head of the Autonomous Prefecture of the Korean Nationality in Yan Bian told the visiting press delegation from Hong Kong and Macao on 31 July during a briefing that Yan Bian would develop tourism at a full speed. Yan Bian would attract investments to develop the tourist resources in Chang Bai Shan and to turn the Chang Bai Shan into a year-round tourist attraction area. Mr Huang said that during the first half of 1985 alone, more than 50,000 Chinese and international visitors had toured the fascinating Chang Bai Shan. He added that Yan Bian authorities wanted to attract some investment for the installation of a cable car to carry tourists up to the mountain. In addition, Yan Bian wanted to negotiate a joint venture with a Hong Kong businessman to introduce 150 sedans to strengthen Chang Bai Shan's tourism force. On the subject of Yan Bian's open door policy, Mr Huang stated that they were adopting "opening wide prefecture's door, inviting foreign business firms and linking business with domestic firms". Yan Bian will exercise its rights as an autonomous prefecture under a national guideline providing favourable investment climate and working conditions for Hong Kong, Macao and foreign investors. He concluded that Yan Bian autonomous prefecture could enjoy the same degree of autonomy as Changchun. [TA KUNG PAO reporter Jiang Gyoyuan from Jilian on 2nd Aug special cable] [Text] [Hong Kong TA KUNG PAO in Chinese, 3 Aug 85 p 3]

CSO: 4006/856

HONG KONG ECONOMIC TRENDS

BANK OF CHINA UPHOLDS HK DOLLAR PEGGED TO U.S. DOLLAR

HK180300 Beijing XINHUA Hong Kong Service in Chinese 1017 GMT 15 Aug 85

[Report: "KANGAO CHINGCHI CHIKAN [HONG KONG-MACRO ECONOMIC QUARTERLY] Says That the System of a Fixed Exchange Rate for the Hong Kong Dollar Should Not Be Abolished"]

[Text] Hong Kong, 15 Aug (XINHUA)--The latest issue of KANGAO CHINGCHI CHIKAN, a journal published by the Bank of China Group, carries an article which holds that it is inadvisable to abolish the system of a fixed exchange rate for the issuance of Hong Kong dollars and the "official exchange rate" for the Hong Kong dollar need not be raised.

The article is written to counter the pressure for raising the exchange rate of the Hong Kong dollar which has not yet entirely disappeared and to counter the arguments that some people have put forth in order to once more suggest the abolition of the system of a fixed exchange rate for the issuance of Hong Kong dollars. The article says:

"The system of a fixed exchange rate for banknote issuance" was formulated and implemented in 1983 in order to overcome the Hong Kong dollar crisis. Since its implementation, although the Hong Kong dollar has sometimes suffered from the pressure of panic sales and the shock of panic purchase, for most of the time its exchange rate in terms of the U.S. dollar has been successfully maintained within the narrow range of 7.75-7.85. This proves that this system indeed plays the stabilizing for the role of the Hong Kong dollar.

However, the price we have to pay for this stability in the exchange rate of the Hong Kong dollar is the frequent changes in the Hong Kong dollar's interest rates. In the year prior to 17 October 1983, there were only eight readjustments within the range of 12-16 percent for the prime lending rate for the Hong Kong dollar. However, during the 21 months since implementation of the system of a fixed exchange rate for banknote issuance, the prime lending rate has changed 26 times. During the first year, there were 15 changes: first, there were 6 reductions from 16 percent to 8.5 percent; then there were 6 increases and on 7 July it rose to 17 percent; and later there were 3 more reductions and by October 1984, the rate dropped to 13 percent. During the last 9 months, there have been 11 reductions in the prime lending rates for the Hong Kong dollar, now the rate has dropped to 6 percent.

Most of those who advocate the abolition of a fixed exchange rate for banknote issuance also hope to see a stable Hong Kong dollar, but they are not willing to pay the price of fluctuating interest rates. They wrongly think that under the current situation, stability can also be maintained even if the floating exchange rate is restored.

True, everybody will be happy to see both the exchange rate and the interest rates for the Hong Kong dollar stable, but this is merely hopeful wishing under current political and economic conditions. Although the problem related to Hong Kong's future has already been solved and Hong Kong's political future is clear, it will be hard to avoid small twists and turns during the period of transition. What is more important is that there are still unstable factors in Hong Kong's economic prospects such as the rise and fall of the U.S. economy and the rise of international trade protectionism. Therefore, there will still be many opportunities for speculators to exploit. Once the system of a fixed exchange rate for banknote issuance is abolished, speculators will come back. It will be hard to stabilize the exchange rate of the Hong Kong dollar.

From a longer-term point of view, the immediate cause for the Hong Kong dollar crisis in 1983 was speculation, but the original cause can be traced to the "system of managing the banknote standard" that was implemented in Hong Kong after Britain allowed the sterling to float in June 1972. Originally, before the sterling began to float, Hong Kong dollars were issued with full reserves in sterling. However, after the sterling was allowed to float, its exchange rate always changed. This gave rise to a technical difficulty for the banknote issuing banks when paying into the foreign exchange reserves the amount of sterling that was equal to the banknotes issued. Therefore, they had to switch to U.S. dollars to which the Hong Kong dollar was linked to pay the reserves. However, when the Hong Kong dollar was also allowed to float in November 1974, it created a problem for paying into the reserves in U.S. dollars. The banks had to switch to paying into the reserves in Hong Kong dollars. These Hong Kong dollars in the reserve would then be used to buy other currencies. This was what we call the "system of managing the banknote standard." Under this system there were not necessarily full foreign exchange reserves for the issuance of Hong Kong dollar banknotes and the volume of the issuance was not restricted by the amount of foreign exchange. There was no central bank in Hong Kong nor sufficient financial tools to effectively control the money supply volume, but the implementation of this "system of managing the banknote standard" was forced on Hong Kong. As a result, it gave rise to serious inflation and thus sowed the seeds for the Hong Kong dollar crisis in 1983. At present, the Hong Kong Government has not put an end to its inability in controlling the supply of money. Therefore, abolishing the system of a fixed exchange rate for banknote issuance and allowing the Hong Kong dollar to float means the resumption of the "system of managing the banknote standard," which will possibly cause a Hong Kong dollar crisis to emerge once more.

[HK180302] From the above, we can see that abolishing the system of the fixed exchange rate for banknote issuance may give rise to a relatively wide

fluctuation for the Hong Kong dollar. In the immediate future, the Hong Kong dollar would float up, but in the long run, a crisis may emerge once more. Continuing the implementation for this system, however, can provide a relatively sure guarantee for the stability of the Hong Kong dollar, though we have to pay the price of fluctuating interest rates. However, it is worthwhile to pay this price. Therefore, we hold that it is inadvisable to abolish the system of a fixed exchange rate for the issuance of banknotes. At least, it is still too early to talk about the abolition.

Is it necessary then to raise the "official exchange rate" of the Hong Kong dollar in terms of the U.S. dollar? We think the answer to this question is also negative.

First, the current relative strength of the Hong Kong dollar is mainly because the U.S. dollar tends to be weakened by Hong Kong's fairly good internal conditions (including the inflow of foreign funds and the foreign trade surplus). However, if the official exchange rate for the Hong Kong dollar in terms of the U.S. dollar is rashly raised up, we will be put into a predicament to maintain this rate once the U.S. dollar rebounds. Furthermore, even if the exchange rate of the U.S. dollar to the Deutsche mark falls an additional 5 percent below the present level, it is still about 2.7 Deutsche marks to \$1, higher than the 2.6 marks to \$1 rate at the time when the system of a fixed exchange rate for banknote issuance began to be implemented. Therefore, it is still not the time that the rate of the Hong Kong dollar to the U.S. dollar must be raised.

Second, the IMF's initial regulation about the implementation of a fixed exchange rate was that the exchange rates of various currencies in the market can vary 1 percent around the fixed rate, but later this range of fluctuation was widened to 2.25 percent. At present, we have not actually implemented a fixed exchange rate for the Hong Kong dollar; the market exchange rate at most only deviates from the "official rate" by 1.1 percent, therefore, it is not necessary to raise the "official rate."

Third, although most of the funds that have recently flowed into Hong Kong are long-term investment, it is very obvious that a fair portion of these funds are "hot-line" money that have come for the purpose of exchange rate speculation. Once the "official exchange rate" of the Hong Kong dollar is raised, these "hot-line" funds will flow out thus causing an unfavorable impact on the Hong Kong dollar and Hong Kong's financial market. Therefore, it is inadvisable to rashly raise the "official exchange rate."

In short, we had better not change the system of a fixed exchange rate for banknote issuance.

CSO: 4006/891

HONG KONG ECONOMIC TRENDS

BANK OF CHINA ARTICLE ON HONG KONG BANKING

HK200551 Beijing XINHUA Hong Kong Service in Chinese 1016 GMT 15 Aug 85

[Text] Hong Kong, 15 Aug (XINHUA)--The economic research unit under the Hong Kong and Macao office of the Bank of China has published an article in HONG KONG AND MACAO ECONOMIC QUARTERLY No 3, 1985, which is on sale today. The article suggests that under the new circumstances, there is "a need to further perfect" Hong Kong's system for banking supervision.

The article, which is entitled "Further Perfecting Hong Kong's System for Banking Supervision," points out: "As a result of its development in past decades, Hong Kong now has a system for banking supervision which includes a set of detailed banking ordinances, an office of the Commissioner of Banking with extensive powers, and an association of banks. This supervisory system has contributed to the development of banking in Hong Kong. However, in recent years, there have been changes in local banking. The number of banks has increased, the situation has become more complicated, the business of the banks has expanded, the types of services have increased in number, and the scope of their services has been broadened. Given this new situation, which is characterized by the rapid expansion of Hong Kong's banks and by the increasingly prestigious status of Hong Kong as an international banking center, we still find it necessary to further perfect Hong Kong's banking ordinances if we are to adapt ourselves to this new situation. On the other hand, the Heng Lung Bank crisis and the Overseas Trust Bank crisis have disclosed the fact that some banks in Hong Kong are not properly managed and that they violate the banking ordinances at times. In addition, these two crises have also indicated the need to further perfect Hong Kong's banking supervision system in view of the presence of some weaknesses in it."

The article continues: "First, the banking ordinances now in force are defective. They should be revised and enriched. As a result of the further development of the situation, banking services in Hong Kong will become even more complex and the banking ordinances now in force will prove to be inadequate. The main problem is that these ordinances are inadequate for insuring the quality of the banks, to prevent insider trade between the banks, and to protect the depositors. The Hong Kong Government is now going to revise the ratio of circulating assets and to fix the ratio for risk assets. In addition, it also intends to reform banking structurally. However, opinions on the specific measures differ and have yet to be thought out.

Although the banking ordinances now in force contain articles relevant to the prevention of insider trade, however, there are still loopholes, which should be plugged. In this way, banking crises will less likely take place. Of course, we cannot totally prevent banking crises by doing this. There is still the important problem of how to protect the depositors in the event of a banking crisis. In conclusion, it is necessary to revise and enrich the banking ordinances. The revision of the banking ordinances should, in principle, be aimed at insuring the quality of the banks without impeding the development of their business. In addition, it is also necessary to insure that there is fair competition between locally registered bank and foreign banks.

[HK200557] "Second, it is necessary to further strengthen the role of Office of the Commissioner of Banking. The Overseas Trust Bank crisis and the simultaneous annulment of the licenses of more than a dozen deposit-taking companies which almost had no business shows that the office was not adequately fulfilling its supervisory function in the past. In addition, the Overseas Trust Bank crisis also tells us that the Office of the Commissioner of Banking should exercise supervision in regard to the quality of the bank administrators.

"Furthermore, the Association of Banks should give full play to its role. Given its status as a guild which helps the government exercise supervision, the Association of Banks has a wide range of functions to perform. However, in the past years, the work of the association has been confined to fixing uniform interest rates and to supervising their enforcement. Work in other areas has been overlooked. In the future, the Association of Banks should play a more significant role in formulating banking regulations, in investigating cases of its members violating its charter, and in putting forward appropriate proposals on how to deal with the aftermath."

Lastly, the article calls for self-discipline on the part of the banks. "If bank employees, those senior ones in particular, choose to pay no attention to professional ethics and to deliberately violate the ordinances and regulations for the sake of their personal interests, there will always be loopholes to be used however detailed the banking ordinances and however strict the supervision exercised by the Office of the Commissioner of Banking and the Association of Banks may be. Thus, in addition to strengthening administration, all the banks should double their efforts to discipline themselves in order to protect the reputation of Hong Kong's banks, to maintain the stability of Hong Kong's financial market, and to consolidate Hong Kong's status as an international banking center."

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END