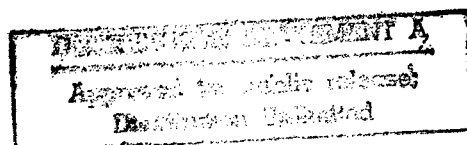


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China Report

ECONOMIC AFFAIRS

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16 July 1985

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

YUAN BAOHUA ON CURRENT ECONOMIC SITUATION

OW300648 Beijing XINHUA Domestic Service in Chinese 1201 GMT 25 May 85

[Text] Beijing, 25 May (XINHUA)--The Propaganda Department of the CPC Central Committee and some other units held a meeting today to hear reports on the current situation. Addressing the meeting, Yuan Baohua, vice minister of the State Economic Commission, said that in considering the question of the economic growth rate, we must give priority to raising economic results.

He said: We must consider microeconomic as well as macroeconomic results and immediate as well as long-range interests. Currently, we must pay particular attention to the simultaneous growth of industrial output value, profits, taxes and revenues; slow down the excessive economic growth rate; and create an economic environment that has some flexibility and reserves.

In his speech, Yuan Baohua expounded on China's overall excellent economic situation. He said: The numerous data show that China's economy is experiencing sustained, stable and coordinated development. An upward trend in our national economy is unfolding before us. This is the main stream and the main feature of the current economic situation.

Yuan Baohua said: China's economy is also experiencing some problems in the new situation. These problems find concentrated expression in the excessive growth rate of industrial production, consumption funds and investment in fixed assets. These three aspects are interrelated, and their cause and effect relationship has caused total social demand to exceed total social supply, thereby giving rise to such undesirable problems as the decline in quality, low economic efficiency and shortages of energy, transportation means and raw and semifinished materials.

Yuan Baohua continued: To develop the excellent economic situation, all areas and departments must give equal importance to speed and economic results and make the raising of economic results the fundamental point of departure for all economic work. Specifically, they should thoroughly understand the following points:

1. Appropriate speed. As long as we maintain an average annual growth rate of 7 to 8 percent, we will be able to achieve the strategic goal of quadrupling the annual industrial and agricultural output value by the end of this century, a target set by the 12th CPC National Congress. As this figure is an average

estimate for the entire country, all areas should strive for a growth rate comparable to this figure in accordance with their respective local conditions. If we can maintain an appropriate growth rate, we can concentrate on bringing the relations between the various sectors of the economy into better balance, build better infrastructure projects and prepare sufficient reserves for economic development in the 1990's.

2. Stable speed. We must take into account the capacity of our raw and semi-finished materials, energy, transportation and other facilities. The economic relations between the various sectors should not be stretched too tight. If they are, we will only achieve growth for a period of time, and the growth rate will not be sustained. This will cause our economic development to go up and down.

3. Practical speed. We must pay attention to raising the quality and sale of products. While attaching importance to low consumption, high efficiency and safety in production, we must insure an increase in state revenues and material benefits to the people.

4. Economic growth rate should not be raised at each level. We should strive to do our work well, give leeway and pay attention to practicality and the actual conditions in various areas, departments and units.

Yuan Baohua emphatically called for a correct understanding of the current economic situation: We should perceive problems from the basic trend of economic development and distinguish major problems from minor ones. While recognizing the major ones, we should not ignore the minor ones. Yuan Baohua proposed seven measures for conscientiously solving the new problems in our current economic work: Strengthen control over bank loans; strictly limit the scope of investment in fixed assets; insure appropriate growth in consumption funds; strengthen foreign exchange control; successfully readjust the structure of agricultural production; further invigorate enterprises; and vigorously expand economic and technical cooperation between various areas.

CSO: 4006/656

NATIONAL POLICY AND ISSUES

YUAN BAOHUA COMMENTS ON FACTORY DIRECTOR SYSTEM

OW220608 Beijing XINHUA Domestic Service in Chinese 1528 GMT 20 May 85

[By reporter Ge Daxing]

[Text] Beijing, 20 May (XINHUA)--More than 10,000 selected enterprises in our country have been experimenting with the system of overall responsibility by factory directors. At a regular meeting on enterprise consolidation today, Yuan Baohua, head of the National Leading Group for Enterprise Consolidation, called for all regions and departments to conscientiously sum up experiences and study problems in this regard in order to effectively practice this system.

In citing achievements made during the experiment, Yuan Baohua said: Enterprises' production and management command system has been strengthened by practicing the system of overall responsibility by factory directors. Occurring in many experimental enterprises is a new phenomenon in which they are quick in making decisions and giving directions and are high in work efficiency. After freeing themselves from busy day-to-day administrative work, enterprise party committees have shifted the emphasis of their work to supporting factory directors in the exercise of their functions and powers, grasping party building, and doing ideological and political work, thus giving full play to the party committees' supervisory role.

The factory director, with greater power and heavier responsibility, feels that he must have the backing of workers and staff members. This is why the factory director has paid more attention to giving full scope to democracy and following the mass line. As a result, the system of the workers congress in enterprises has been further strengthened, and democratic management is being institutionalized. The number of cadres who have a strong party spirit and a knowledge of production and who are good at administration and management has generally increased in enterprise leading bodies. Thus, a great improvement has been made in many experimental enterprises' production and management.

Yuan Baohua pointed out: The progress of the experiment is uneven. Due to the lack of a clear understanding of the purpose and significance of practicing the system of overall responsibility by factory directors, a small number of experimental enterprises do not have the initiative and enthusiasm in practicing the system, thus achieving few results. Lacking the necessary

conditions for practicing the system, some other enterprises hastily instituted the system and have practiced it perfunctorily, thus failing to do a solid job in this regard. Relationships among the factory director, the party committee, and the workers congress in some experimental enterprises have yet to be straightened out. Some individual directors regarded their factories as their "unified domains" or even abuse their powers to seek personal gain.

Yuan Baohua emphatically pointed out: Practicing the system of overall responsibility by factory directors is a major reform in the system of enterprise leadership in our country. All regions and departments should strengthen their leadership. While grasping the enterprises experimenting with this system, they may, according to their own actual conditions, select an additional number of enterprises from among those satisfactorily consolidated enterprises with the system of overall responsibility by factory directors. In increasing the number of experimental enterprises, it is necessary to unify thinking and understanding and to conscientiously sum up experiences in this regard. At the same time, efforts should be made to further harmonize the relationships among the party, the government and the masses so that each can strengthen its own work within the scope of its respective functions and powers. It is essential to do a good job in selecting factory directors; to carry out reforms in enterprises in a coordinated way; to educate workers and staff members, especially the factory directors; to place the interests of the state above everything else; conscientiously act according to state policies and laws; and contribute more to the state.

CSO: 4006/656

NATIONAL POLICY AND ISSUES

SEMINAR ON DEVELOPMENT OF WESTERN PRC TO BE HELD IN LANZHOU

HK180119 Beijing CHINA DAILY in English 18 May 85 p 1

[Article by Zhang Wenzhong, staff reporter]

[Text] China's great western frontier, which has largely gone ignored in the nation's initial burst of economic development, will take its turn in the limelight this summer. Officials in Beijing announced this week that the first National Seminar on Economic Development of the West will be held this August in Lanzhou, the capital of Gansu Province. The seminar is aimed at helping the vast region plug into China's overall modernization program.

The seminar will be sponsored by the newspaper ECONOMIC DAILY, the Economic Research Centre of the State Council, the National Research Commission for Economic System Reform, the Planned Economy Research Centre of the State Planning Commission and 11 provincial governments of the western region.

The state focused its early development emphasis on eastern coastal areas. But as those areas progress, the focus has shifted to the underdeveloped western region. "Without progress in the western region, it is impossible for the nation to achieve rapid, constant economic development," said Ding Wang, deputy editor of the ECONOMIC DAILY.

The western region covers 70 percent of the country's land and contains 50 percent of the natural resources. It is composed of 11 provinces and autonomous regions: Gansu, Shaanxi, Ningxia, Qinghai, Xinjiang, Inner Mongolia, Sichuan, Yunnan, Guizhou, Guangxi and Tibet.

The seminar will explore the economic status and potential of the region as well as ways of expanding ties to the more advanced eastern regions of the country.

Fifteen groups of more than 100 experts have been organized to probe different aspects of the region prior to the seminar. About 220 economists and government officials are expected to attend the meeting.

CSO: 4006/656

PROVINCIAL AFFAIRS

HEBEI HOLDS FORUM ON IMPROVING ECONOMIC RESULTS

SK301348 Shijiazhuang Hebei Provincial Service in Mandarin 2300 GMT 16 May 85

[Excerpts] Recently the provincial government held a forum of responsible comrades of relevant provincial-level departments and bureaus to discuss the issue of how to improve the economic results. Comrade Li Feng presided over the forum. The forum first analyzed the situation of the province's industrial production and economic results in the first quarter of this year.

The forum unanimously held: In the first quarter of this year, the province's industrial and economic situation was fairly good. The industrial output value and profits basically increased at the same pace. Per capita productivity increased. The safety production situation was improved. However, there were problems meriting our attention. Industrial development was disequibrated. The economic results in many fields were not satisfactory. The increase rate in the processing industry was higher than in the energy and raw materials industries. The increases in production, taxes and profits of some large and medium-sized key enterprises were lower than the province's average level and the production, taxes and profits of some of these enterprises were even lower than the figures of the corresponding period of last year. Raw material and electric power shortages and the strain on transport were aggravated because some units blindly pursued production value and competed with each other to increase speed. In order to develop the excellent situation and to enable our province's economy to develop coordinatedly and steadily, we must, from now on, put the stress in work on the improvement of economic results. The forum studied and set forth the following measures:

1. In fostering the guiding ideology, we should persistently seek truth from facts, and not compete with each other to increase speed but attach prime importance to increasing economic results.
2. We should conscientiously study and promote Shijiazhuang City's experience in conducting overall reforms in a coordinated manner and center on enlivening the enterprises to conduct reforms.
3. We should attend to key projects for technological transformation and technological importation to realize returns on investments.

4. We should accelerate the pace of developing new products.

5. We should improve the enterprises' operation and management level and the quality of the staff and workers so that the enterprises will be able to register good economic results through good economic management. We should take various steps for developing talented personnel and boldly use able people. The system of factory heads and managers taking responsibility must be carried out.

6. We should strengthen industrial management and develop information service.

7. We should strengthen investigations and studies, sum up typical experiences, and use the method of promoting the work in all enterprises by drawing upon typical experiences to help the enterprises improve economic results.

CSO: 4006/656

PROVINCIAL AFFAIRS

GUIZHOU GOVERNOR STRESSES ECONOMIC GOALS, GROWTH

HK310203 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 30 May 85

[Excerpts] After hearing a report given in Duyun in late May by the Standing Committee of the Qiannan Autonomous Prefecture CPC Committee on the economic situation in the prefecture, Wang Chaowen, deputy secretary of the provincial CPC committee and governor, said that we must have goals of endeavor in our economic work. We must strive for synchronous increases in output value, profits and financial revenue and a growth of [words indistinct].

Governor Wang Chaowen said: The province's goal of endeavor has already been set. We should strive to achieve quadruplication around 1995, ahead of schedule. The province's growth rate and economic results are quite good in terms of the whole country. Our growth rate is sound and not too fast.

While speaking on the province's economic levels, Wang Chaowen said: At present we are in a position of mediocrity. Our national income level ranks last in the whole country. This position was formed over history. The leading comrades at all levels have the responsibility to organize the cadres and masses to work hard to rapidly change this state of affairs.

Wang Chaowen also said: It is incorrect to engage in one-sided pursuit of growth rate. It is even more wrong to resort to deception. However, so long as the conditions and the possibilities exist, it is correct to seek speed [words indistinct] under the premise of insuring improvement in economic results. Unless we attain a certain growth rate higher than the whole country after 1987, we will be unable to extricate ourselves from our position of mediocrity at the fastest possible speed.

CSO: 4006/656

PROVINCIAL AFFAIRS

YUNAN ISSUES CIRCULAR ON SAFETY IN PRODUCTION

HK301556 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 29 May 85

[Text] In relaying a circular of the National Committee for Production Safety, the Provincial Committee for Production Safety pointed out that from now on, the activities of safety month will no longer be carried out. However, it is still necessary to properly arrange production safety activities according to the conditions in various localities and departments.

In its circular, the Provincial Committee for Production Safety pointed out that the current situation in the province's production safety is not good. There was a fairly large increase in the number of accidents last year. There were more accidents in the first quarter of this year as compared with the same period last year. All this merits the serious attention of leaders at all levels.

The circular demanded that in the future, carrying out production safety activities should become a regular course of action. We must firmly establish the idea that safety comes first, and prevention should be given priority. It is necessary to strengthen management and establish a strict responsibility system regarding production safety. As for those who cause accidents and inflict heavy losses due to negligence, it is necessary to affix responsibility to them and severely punish them.

The circular demanded that all localities and departments seriously organize various activities regarding production safety, such as conducting education in safety in production, launching emulation drives in accident-free production, and providing staff and workers with safety skills training. In safety inspection, it is necessary to take concrete measures to avoid accidents and remove hidden periods. As the rainy season is coming, we must pay attention to inspecting navigation channels, vessels, wharfs and reservoirs, take prevention measures and make good preparations.

CSO: 4006/656

PROVINCIAL AFFAIRS

FUJIAN'S 1984 ECONOMIC, SOCIAL STATISTICS

OW310735 Fuzhou FUJIAN RIBAO in Chinese 6 May 85 p 2

[Fujian Provincial Statistical Bureau's Communique on 1984 Economic and Social Development]

[Text] In 1984, the people of Fujian, under the leadership of the provincial party committee and the provincial government, continued to implement the party Central Committee's general and specific policies of opening to the outside world and invigorating the domestic economy, speeding up reform in the economic structure, and achieving relatively greater results in economic and social development. In terms of economic development, last year was the best in the past several years. According to initial statistics, 1984's total output value was 26.7 billion yuan, a 20-percent increase over the previous year. Total industrial and agricultural output value was 21,177,000,000 yuan an increase of 21.3 percent over the previous year; provincial income was 12.86 billion yuan, an increase of 17.7 percent over the previous year. Most of the principal economic targets set in Fujian's Sixth 5-Year Plan were reached ahead of schedule. The 1985 targets for total industrial and agricultural output value, and the output of 25 major industrial and agricultural products, including sugar cane, tea, aquatic products, meat, raw coal, hydro-electric power, rolled steel, timber, plate glass, chemical fertilizer, TV sets, minicomputers, machine-made paper, cardboard and cans, set in the Sixth 5-Year Plan, were reached ahead of schedule. Along with the development of production, the market on both cities and countryside was brisk; the people's living standard continued to rise; new progress in the construction of spiritual civilization was made, both in depth and in breadth. Fujian's external economic activities were in full swing, and there were breakthroughs in making use of foreign capital. Fujian also sped up construction of the Xiamen Special Economic Zone and the Mawei Economic and Technological Development Zone. The main questions existing in Fujian's economic development were: Consumer funds increased faster; the production and supply of marketable products could not catch up with the growth of purchasing power; the retail prices of fresh fruit and aquatic products, and prices of some service items, increased by larger margins; relation between supply and demand in transport, energy resources and some raw and other materials was still tense; some enterprises' economic results were low.

1. Agriculture

Inspired by the guidelines of the central authorities' Document No 1 in 1984, Fujian further consolidated and improved the system of contracted responsibility for production, with remuneration linked to output of rural households. It also disseminated the application of modern agricultural science and techniques to improve the standard of rural commodity production and promote the change in rural industrial structure. As a result, agriculture, forestry, animal husbandry, sideline production and fishery flourished. Fujian's total agricultural output value in 1984 was 9,783,000,000 yuan, an increase of 21.9 percent over the previous year. Fujian's industrial output value, excluding the output of industry run by villages and units below village level, was 8,066,000,000 yuan, an increase of 14.1 percent over the previous year, which was the highest growth rate since the 3d Plenary Session of the 11th CPC Central Committee. A breakdown of total agricultural output value compared with the previous year runs as follows: The output value of agriculture (crop growing) was 4,463,000,000 yuan, an increase of 10.2 percent; that of forestry was 707 million yuan, an increase of 32.6 percent; of animal husbandry, 1,438,000,000 yuan, an increase of 21 percent; of sideline production, 2,336,000,000 yuan, an increase of 50.1 percent; and of fishery, 839 million yuan, an increase of 10.8 percent. However, we must continue to reform our agricultural structure, and further develop our superiority in the mountains and at sea.

Fujian continued to readjust the inner structure of planting in all places, in line with local conditions. Acreage for grain crops was reduced, while that of industrial crops increased. Total grain output was 17,005,000,000 jin, which constituted 97.8 percent of the plan, a slight decrease of 0.9 percent from the previous year. The output of industrial crops increased. Acreage for sugarcane increased by 215,400 mu over the previous year, and its output was 94.67 million dan, which was an overfulfillment of the production plan by 11.7 percent, and an increase of 37.5 percent over the previous year. Fujian's fruit output in 1984 was an all-time record. The output of peanuts, tobacco, cocoons and tea increased by larger margins than the previous year. The output of rapeseed, jute and ambary hemp decreased.

[OW310805] The output of major farm products was as follows:

Item	1984	Percentage increase over 1983
Grain	17,005,000,000 jin	-0.9
of which:		
Rice	14,619,000,000 jin	-3.3
Barley, wheat	492,000,000 jin	105.9
Tubers	1,669,000,000 jin	4.6
Oil-bearing crops	3,166,900 dan	9.9
of which:		
Peanuts	2,945,900 dan	13.1
Rapeseed	201,700 dan	-21.7

[continuation]

<u>Item</u>	<u>1984</u>	<u>Percentage increase over 1983</u>
Sugar cane	94,669,600 dan	37.5
Jute, ambary hemp	158,700 dan	-2.2
Flue-cured tobacco	488,900 dan	98.7
Tea	705,400 dan	6.8
Fruit	4,826,300 dan	24.1

As a result of continued implementation of the "three-fix policy" in forestry, the afforested area in the province reached 4,335,000 mu, overfulfilling the plan by 73.4 percent, an increase of 27.7 percent over 1983. Output of most forest products and by-products increased.

New developments were made in animal husbandry. Increases were registered in the output of pork, beef, mutton, milk, poultry and eggs. The numbers of pigs, cattle and sheep in stock increased as compared with the previous year.

The number of livestock and the output of major animal by-products were as follows:

<u>Item</u>	<u>1984</u>	<u>Percentage increase over 1983</u>
Output of pork, beer and mutton	751,000,000 jin	15.3
of which:		
Pork	739,000,000 jin	15.5
Milk	713,600 dan	47.7
Pigs slaughtered	5,154,300 head	12.3
Pigs in stock at year-end	7,796,000 head	4.7
Cattle in stock at year-end	1,148,600 head	5.4
Sheep and goats in stock at year-end	626,900 head	0.5

The output of aquatic products in 1984 was 665,400 metric tons, an increase of 9.8 percent over the previous year and overfulfilling the plan by 21 percent. The total catch of freshwater products was 33,400 metric tons, up 22.2 percent, while marine products were 632,000 metric tons, increasing 9.2 percent. Fresh and seawater breeding developed fairly fast.

By instituting a contracted responsibility system, state farms achieved better economic results.

Peasants' investment in production increased, thus raising the level of production techniques and improving conditions for production. At the end of 1984, the aggregate power capacity of the province's farm machinery reached 4,685,900 horsepower, a 6.3 percent increase over the previous year. Small-capacity and walking tractors numbered 90,000, an increase of 4.9 percent;

and farm trucks, 6,000, an increase of 17.6 percent. A total of 502,300 metric tons of chemical fertilizer was applied during the year, an increase of 5.6 percent over the previous year. The total consumption of electricity in rural areas was 890 million kWh, an increase of 11.1 percent over the previous year. However, the power capacity of irrigation and drainage equipment was 762,000 horsepower, a decrease of 1.7 percent over the previous year.

The rural economy was being transformed from single, grain-crop production to comprehensive, multitrade development. Village and town enterprises developed rapidly. The total income of village and town enterprises in the province was 4,001,000,000 yuan in 1984, an increase of 40.6 percent over 1983. Now such enterprises have become an important pillar of the rural economy.

In 1984, the meteorological departments scored remarkable achievements in weather forecasting for agricultural production, and providing a special weather forecasting service.

[OW310821] 2. Industry

Industry grew at a comparatively faster speed, in a coordinated way, in 1984. The total industrial output value for 1984 was 11,394,000,000 yuan, an increase of 20.8 percent over the previous year. When added to the output value of rural industry run by villages or below, the total figure would be 13,111,000,000 yuan, a 25.2 percent increase over 1983.

The output of 52 of the 69 major industrial products met, or topped, the provincial plans. They included crude salt, sugar, cigarettes, canned food, machine-made paper and paperboard, plastic goods, television sets, household refrigerators, coal, electricity, pig iron, rolled steel, chemical fertilizers, chemical pharmaceuticals, logs, rosin, cement, plate glass, motor vehicles, walking tractors, pocket calculators and microcomputers. Seventeen industrial products failed to meet their 1984 planned quotas, including sewing machines, chemical fibers, cloth, ceramic wares for daily use, sulphuric acid and man-made boards. The output of 19 major industrial products prefulfilled the 1985 targets a year ahead of the Sixth 5-Year Plan projections.

Light industry continued to readjust its product mix by increasing production of marketable consumer goods. The total output value of light industry in 1984 was 6,932,000,000 yuan, an increase of 21.8 percent over the previous year. Of this, the output value of the food industry was 2,604,000,000 yuan, up 14.4 percent; that of the textile industry 851 million yuan, up 19.8 percent. The output value of electronic products related to cultural life and electrical appliances for daily use was 490 million yuan, an increase of 110 percent.

The output of major light industrial products was as follows:

<u>Item</u>	<u>1984</u>	<u>Percentage increase over 1983</u>
Crude salt	810,000 tons	6.2
Sugar	343,100 tons	3.5
Cigarettes	392,900 cases	31.8
Beer	26,300 tons	64.4
Cans	108,200 tons	43.3
Machine-made paper and paperboard	306,400 tons	13.4
Chemical fibers	10,300 tons	-0.9
Cotton cloth	135,000,000 meters	1.5
Silk fabrics	13,066,600 meters	6.7
Bicycles	364,800	37.2
Plastic goods	84,900 tons	13.8
Household refrigerators	19,200	250
Household washing machines	18,300	250
Cassette recorders	157,800	140
Television sets	470,400	30.2
of which: Color sets	320,300	140
Pocket calculators	838,300	4.5

Heavy industry actively served technical revamping of the existing enterprises in 1984. Heavy industrial output value was 4,401,000,000 yuan, prefulfilling the annual quota by 15.8 percent, or an increase of 19.2 percent over the previous year. Of which, the output value of the machinery industry was 2,473,000,000 yuan, up 44.3 percent; that of the chemical industry 1,569,000,000 yuan, up 12.2 percent; and of the forest industry 767 million yuan, up 11.2 percent.

The output of major heavy industrial products was as follows:

<u>Item</u>	<u>1984</u>	<u>Percentage increase over 1983</u>
Coal	5,759,400 million tons	9.9
Electricity	6,753,000 kWh	9.7
Steel	287,100 tons	20.7
Pig iron	350,600 tons	18.2
Rolled steel (finished product)	251,700 tons	11.9

[continued]

<u>Item</u>	<u>1984</u>	<u>Percentage increase over 1983</u>
Timber	4,194,700 cubic meters	5.7
Rosin	56,600 tons	3.1
Cement	2,340,300 tons	13.2
Plate glass	1,006,900 standard cases	-2.9
Sulphuric acid	118,600 tons	-7.7
Caustic soda	59,200 tons	5.4
Chemical fertilizers	323,500 tons	15.0
Chemical pharmaceuticals	374 tons	12.6
Plastics	37,300 tons	11.3
Power-generating equipment (above 500 kilowatts)	17,400 kW	4.2
Walking tractors	17,800	5.8
Microcomputers	2,855	280

[OW310859] Following progress in reform of the economic system, and acceleration in technical transformation of existing enterprises, industrial economic efficiency improved. Labor productivity in publicly-owned industrial enterprises practicing independent accounting rose 13.7 percent compared with 1983. Seventy-seven of the 80 major quality indices for industrial products rose, or stabilized, compared with 1983, making up 96.3 percent. Forty of the 60 major indices for unit consumption of materials fell, or maintained the same level in comparison with the previous year, making up 66.7 percent. Some success was scored in conserving energy; however, energy supply still failed to meet the needs of economic development. State-run industrial enterprises achieved a budgetary growth in output value of 16.3 percent, growth in sum total of profit and taxes of 17.8 percent, and growth in form of taxes and profit delivered to the state of 11.8 percent, thereby realizing "simultaneous" "double-digit figure" growth in 1984. Deficits of deficit-making enterprises were lowered 44.5 percent. The turnover period of fixed calculating funds was 114 days, accelerated 6.6 percent. Some products registered slow sales and were overstocked. Under the provincial budget, state-run industrial enterprises registered considerable growth in funds required for finished goods near the end of 1984. The cost of comparable products rose 1.0 percent. The economic efficiency of some enterprises needed to be further improved.

3. Foreign Economic Work and Trade, and Tourism

Foreign economic work made fresh progress. Larger, and more, projects of a production and development nature were seen in the absorption of foreign capital. In 1984, the province signed 262 contracts utilizing foreign capital. The contracts were worth \$254 million in foreign investment, or

144 percent of total foreign investment over the previous 5 years, from 1979 to 1983. Foreign funds actually utilized in 1984 amounted to \$62 million, up 29 percent over 1983.

In 1984, the province examined and approved 295 feasibility reports on imports of technology and equipment. Total investment was 597 million yuan. A total of 232 contracts on the import of technology was signed, with 104 contracts going into production by the end of 1984. The number of projects, each worth \$1 million or above, imported and going into production, reached 34. Of these projects, 15 are in the electronics industry.

Foreign trade continued to grow. The province's total imports and exports in 1984 came to \$666 million. Exports totaled \$424 million, 7.4 percent more than the previous year. The major categories of commodities fulfilled export plans. The export of silk products doubled over 1983. Considerable growth was registered in the export of nonferrous metals, machinery equipment and other means of production. Imports totaled \$242 million, up 18.3 percent over the previous year.

Considerable growth was seen in the tourist industry. A total of 267,100 people came to Fujian Province in 1984 on tours and visits, and for trade, sports, scientific and cultural exchanges, up 26.3 percent over 1983. There were 53,500 foreigners, up 28.9 percent; 29,100 overseas Chinese, up 3.6 percent; and 184,500 compatriots from Hong Kong, Macao and Taiwan up 30 percent. Foreign exchange income from tourism came to \$22,805,700, a 26.2 percent increase over 1983.

Foreign economic and technological development in the Xiamen Special Economic Zone and the Mawei Economic and Technological Development Zone saw faster progress. There were 59,900 people coming to Xiamen for business consultations, visits, meetings and tours, up 44.3 percent over 1983. A total of 85 contracts were signed with foreign businessmen on Sino-foreign joint-ventures, cooperation, or solely foreign investment. The total investment reached \$295 million. Of these, projects in which foreign businessmen invested over \$10 million include the Xiamen Haibin Building, the Xiamen Huaqiao Beer Company, Ltd., the Fuji International Exhibition Complex, the Jinqiao Hotel, and the Zhongnan International Development Corporation. By the end of 1984, the Mawei Economic and Technological Development Zone and signed 19 protocols on Sino-foreign cooperation projects, and 4 contracts on cooperation with other regions.

[OW311013] 4. Investment in Fixed Assets; Building Industry

Capital construction and technical renovation and transformation were accelerated. In 1984, investment in state-owned units' fixed assets was 2,107,000,000 yuan, 447 million yuan more than in 1983, up 24.6 percent. The newly-added fixed assets were worth 1,667,000,000 yuan, up 37.7 percent.

Of the investment in fixed assets in state-owned units, that in capital construction was 1,457,000,000 yuan, up 23.2 percent from the previous year. Of this, investment from state budget was 426 million yuan, up 39.4 percent; from

domestic loans, 462 million yuan, up 40 percent; from foreign capital, 22 million yuan, down 46.3 percent; and from funds raised by localities and from funds raised by localities and from other sources; 547 million yuan, up 8.2 percent.

Greater efforts were made to carry out major construction projects. Investment in major construction projects totaled 396 million yuan, accounting for 27.2 percent of the total investment in capital construction, compared with 25.3 percent in the previous year. Investment in energy industry totaled 176 million yuan, 49.9 percent over the previous year. Investment in education, public health and scientific research totaled 220 million yuan, up 22.6 percent.

Of the total investment in capital construction, investment in productive construction projects was 753 million yuan, 24.4 percent over the previous year, and accounting for 51.7 percent of the total investment. Investment in nonproductive construction projects was 704 million yuan, up 21.9 percent and accounting for 48.3 percent of the total investment. Of this nonproductive investment, 295 million yuan were used on housing projects, 4.9 percent less than in the previous year, and accounting for 20.4 percent of the total investment. The floor space of completed housing projects was 2,354,700 square meters, down 0.3 percent.

The major productive projects of last year's investment in capital construction included: Power generation sets with a total capacity of 112,500 kilowatts, power transmission cables (110,000 volts and higher) totaling 240.87 kilometers, coal mines with an excavation capacity of 360,000 tons, timber production and transport facilities with a capacity of 67,700 cubic meters, cement plants with a capacity of 117,000 tons, 2,400 woolen spindles, sugar-refining machines capable of producing 78,000 tons of sugar, 5 harbor piers newly constructed and expanded with a cargo handling capacity of 720,000 tons, and an added school enrollment capacity of 139,100. Three large and medium-sized projects were completed and put into operation. They are the Luxi Sugar Mill in Zhangpu, Dongdu Marine Products Cold Storage in Xiamen, and Dongdu Harbor in Xiamen. Six individual projects, accessory to large and medium-sized projects, were completed and put into operation. They are: The sugar-refining machine unit of the Huadun Sugar Mill in Zhaoan, the Subang No 1 shaft of the Longyan Mining District, the 100,000 kilowatt No 5 generator set of Yong'an Thermal Power Plant, the power transmission cable and transformers between Yong'an and Xiamen, the Northwestern Fujian Forest District and the branch plant of the Fuzhou Cotton Spinning, Printing and Dyeing Plant.

An investment of 419 million yuan was made in capital construction in the Xiamen Special Economic District, more than double the previous year's investment, and accounting for 28.8 percent of our province's total investment in capital construction. Fixed assets, thus added, totaled 261 million yuan, up 100 percent; floor space of completed buildings was 898,000 square meters, up 17 percent. In the Huli Industrial Zone, 120 million yuan was invested in capital construction, 3.4 times that made in the previous year, and 29.1 percent over plan. Construction of basic facilities in the Mawei Economic and

Technological Development District was accelerated, with the subzoning of the complex completed. The second-phase project of ground sand-blasting progressed well.

Economic results of investment in capital construction were greater. The ratio of fixed assets delivered, and put to use, increased from 75.7 percent in 1983, to 82.8 percent in 1984; completion rate of housing projects also increased from 42.1 percent to 45.8 percent. However, the construction cycle was a month longer than in the previous year. Of the four large and medium-sized projects scheduled for completion and delivery, two were not completed.

The pace of technical reform in existing enterprises was quickened. The total investment in state-owned units' technical renovation and reform measures was 584 million yuan, an increase of 29.8 percent over the previous year. Of this, 91.2 percent of the plan for local projects was completed, investment in productive construction projects was 520 million yuan, or 89.1 percent of the total, and investment in nonproductive projects, 64 million yuan, or 10.9 percent. Of investment in nonproductive projects, 44 million yuan, or 7.5 percent was for production increases and energy conservation, and 35 million yuan, or 5.9 percent, for improving product quality. The number of renewal and reform projects working all year around was 1,980, some 100 more than in the previous year, and 923 were completed, 60 more than in 1983.

[OW311047] Since it started to carry out various forms of economic contract responsibility systems, the building industry has made new developments in production. Total output value of the public building industry in 1984 was 490 million yuan, an increase of 40.6 percent over the year before. Of this, construction operations accounted for 472 million yuan, an increase of 40.3 percent. Productivity of all staff members and workers in building enterprises was 5,733 yuan, a rise of 30.5 percent. The rate of good engineering quality was 64.3 percent, an increase of 16.1 percent over the previous year.

New progress was made in geological work. The province's geological departments fulfilled 88,400 meters of geological drilling and tunneling footage for the whole year, an increase of 12.6 percent over the year before. Mining deposits recently found were coal, iron, barite, kaolin, silicious sandstone and mold sand. Eight major mining areas were newly discovered and expanded.

5. Communications, Posts and Telecommunications

By adopting various positive measures for tapping production potential, the communications departments scored a relatively large increase in passenger and cargo transport volume. The province's railway, motor vehicle, steamship and barge cargo circulating volume in 1984 was 10,763,000,000 ton-kilometers, an increase of 14 percent over the year before. Of this, the railways accounted for 6,985,000,000 ton-kilometers, an increase of 13.7 percent; motor vehicles accounted for 899 million ton-kilometers, an increase of 4 percent; and steamships and barges accounted for 2,879,000,000 ton-kilometers, an increase of 18.3 percent. The civil airline cargo volume was 2,892,000,000 tons, an increase of 62.4 percent over the year before. Handling tonnage

at major ports was 8,516,600 tons, an increase of 11.1 percent over the year before.

The province's railway, motor vehicle, steamship and barge passenger transport volume in 1984 was 8,962,000,000 passenger-kilometers, an increase of 14.3 percent over the year before. Of this, the railways accounted for 2,994,000,000 passenger-kilometers, an increase of 10 percent; motor vehicles accounted for 5,692,000,000 passenger-kilometers, an increase of 18 percent; and steamships and barges accounted for 275 million passenger-kilometers, a decrease of 5.5 percent. Civil airline passenger transport volume was 119,800 passenger-trips, more than doubling that of the year before.

The posts and telecommunications industry made relatively rapid development. Total posts and telecommunications service charges in 1984 amounted to 70.96 million yuan, an increase of 12.8 percent over the year before. Of this, mail accounted for an increase of 8.5 percent; newspapers and periodicals for increases of 23.5 percent and 44.8 percent, respectively; telegrams for a decrease of 5.4 percent; and long-distance telephones increased by 24.4 percent. At the end of the year, the number of city household telephones increased by 18.7 percent, and that of rural household telephones by 6.6 percent.

The economic results of communications, posts and telecommunications departments continued to increase. Productivity of all staff members and workers in the railway transport enterprises rose by 13.9 percent over the previous year; the average daily output of cargo transport locomotives increased by 5.9 percent over the year before; steam locomotives' per-10,000-ton-kilometer fuel consumption was 2.8 percent lower than the year before; and the yearly profits realized was 9.9 percent greater. The province's per-1,000-ton-kilometer cost of river and sea transport was 5 percent lower than the year before. Profits realized by posts and telecommunications enterprises increased by 38.7 percent over the year before. However, the current transportation situation remains tense, especially with the prominent contradictions in passenger transport brought about by abrupt increases in the floating population, caused by enlivened production circulation and weak passenger transport capability.

6. Domestic Commerce

The market was prosperous and commodities increased. The total amount of commodities procured by state-run units and supply and marketing cooperatives in 1984 was 5,712,000,000 yuan, an increase of 4.8 percent over the year before. Of this, pigs and pork accounted for an increase of 4 percent; fresh eggs an increase of 40.8 percent; flue-cured tobacco a 2.9-fold increase; and grain and aquatic products a decrease of 1.6 percent and 27.4 percent, respectively. The procurement amount for industrial products increased by 7.7 percent.

Total retail sales of social commodities in 1984 was 8,496,000,000 yuan, an increase of 17.5 percent over the year before, or an actual increase of 15.3 percent, if retail commodity price increases are deducted. Of this, consumer

products accounted for 7.45 billion yuan, an increase of 19 percent; and agricultural production means accounted for 1,046,000,000 yuan, an increase of 7.3 percent. Social retail sales of major consumer products apparently increased, compared with the year before, with grain increasing by 12.5 percent; edible vegetable oil by 103 percent; pork 2.3 percent; fresh eggs 36.6 percent; sugar 12.1 percent; woolen material 6 percent; and silk 7.8 percent. Knitted underwear decreased by 2.6 percent and various kinds of cloth by 11 percent. Bicycles increased by 2.8 percent; cameras more than 2 times; electric fans 1.1 percent; television sets 56.6 percent; recorders 2.7 percent; washing machines 1.2 times; and refrigerators 4.8 times.

[OW311109] Turnover from retail trade registered overall growth in all economic sectors, and the individual commercial economy developed rapidly. In 1984 retail trade, the turnover from publicly-owned units was 3.42 billion yuan, an increase of 12.8 percent over 1983; that from collectively-owned units, 3,354,000,000 yuan, or an increase of 8.3 percent over 1983, from jointly-operated units, 12 million; and individually-operated units, 1,063,000,000 yuan, up 86.8 percent. Through retail trade, peasants sold 647 million yuan of goods to nonagricultural residents, up 20.9 percent. Of the total turnover from retail trade, the proportion of social commodities produced by publicly-owned units dropped to 40.2 percent from 41.9 percent in 1983, and commodities produced by collectively-owned units to 39.5 percent from 42.8 percent in 1983, that of jointly-operated units 0.2 percent compared with none in 1983, and that of the individually-operated units rose to 12.5 percent from 7.9 percent in 1983. The volume of business in urban and rural trade fairs reached 1,571,000,000 yuan, an increase of 16.7 percent. Of this, the volume of business in meat, poultry, eggs, aquatic products, vegetables and dried fruits increased 20.2 percent.

Preliminary results were achieved in restructuring the system of commodity circulation. By the end of 1984, over 20,000 outlets under the province's supply and marketing system had become collectively-owned, nearly 200 small state-operated retail centers and catering businesses has changed operations. Of these centers, 20.7 percent became state-owned but collectively-operated, 9.6 percent became collectively-owned, and 69.7 percent were leased to individual operators. By the end of 1984, the province had 1,306 agricultural trade fairs and 65 trade centers. Of the latter, 53 were trade centers for industrial commodities and 12 for agricultural and sideline products.

In 1984, the general index of retail commodity prices rose 1.9 percent over the preceding year. Regionally speaking, commodity prices rose 2.2 percent in cities, and 1.5 percent in rural areas. In terms of the category of commodities, grain prices dropped 2.6 percent, nonstaple foods rose 3.2 percent, and prices of the means of agricultural production rose 3.8 percent. The general cost of living index for workers and other employees rose 2.8 percent, of which the price of consumer goods rose 1.6 percent, and of various services, 7.9 percent.

In 1984, the province's commercial units delivered 169 million yuan of taxes and profits to the state. The increase was 3.5 percent over the preceding year, considering the fact that the marketing of cigarettes had been put under

the control of the tobacco company. The rate of expenses for commodity circulation was 7.2 percent, which was basically the same as that of the preceding year. The turnover period for circulating funds shortened to 128 from 130 days in the preceding year. Despite these accomplishments, economic returns and services for commercial enterprises should be further improved.

In 1984, sale of such major means of production as coal, rolled steel, timber and cement increased significantly over the preceding year. Supply departments' circulation costs dropped to 5.2 percent from 5.4 percent the year before, and the turnover period of circulating funds was shortened to 60 from 78 days the year before.

7. Science, Education, Culture

Fujian accomplished new scientific and technological successes in 1984. A total of 161 research projects won provincial government awards, and the results of 33 research projects were applied in various fields.

Education continued to develop. In 1984, 827 graduate students, or 37.8 percent more than 1983, were studying at various institutes of higher education in the province, and 12,200 students, or 2,671 more than 1983, were studying at various schools of higher education as undergraduate students, or as students of various colleges for professional training. In 1984, 7,596 students graduated from various institutes of higher education. That was 333 more than in 1983; and total enrollment was 34,000 students, or 4,661 more than 1983.

The restructuring of secondary education continued in 1984. In 1984, the province had 90 technical secondary schools, enrolling 36,200 students, or 4,700 more than 1983; the total number of students enrolled in ordinary middle schools was 178,300, an increase of 21,300 over 1983; the number of students studying at ordinary junior high schools was 841,400, an increase of 50,300 over 1983; the number of students enrolled in secondary agricultural, or vocational schools was 39,100, an increase of 10,200 over 1983; and the ratio between the number of students studying at secondary agricultural and vocational schools and ordinary senior high schools narrowed from 1:5.9 in 1983 to 1:4.8 in 1984.

In 1984, the province had 27,300 primary schools, enrolling 3,686,700 pupils, or an increase of 80,000 over 1983. The enrollment rate of school age children increased from 94.9 percent in 1983 to 96.6 percent in 1984. In 1984, the province had 490,100 preschoolers enrolling in kindergartens. That was 13,800 more than in 1983.

[OW311153] Vocational and sparetime education has developed vigorously. There were 1,707 students at vocational colleges, an increase of 1,017 students compared with the previous year. There were 4,076 students at part-time colleges, a decrease of 353 students over the previous year. There were 16,400 people taking part in the study offered by the Radio and Television University, an increase of 2,326.

In the course of building socialist spiritual civilization, new progress was made in the development of cultural, journalistic, radio and television work.

In 1984, there was a total of 3,527 film-projector units of various kinds in the province, an increase of 11.2 percent over the previous year. There were 107 professional art troupes, 50 public libraries, 77 cultural halls, 20 museums and memorial halls, 3 radio broadcasting stations, 36 broadcasting relay stations, and 3 television stations. A total of 281 million copies of newspapers were published in the province, an increase of 46.4 percent over the previous year. A total of 24.41 million copies of magazines were published, an increase of 24.7 percent compared with the previous year. A total of 119 million copies of books were published, an increase of 1.7 percent over the previous year.

8. Public Health and Sports

By the end of 1984, there were 51,000 hospital beds in the province, an increase of 1.4 percent over that at the end of the previous year. There were 71,600 professional medical workers, an increase of 3.2 percent compared with the previous year. Of these, 25,900 were doctors, an increase of 2.8 percent, and 16,600 nurses and midwives, an increase of 6 percent over the previous year. The patriotic health campaign, disease prevention, and protecting the health of women and children were further strengthened.

In 1984, athletes from this province received 45 good, 24 silver and 24 bronze medals at major international tournaments. Four won world championships, and three were Asian champions. In national tournaments, 20 athletes won national championships. Three athletes broke 6 national records 16 times, and 27 athletes broke 23 provincial records 28 times. The departments concerned held 974 sports meets, at county level and above, in the province. Mass sports activities were also extensively developed.

9. People's Life

Living conditions of people in urban and rural areas were further improved. Based on a sample investigation into the income of rural families, the per capita net income of peasants was 345 yuan in 1984, an increase of 14.3 percent compared with that of the previous year. Of this, 304 yuan came from production work, accounting for 88.1 percent. The per-capita living consumption costs were 288 yuan, an increase of 9.9 percent over the previous year. Of these, each person spent 187.65 yuan on food, 21.1 yuan on clothing, 16.08 yuan on fuel, 26.26 yuan on housing, 27.94 yuan on miscellaneous items and other costs, and 8.84 yuan on cultural and other services. According to a sample investigation into the income and expenditure of families of staff members and workers, the per-capita disposable income was 616 yuan, an increase of 16.5 percent over the previous year. After taking inflation into account, their actual income increased by 13.3 percent, compared with the previous year. However, living conditions of people in old liberated areas, areas where people of minority nationalities live, and remote areas did not rise as fast as in other places.

In 1984, 135,000 people, who had been waiting for jobs, were placed in various positions. By the end of last year, the total number of staff members and workers in the province was 2,628,000 increasing by 88,000 people

as compared with the previous year. Of these, 1,828,000 were hired by publicly-owned units, an increase of 61,000 people. Collective enterprises in cities and towns hired a total of 792,400 people, an increase of 20,000, compared with the previous year. By the end of last year, there were 91,400 individual laborers in cities and towns, an increase of 15,000 over the previous year. In 1984, the gross wages of all staff members and workers in the province reached 2,340,000,000 yuan, an increase of 14.7 percent compared with the previous year. Of these, total wages of staff members and workers of publicly-owned units were 1,711,000,000 yuan, an increase of 14.3 percent over the previous year. The per-capita wage of staff members and workers paid in cash was 921 yuan, an increase of 11.4 percent compared with the previous year.

Labor protection work was strengthened in 1984. The number of job-related deaths of staff members and workers of various enterprises in the province was reduced by 1.6 percent from the previous year.

The savings deposits of people in urban and rural areas rose significantly. By the end of 1984, total savings deposits of people in these areas reached 3.55 billion yuan, an increase of 37.3 percent, compared with the end of the previous year.

[OW311225] The people's housing conditions were further improved. According to a sample investigation of rural family conditions, the per-capita housing floor-space in rural areas in 1984 increased by 12.4 percent, compared with the previous year. According to a sample investigation of conditions for staff members and workers, the per-capita housing floor-space increased by 6.4 percent.

In 1984, collective welfare work developed significantly in the rural areas. Some 46,100 old and disabled people, without relatives and orphans were supported by the collective economy. There were 30 welfare and children's homes in cities and towns, accommodating 1,112 people.

10. Population

By the end of 1984, there were 26,768,000 people in the whole province, an increase of 370,000 people compared with the number at the end of the previous year.

Annotations:

1. Various figures in this communique did not include our province's Jinmen County and the Mazu Islands in Lianjiang County.
2. The total output value of society, the national income and total industrial and agricultural output value were based on prices for that year. The amount of increase as compared with the previous year was based on constant price.
3. The industrial output value of various departments did not include figures of village-run and lower level industrial enterprises.

CSO: 4006/656

PROVINCIAL AFFAIRS

HEBEI HOLDS MEETING TO DEVELOP MINORITY ECONOMY

SK310157 Shijiazhuang Hebei Provincial Service in Mandarin 2300 GMT 16 May 85

[Text] The provincial meeting of heads of townships of minority peoples, the first since the founding of the PRC, was sponsored in Cangzhou from 5-10 May. The main subjects of the meeting for discussion were to sum up and exchange the experience in developing commodity production among minority townships and to study and explore ways for persistently conducting reforms and accelerating the economic construction of minority townships.

Zhang Shuguang, secretary of the provincial CPC committee and governor of the province, and (Wang Dongning), adviser to the provincial government, made speeches at the meeting.

Along with the implementation of the party's policy towards minority people, in recent years, the province successively restored and established 87 minority townships on the basis of an original plan of having 2 Hui nationality autonomous counties. According to the statistics, at the end of last year, the per capita income of 34 minority townships had caught up with or surpassed the province's average level. However, a considerably large number of minority townships failed to solve the people's difficulties in clothes and food.

Many comrades said at the meeting: In order to achieve the work for minority peoples, we should conscientiously implement the party's policy on the people enjoying freedom to believe in religion, respect the customs and habits of the minority peoples, prevent and eliminate Han chauvinism and local-nationality chauvinism, advocate mutual assistance between fraternal nationalities and learning from others' strongpoints to offset their own weakness, and ceaselessly strengthening the great unity between the people of all nationalities.

Comrades participating in the meeting held: In order to accelerate the pace of the construction of the minority townships, we must consistently conduct reforms. First, we must be firm, unswerving and brave in conducting reforms. Second, we must conduct the reforms in prudent and steady manners. Third, we should reform the problems immediately as soon as we find them.

The party and government constantly show great concerns for the economic development of the minority areas. However, so far, the province, with financial difficulties, cannot afford more funds to help minority areas

develop the economy. We should make allowances for the state's difficulties. In order to accelerate the economic construction of minority townships, we must be self-reliant, focus on carrying out our own advantages, free ourselves from the bonds of only concentrating on the cropping industry, and develop eight trades simultaneously and a diversified economy.

CSO: 4006/656

ECONOMIC DEVELOPMENT ZONES

SHANGHAI EDZ IN CONTEXT OF REGIONAL ZONE DEVELOPMENT

Shanghai SHEHUI KEXUE [SOCIAL SCIENCE] in Chinese No 2, 15 Feb 85 pp 3-5

[Article by Zhong Zhe [6945 0772] of the Economic Consulting Center, Shanghai Academy of Social Sciences: "Shanghai Economic Development Zone Seen in Context of Regional Zone Development"]

[Excerpt] Since its establishment, the Shanghai Economic Development Zone EDZ] has generated widespread interest at home and abroad. To make a real breakthrough in the work of the economic development zones, we must have a clear understanding of the nature and purpose of such zones and look at the Shanghai EDZ in the context of all the economic development zones in our nation. Specifically, we should study the problems in the Shanghai EDZ in the context of the three following aspects.

I. The Shanghai EDZ Viewed in the Context of the Full Development of the National Commodity Economy

Throughout its history, the Shanghai EDZ has always been the most highly developed insofar as the commodity economy is concerned. Over a long period of time, however, due to man-made barriers, Shanghai failed to play its rightful role in the development of China's commodity economy. In the future, we should establish and perfect the Shanghai in line with the idea behind the commodity economy to meet the demands posed by the socialist commodity economy. For this reason, the Shanghai EDZ must first break through the barriers set up by the vertical and horizontal central and local authorities, the vertical central authorities, the horizontal local authorities and the cities and rural areas, achieve an accommodation among the parties concerned and play its role as a vanguard in the development of China's commodity economy.

To achieve that objective, Shanghai must deal properly with the three following relationships:

A. Vertical and horizontal administrative and economic relationships: There exists in the history of socialism two different vertical and horizontal central and local demarcations, namely, the demarcation created by the administrative system and that created by different economic zones. Even with the passing of administrative demarcations in the future, economic demarcations will continue to exist. We must properly differentiate and develop the functions

of the various vertical and horizontal authorities and refrain from obscuring or equating the two. From the horizontal point of view, the administrative divisions (such as provinces and large administrative areas) are the horizontal administrative authorities while economic zones should be regarded as horizontal economic authorities. Insofar as the vertical system is concerned, companies in the form of enterprises and the trade and business associations are vertical economic authorities while government departments and bureaus are vertical authorities. The crux of the problem is how to define their responsibilities.

B. Relationship between the economic zones: The relationship inherent in the economic life of the economic zones is of the closest kind. The economic zones are the territorial production units primarily concerned with the development of their economic potential. Although territorially demarcated, they are also open to other economic zones. While, under socialist conditions, we must on the objective basis for establishing economic development zones, set up in a scientific manner economic development zones of different natures and at different levels, we must also develop extensively the relationships among the different zones. Some people have expressed concern that the establishment of economic development zones would create new horizontal authorities and thus weaken economic cooperation among the different zones. This concern, which results from a misunderstanding of the economic development zones, must be put to rest. The crux of the problem is how to differentiate the "self-sufficient economic system" from the "unification of the regional specialization and overall development economic system." The self-sufficient economic system is based on the natural economy theory while the economic development zones, the main purpose of which is the development of the superiority of the area in question, aim at the organic unification of the specialized departments (predominant industries) and the overall development of the economic community. It is not the purpose of the economic development zones to achieve self-sufficiency arbitrarily or to seek far and wide for what lies close at hand. Instead, their purpose is to conform with the principle underlying commodity production namely using the least amount of input and reducing to a minimum the amount of labor required by society for the production of the predominant products in order to increase their marketability and to fulfill their function in the division of labor among the various regions domestically and internationally. The organic unification of the specialized departments and their auxiliary and service departments on the one hand and the supply and cultural departments which serve the needs of the local residents on the other would naturally escalate the degree of synthesis in the economic structure of the economic zones. The synthesization process is not the same as the "small and complete" and "large and complete" concept. Rather, it is a profound reflection of the inherent relationships among the various economic departments of the various zones in their attempt to increase economic effectiveness and promote the logical division of labor among the various regions.

C. Relationship between economic development zones and key cities: Since the economic development zones must extend laterally to establish economic contacts and deal with the vertical and horizontal authorities in an integrated manner, the points of integration are naturally the key cities where the production and exchange of commodities are highly developed. Cities in general and key cities in particular are products of the development of the commodity economy as well

as its hubs. By collecting and disgorging commodities, they generate vast amounts of profit as well as a tremendous amount of radiation and absorption. A key city must have its corresponding points of absorption. That is one of the justifications for the establishment of key cities. As a rule, an economic development zone needs to have a key city to back it up. We must make a distinction between the functions of a key city as a city and those of a city government and regard the economic relationship between key cities and other areas as a substantive relationship characterized by the simultaneous existence of mutual unification and mutual attraction. This relationship of interaction may be called "the economic field," similar to "the field of attraction" or "the magnetic field," a relationship that also promotes economic effectiveness. An economic development zone is in effect the product of the unification of the objective existence of economic substance and "the economic field."

II. The Shanghai EDZ Viewed in the Context of Establishing Economic Zones throughout China

The work of setting up economic zones is an essential measure adopted by socialist nations in exercising their function of pointing the way to economic construction according to scientific principles and a plan. It serves to overcome the tendency of going about the development of production in a blind manner, to avert a state of anarchy and to bring about a proper distribution of productive power.

Production and construction must be put in their proper places. The "theory of zonal economy" embraced by foreign countries is the study of why certain economic activities take place and why certain economic facilities are established within certain regions. All policy making in the sphere of economic and social development must take into consideration its nature, its quantity and its position. Although the errors we have made since the establishment of the republic and the low rate of economic returns at the present time may be attributed to various factors, the lack of research into the position of economic and social development in a systematic manner and the errors made in economic decision-making are major factors with far-reaching consequences. In our work in the economic field, we have from time immemorial stressed the importance of achieving a balance in the relationship among the departments and overlooked the importance of reasonable distribution and of achieving a balance in the relationship among the various regions. Thus, it is difficult to give an estimate of the resultant loss. The coefficient derived from the cumulative total of investments since 1953, is 0.973 along the coastal areas, 0.414 in the inland areas and 0.256 in the Sanxian area. Thus, the adverse effect of poor location on our effort to improve economic results may be easily seen.

Ours is a vast nation with enormous natural, economic and social differences among the various regions. In formulating the strategy for social development and long-term programs, it is only by studying, analyzing and assessing the overall natural, economic and social situations throughout the nation and by including all its territories in our regional program that we can determine the proper direction for the development of the various regions and take full advantage of their assets.

A. The principle applying to the demarcation of economic development zones in our nation" We wish to make the following suggestions: 1) We must take note of the natural, economic and social factors in achieving a proper integration between the division of labor among the specialized businesses in the various regions and overall development within the regions 2) We must develop lateral economic relationships and the proper integration of vertical and lateral relationships 3) We must give full play to the functions of the key cities as cities at various levels so that they may play their key economic roles in the economic development zones at various levels 4) We must bring about an integration between economic control exercised by the government and the achievement of economic and social effectiveness.

B. The scope and line of demarcation of our economic development zones: We wish to point out the following: 1) While the demarcation line of an economic development zone must have a measure of stability, it should not be frozen immutably 2) While the scope of an economic development zone should be set with its historical and existing circumstances in mind, consideration must also be given to its long-term development 3) The boundary of an economic development zone should be consistent with its nature. While consideration should be given to the boundaries of administrative areas, the setting up of economic development zones also calls for proper adjustments in the demarcation of administrative areas consistent with the requirements of the economic development zones.

C. Levels of our economic development zones: In keeping with China's national conditions, economic development zones as a rule should be divided into three levels. For a small number of areas, there may be one level more or one level less. 1) Class I economic development zones: These typically are established in very large cities with populations exceeding 1 million. Their boundaries overstep those of the provinces and municipalities directly under the jurisdiction of the central government. Advantage should be taken of their favorable circumstances to establish economic structures by the specialized departments of national consequence of the overall economic development of the area 2) Class II economic development zones: These boundaries must necessarily overstep those of cities under the direct jurisdiction of the provinces (subprovincial administrative areas). The degree of their comprehensiveness is as a rule less than that of class I economic development zones 3) Class III economic development zones: These are usually established around medium and small-sized cities and large mines. The comprehensiveness of their economic structures is as a rule less than that of class II economic development zones.

These divisions are made with the following specific considerations: 1) Proper consideration given to certain long-standing economic relationships formed by the large regional system of the past 2) Consideration given to the counteraction exerted by the administrative areas on the economic development zones and due regard given to the integrity of the administrative areas 3) Consideration given to the proper geographical span of the economic development zones and their communication conditions. Independent class II economic development zones, for instance, may be established in the remote areas.

D. The problem of demarcation of the Shanghai EDZ: The original demarcation line of the economic development zone centered around Shanghai has been

extended to the entire administrative area embracing Shanghai and the four provinces of Jiangsu, Zhejiang, Anhui and Jiangxi. In this regard, we wish to offer the following opinions: In the demarcation of economic development zones, we must look at the whole nation as a chessboard and develop a systematic concept. There must be a link among the various economic zones. In drawing up the boundary of one economic development zone, we must give due consideration to the proper demarcation of other zones so that they can serve as small systems within a large system. Taking the demarcation of economic development zones in our nation as a whole, the original scope of the Shanghai EDZ would appear to be too small to be a class I comprehensive economic development zone, nor does its economic structure appear to have all the requirements for this zone. Two of the most economically developed regions in our nation, the Beijing-Tianjin-Tangshan region and the central and southern part of Liaoning, have only been designated the nuclei of the economic development zones in the northeast and northern China and not as class I overall economic development zones. The rationality or otherwise of the new demarcation of the Shanghai Economic Development Zone must be viewed with the concept of the system in mind and with due consideration of the entire situation.

III. The Shanghai EDZ and the Reform of China's National Economic System

An economic development zone should be a vigorous establishment. The establishment of an economic development zone must be related to the overall reform of our economic system. The establishment of the Shanghai EDZ and several other economic development zones determined by the state is in itself a major exploitation of ways to bring about economic reforms. The various reforms mentioned in "Regarding the Decision To Reform the Economic System" issued by the central government may all be said to have something to do with economic development zones. However, the most crucial reforms are those concerning the ways and means to separate politics from the enterprises, to reform the planning system, to make it possible for the government to exercise control over the various organs and to vest authority in the enterprises, the marketplaces and the key economic departments. It is only thus that a truly flourishing network of economic development zones of different scopes can be established in keeping with the inherent relationships of economic life and with the backing of the key cities. For this reason, we must incorporate the establishment and perfection of the mechanism of our economic development zones into the overall planning in the reform of our economic system to keep pace with other reforms. In this regard, we wish to make the following suggestions:

A. Demarcation between economic development zones and administrative areas: Generally speaking, our economic development zones are based on two concepts. One is of an economic and geographic character, that is, the objective existence of various units in the production areas; the other is the existence of integrated regional economic associations (and organizations). The former offers an objective basis for the establishment of the latter while the establishment of the latter would inevitably promote the healthy development of the former. The economic development zones of the first type had their objective existence when the large administrative areas and the large coordinated areas were in existence in the 1950's and 1960's. Their boundaries

naturally did not coincide with those of the administrative and coordinated areas. It was not until a couple of years ago that the economic development zones based on the latter concept came into existence. They are different in nature from the large administrative and coordinated areas. They do not belong to the first level of administrative (or quasi-administrative) areas. Instead, they are economically integrated organizations established voluntarily by the economically closely related areas on the basis of equality and mutual benefit. Under the guidance of national planning and through consultation, the participating areas draw up a regional economic program providing for the sharing of rights and responsibilities to bring about economic prosperity for all on the basis of cooperation in bringing about the specialization of the regions.

B. Relationship between the reform of the planning system and the economic development zones: The formulation of regional economic programs is a major function of China's economic development zones. This type of work must be linked to the reform of the planning system. The work of formulating regional programs is of a long-term and ongoing character. If we are to remake nature, exercise control over our land and properly organize socialist production on a large scale consistent with objective laws, we must draw up a program for the economic development zones just as we must have a scientific program for the cities if they are to be properly developed. Thus, the programs for the regions must be of the flexible type.

The formulation of regional programs constitutes a major basis and an essential procedure in our work of drafting a plan for our economic and social development, especially medium and long-term programs. In the formulation of programs and the selection of projects, the various departments must henceforth ensure that they dovetail with the regional economic programs approved by the state so that they may become major constituents in our planning system.

C. Organizing mechanism in the economic development zones: To perfect the mechanism in the economic development zones, we must proceed from the two concepts implicit in the economic development zones and set up appropriate organizations in keeping with the principle of separating administrative and economic areas. With due consideration of China's particular national conditions, we suggest that the three following organizations be set up: 1) Guidance organizations. These are agencies acting on behalf of the state in providing guidance and coordination in the work being done in the economic development zones 2) Coordination organizations. These are economic coordination organizations which are formed by the various quarters in the economic development zones to promote lateral contacts and the division of labor but which do not exercise administrative power. 3) Planning organizations. These are overall regional planning organizations similar to city planning offices and specialized planning offices of the various central government departments formed by specialized personnel to serve as long-term brain trusts responsible for investigation, planning, research and consultation.

To summarize the above, the study of the Shanghai EDZ will be more objective and fruitful only if we are mindful of the entire regional economic situation, go about it in the context of the plan for the entire regional economy in our nation and coordinate it with our various studies.

ECONOMIC PLANNING

TIANJIN MAYOR OUTLINES CITY'S LONG-TERM GOALS

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[Text] Tianjin, April 24 (XINHUA)--Three major long-term goals for Tianjin, one of the three municipalities directly under State Council administration, have been outlined by Mayor Li Ruihuan.

The authorities will strive to turn the city into a technologically-advanced industrial base, an economic center and a modern international port, according to a program Mayor Li presented to the municipal people's congress which began on Monday.

He said that Tianjin would accelerate the development of technology-intensive industries, industries that consume less energy and raw materials and ones producing high-grade, precision and advanced industrial goods.

Advanced foreign technology would be introduced to a number of key industries. The modernization of existing enterprises would be accelerated, while a number of key energy and transport schemes would be built.

In addition, the city would develop electronics and machine-building while encouraging chemicals, textiles, food-processing and essential raw and semi-finished materials industries.

Also included in the ambitious program are improvements to sea, land and air transport, and the development of trade, business information exchange, service trades and the technology market.

The mayor stressed the role of his city as an industrial and trading port. Facilities at the rear of the port would be improved to attract foreign investment.

Under the long-term program, Tianjin will be built gradually into two component parts--city proper with an area of 61 square kilometers, and its periphery covering 269 square kilometers.

The city proper will become the political, communications, economic, trade and cultural center.

Most industries will move out, leaving only technology-intensive plants and handicraft workshops that do not cause pollution.

The periphery will include 10 industrial and attached residential areas and a number of parks.

A 70-kilometer ring road around the city will be built, along with a forest belt 500 meters wide.

And a new industrial estate will be built on the banks of the Haihe River which runs through Tianjin.

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ECONOMIC MANAGEMENT

INVESTIGATION ARTICLE ON WUHAN'S PRICE REFORM

HK300700 Beijing RENMIN RIBAO in Chinese 19 May 85 p 2

[Article by the Investigation Team of the State Commission for Restructuring the Economic System: "Opening Up, Invigorating and Exercising Control--Revelations From Wuhan City's Price Reform"--first paragraph is introduction to article]

[Text] Since price reform affects the situation as a whole, it must be considered in an all-round way and carried out prudently and in light of the principle of handling less difficult things before handling difficult ones and opening up step by step. Because the markets are opening up, the coexistence of two prices has broken through the ossified price system and made prices gradually approximate value, thereby changing the concept of the masses regarding "stabilizing" prices and gradually making them suited to the situation in which prices follow changes in value and the relationship between supply and demand. State-run commercial enterprises should have in hand an ample supply of goods and actively participate in regulation by market mechanism to regulate market prices. In the aspects of supervision and management, it is necessary first to legislate, to clearly define policies and combine decontrol with control, and insure that there is a control but not rigidity. Meanwhile, it is necessary to do a good job in ideological and political work by guiding action adroitly according to circumstances.

Since the 3d Plenary Session of the 11th CPC Central Committee, in the practice of price reform Wuhan City has constantly accumulated experiences, achieved better results, and promoted the development of commodity production. Compared with 1980, in 1984 commercial and catering trade networks and centers increased by 228 percent, and the varieties of small commodities increased from 627 to 1,612. Because native and special farm and sideline products from other localities were flowing steadily to the market, the volume of business in 1984 increased by 548 percent over 1980, and the total retail volume of social commodities last year increased by 25.5 percent over the previous year. After the 3d Plenary Session of the 12th CPC Central Committee made its decision regarding economic structural reform, price reform in Wuhan City has also made progress and gained some new experiences.

Advance Actively, Steadily and Step by Step

In carrying out price reform, Wuhan City at the very beginning did not have clear and definite methods, but experienced a development process from being unconscious to conscious in carrying out reform the last few years. They upheld the principle of proceeding from actual conditions. Because price reform affects work in every respect, it is necessary to consider factors in every respect in an all-round way and prudently carry it out by gradually relaxing controls and effecting readjustments. In light of the principle of handling less difficult matters before handling difficult ones, it is necessary to relax controls over small commodities before big commodities, relax control over commodities which affect a new scope before commodities which affect a wider scope, relax controls over commodities which only slightly affect the livelihood of the mass before commodities which are closely linked to the livelihood of the masses. At present it appears that this method is correct. In price reform we must consider an overall balance macroscopically and both the capacity of the state, enterprises and individuals, and the needs, and actively and steadily carry it out according to possibilities.

In 1980 Wuhan City selected 71 commodities which do not affect the people's livelihood greatly in the second light industrial system for trial implementation of floating prices; in December 1982 it carried out regulation by market mechanism of 176 small commodities; in May 1983 it relaxed controls over the prices of 200 small commodities and at the same time affected floating prices for 49 commodities of second-category manufactured goods for daily use which have big qualitative price differences and which quickly experience changes in supply and demand; and effected temporary prices and agreed prices between industrial and commercial sectors for part of the means of production. After effecting floating prices and relaxing controls over small commodities, due to flexible pricing, the qualities of products have been improved and the varieties increased, resulting in promoting production and the prosperity of the markets. Because the price fluctuations are not big, the masses are basically satisfied.

[HK300702] Concerning the prices of farm and sideline products, Wuhan City also adopted the method of gradually releasing controls. In 1980, with the opening up of rural trade markets and the increase in the negotiated price of commodities, it relaxed controls over the prices of poultry and then the price of beef and mutton, the consumption of which is small. Last June it relaxed controls over fish prices and in July vegetable prices. In August, the selling price of pork was raised from 1.06 yuan per jin to 1.26 yuan, and every city dweller was given appropriate allowances. On 1 April this year, according to the unified arrangements of the state and in light of local conditions, it further relaxed controls over the selling price of pork, properly increased the allowances to consumers, and also decided to effect a seasonal readjustment of this allowance. As a result of steady steps and strict measures, during the process of price reform there were no major fluctuations on the market.

Open Up Markets and Enliven Prices

Because Wuhan City opened its door to the markets, a competitive situation of two markets and two prices has been formed, with the results of making prices gradually approach their value and letting the masses receive education in the law of value imperceptibly. This is another characteristic of the price reform in Wuhan. After the 3d Plenary Session of the 11th CPC Central Committee, 42 rural trade markets quickly sprang up in the urban areas of Wuhan, and the sale and purchase prices of farm and sideline products there were negotiable and fluctuated along with quotations on the market. Afterwards, the number of rural trade markets increased year after year, and up to last year there were already 80 in the urban areas. In 1983, after Document No 1 of the central authorities was transmitted to the lower levels, they also set up nine wholesale markets for farm and sideline products. Last year the number of these markets rose to 17. After the controls over the prices of third-category small manufactured commodities for daily use were gradually relaxed, Wuhan City opened up 10 small manufactured commodity markets in the urban areas. In addition to retailing, the main markets, such as Hanzheng Street, Jingnan Street, and so on, also engaged in the wholesale business. Because the markets are a basis for invigorating the economy, with the opening up of the markets, the economy in Wuhan City has begun to become lively, and the volume of business in the markets has also increased year by year. For example, in 1984 the volume of business in the rural trade markets increased by more than 600 percent over that of 1979, and the volume of business in the first quarter this year increased by 55 percent over the corresponding period last year. Comparing the business volume of commodities in the rural trade markets with the retail volume of state enterprises, the proportion is also very impressive. For example, last year the business volume of beef in the rural trade markets was 77 percent of the retail volume of the state, and similarly, poultry was 195 percent, aquatic products were 220 percent, vegetables were 33 percent and fresh eggs were 22 percent. Also similarly, in 1984 the business volume of the manufactured goods markets increased by 236 percent over 1983, and in the first quarter of this year increased by 80 percent over the corresponding period of last year.

[HK300704] The coexistence of the two markets and the coexistence of the two price systems of planned prices (including floating prices) and market prices (including negotiated or agreed prices) and their interactions and mutual restrictions push state-operated commerce to improve business management and service quality and enhance their competitive capability. After controls over the prices of small commodities were relaxed to effect regulation by market mechanism, there were more varieties with unblocked channels, and the exchange scope of small commodities also rapidly expanded. The small commodity market in Hanzheng Street has business dealings with 24 provinces, municipalities and autonomous regions across the country. The varieties of manufactured textile goods for daily use which were changed to floating prices in 1984 have expanded to 143 and have effected qualitative, seasonal and variety price differences, resulting in the formation of a competitive situation and promoting the production of new products and high-quality and famous-brand products. According to statistics, the coexistence of these two price modes has enabled the retail prices of manufactured goods for daily use to steadily

decline. In 1984, among the 5,309 kinds of commodities for which price changes were effected, the prices of 1,711 commodities increased within a range of 14.2 percent and the prices of 3,489 commodities decreased within a range of 16.7 percent. Having both risen and fallen, the prices have tended to become rational. In the 80 rural trade markets in Wuhan City's urban areas, the price level in the first quarter of this year increased by 13.13 percent over the corresponding period of last year. Among them the price of rice decreased by 17.25 percent; shelled peanuts by 9.1 percent; and vegetables by 5.8 percent. The price of pork went up 16.66 percent and that of live fish 51.72 percent to 59.38 percent. Because the sales volume during the Spring Festival increased and the state-run commercial departments did not keep sufficient stocks, the increased range in live fish prices was the biggest. However, with the development of production, prices have tended to decline. Comrades in Wuhan City have realized in practice that the key to the basic stability of commodity prices lies in the invigoration of prices and circulation, the promotion of the development of production and an increase in the volume of commodities. Because the markets are opening up, the coexistence of the two prices has broken through the ossified price system and has made prices gradually come close to their value. Meanwhile, it has also changed the concept of the masses regarding "stabilizing" prices and has gradually made them suited to the situation in which prices follow the changes in value and supply and demand. This has created favorable conditions for further carrying out the price reform.

Have the Supply of Goods Under Control To Regulate Commodities' Prices

The relation between supply and demand is an important factor affecting the fluctuation of commodity prices, and a constantly maintained ample supply of goods is the main reason for not having wider repercussions during the price reform in Wuhan City. Because Wuhan City as a whole adopted the open-door policy and opened up rural trade markets earlier through country fairs throughout the whole city, small commodities and farm and sideline products can all find their own markets at flexible prices. There is also a steady flow of commodities from other localities into Wuhan, resulting in excellent conditions for Wuhan having the supply of goods under control. However, it also suffered the bad experience of having an inadequate supply of goods. For example, last year the production and sale situation of lotus roots was very good, with high quality and quantity; their rural market price always fluctuated around 0.15 yuan per jin. However, before the Spring Festival the weather was warm and vegetable departments neglected storage work, so the heavy snow on 17 February made the situation precipitously decline. Because the masses of people wanted to purchase lotus roots to consume during the festival and because supply fell short of demand for lack of stocks in the vegetable market, the rural trade markets rapidly formed a sellers' market, with the price of lotus roots soaring to 0.6 yuan per jin. By that time it was too late for the vegetable departments to make emergency purchases. Hence the situation arose that "while snow flakes were falling thick and fast, the prices of Spring Festival goods soared."

When Wuhan for the second time relaxed controls over the price of meat in April of this year, they drew a lesson from the case of lotus roots by making

sufficient advance preparations for supplies of goods. On the one hand they mobilized the rural trade centers, trade warehouses, and state-run vegetable markets to organize the transportation of farm and sideline products with pork as its main content into the urban areas and successively sent out purchasing teams totaling more than 9,000 people to organize transporting more than 13,000 tons of pork from within and outside the province. On the other hand, state-run food companies also transported a large number of live pigs from other localities, and at present they still keep transporting live pigs at a rate of 1,000 head per day. Therefore the supplies of pork were greatly enhanced, thus providing a solid material guarantee for relaxing controls over the price of meat.

[HK300706] With stocks in hand, they did not feel panicky. After the state-run commercial departments had an ample supply of goods, they actively participate in regulation by market mechanism to regulate the market prices. Before the meat price reform was staged, the state-run food companies put an excessive amount of meat on the market. During the 5 days from 27 March to 1 April, they altogether put on the market 43,000 head of live pigs, accounting for 43 percent of the total of 100,000 pigs put on the market that month. During this period all food markets in Wuhan had plentiful supplies of high-quality meat available, and moreover they increased the numbers of sales people and stalls and lengthened business hours to enable the people to buy as much as they wanted. The state-run food markets also set up sale centers on their own initiative in more than 60 rural trade markets. Because the commercial departments made a huge amount of meat available on the market, the meat prices in country fairs did not go up, but instead the price of each jin of meat fell by 0.02 yuan.

In order to prevent a chain reaction which might be caused after the controls over meat prices were relaxed, Wuhan also made sufficient preparations for 12 commodities for daily use like soap, detergent, sugar, matches, toilet paper, and so on, which might cause panic buying. At the beginning some of the masses did rush to purchase some individual commodities for a while. However, because the supply of these commodities was insured and could be bought at any time without any restrictions, the panic buying did not last long. Regarding fresh and live commodities, on the premise of having the supply of goods under control, they adopted the method of purchasing at high prices and selling at low prices to regulate the market prices so as to insure the smooth progress of the reform.

Combine Decontrol With Control and Insure That There Exists Control But Not Rigidity

In handling the relationship between "decontrol" and "control," Wuhan City proceeds from invigorating the economy. "Decontrol" is carried out with aims and measures and step by step. When one thing is mature, decontrol is exercised, thus groping forward step by step. "Control" is exercised on the basis of "flexibility." Its specific methods are: Controlling the major things but not the minor; controlling the highest wholesale and retail prices but not the lowest; controlling the control expense rate and the price difference rate but making the purchase price and selling price flexible; and controlling the

increased ranges but not specific prices. In the aspects of supervision and management, it is necessary first to legislate, clearly define policies, and draw a clear line of demarcation between "flexibility" and "disorder." In this regard, the city government promulgated its "Provisional Regulations Regarding Certain Questions of Strengthening the Management of Commodity Prices." The prices of all industrial and agricultural products and services which should be fixed by the state; prices of those commodities which are allowed to effect floating prices should float strictly according to stipulated varieties and ranges; prices of wheat foods for breakfast, sugar, salt, soap, toilet paper and school exercise books which are closely related to the livelihood of the masses must be listed according to unified prices; prices of those famous-brand and urgently needed consumer durables should not float; and the controls over the prices of pork, live fish, vegetables, eggs and bean products should be relaxed by stipulating price rates and differential rates to determine the purchase volume. State-run and collective enterprises are required to actively participate in regulation by market mechanism in regulating commodity prices.

Strengthening the inspection and supervision of commodity prices were primarily realized through following measures:

A competition in trustworthy commodity prices was launched. The commercial enterprises which have always implemented the pricing policy well and enjoyed a high reputation among the masses were awarded a gold-lettered signboard reading "trustworthy commodity prices" to urge enterprises to strengthen price controls from within and do business in a civilized way. In order to safeguard their reputation, many enterprises often conducted self-inspections on their own initiative, and when they discovered problems they would solve them promptly and give people responsible warnings or economic punishment so as to enhance the people's consciousness of abiding by the pricing policy.

[HK300708] The commodity price inspection organizations at the city, district and county levels were strengthened, full-time commodity price inspectors were appointed in every neighborhood, and voluntary price inspection contingents were replenished. At present the whole city has had over 1,600 voluntary commodity price inspectors working within the jurisdiction of every neighborhood office, which has resulted in basically forming a commodity price supervision network and playing a positive promotive role in stabilizing the market. Through inspections they helped the inspected units and individuals to enhance their understanding so as to consciously abide by the pricing policy.

The commodity price surveillance telephone number was publicized and reception centers for mass interviews and opinion boxes were set up. During the period from 27 December last year to the end of this February there were 750 telephone calls by the masses complaining about commodity prices, which were all promptly verified and dealt with.

On the rural trade markets and manufactured goods markets, goods were sold at clearly marked prices listed by the operators themselves. The practice of marked prices not only is easier for the masses to enforce supervision

but also prevents people from unreasonably driving up prices, with the result that the markets are in good order. The practice of marked prices is not to rigidly fix prices, but rather that the buyer and seller can also conclude transactions through consultations. It has been proved in practice that the effect of this practice is good.

They have been fair and strict in meting out rewards and punishments, and have integrated leniency with severity. In order to commend and encourage enterprises and individuals which implemented well the pricing policy, 17 advanced units and 69 advanced individuals were successively praised. People who performed meritorious service in reporting offenses to the authorities were encouraged and rewarded. In dealing with offenders, leniency has been integrated with severity. While first offenders are dealt with leniently, repeaters are dealt with severely; and while people who made self-inspections and self-corrections and reported their offenses to the higher authorities themselves were dealt with leniently, people who practiced fraud and were unrepentant were dealt with severely. While major and important cases were vigorously investigated and severely dealt with, ordinary problems were often investigated, with the stress on assistance and promotion.

Adroitly Guide Action According to Circumstances and Step Up Propaganda

The reform of the price system is a deepgoing transformation of the long-standing practices of freezing commodity prices, providing people with daily necessities according to ration coupons, and of prices failing to reflect values and the relationship between supply and demand on the market. It is also a process of changing our ideology and understanding our forces of habit. The masses welcome the reform, but they fear that prices will be driven up wildly, and they have no clear idea about the outcome of reform. Moreover, they do not have a comprehensive understanding of the principle of keeping commodity prices basically stable. In their understanding, keeping commodity prices basically stable means keeping prices unchanged, so when there are some slight adjustments, they tend to feel so unaccustomed that they will start talking about the matter. In changing people's ideology and concepts and force habits, there is much work to do. With every move of the price reform Wuhan City has paid great attention to the psychological factors of the masses and has persevered in mobilizing the masses at each level, extensively carrying out propaganda work, giving full play to the roles of party organizations as fighting bastions, and doing well with ideological goals and political work.

It is necessary to actively grasp well propaganda and educational work among sellers and do well in educational work among big households operating in the rural markets while displaying the role of state run commercial enterprises as the principal channel. Because individual enterprises tend to follow state-run enterprises and the small households follow big households, the actions of state-run enterprises and big households can provide a good example in stabilizing rural market prices.

In light of the mentality of the masses fearing arbitrary increases in prices, Wuhan City grasped and promptly solved major cases involving the violation of laws and discipline and used reality to educate the masses, producers and operators. The No 1 Leather Shoe Plant in Wuhan sold over 3,300 pairs of leather shoes at high prices, and 23 hopes like the Wuhan Friendship Service Company sold 1,569 Gaobao brand refrigerators at high prices, involving over 100,000 yuan in illegal funds. When the pricing departments publicly dealt with the cases and ordered them to return the illegal money to customers, there were wide repercussions in society. The masses highly praised the decision and realize that the party and government care for the people and protect the interests of consumers. Thus they all the more trust the government and support the price reform.

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ECONOMIC MANAGEMENT

INPUT-OUTPUT STATISTICS DISCUSSED

Beijing TONGJI YANJIU [STATISTICAL RESEARCH] in Chinese No 4, 7 Dec 84
pp 25-30

[Article by Mao Bangji [3029 6721 1015]: "An Initial Exploration of
Input-Output Statistics"]

[Text] Input-output statistics, which are drawn up into input-output tables, reflect comprehensively the condition of technical economic links and coordinated development of various departments of the national economy. They are an important tool in strengthening overall balances, carrying out economic and quantitative analysis, and developing economic forecasting. In recent years, along with the gradual development of China's socialist construction, the publication of input-output tables has become a regular task on the daily work agenda. Some localities and departments have already been publishing or are now beginning to publish input-output tables and, moreover, have forged ahead in the areas of how to use and give full play to the role of input-output statistics. Undoubtedly, the development of input-output statistics will open up new areas in China's statistical work. This is an important link in creating a new situation in statistical work and carrying out the reform of statistical work.

There has already been a relatively abundant amount of experience overseas in the publication and use of input-output tables. In China, although statistical work has already been developed in a few areas and a few departments, generally speaking it is still a relatively new area of work. To form a nationally unified system of input-output statistics, we need to work according to China's actual situation, draw upon overseas experiences, and in actual practice get a feel for a path that has Chinese characteristics.

I. The Compilation of Tables

In constructing input-output statistics, we must take Marxist economic theory as our guiding principle; only then will we be able to basically guarantee its scientific nature and its utility and give full play to its role.

Marxist political economics and production principles point out that social product is the production activity engaged in by laborers in material production departments within a certain period of time; it is the material

base upon which mankind relies. When we construct input-output statistics, design and compile input-output tables, it is essential that we respect Marx's teachings, and strictly differentiate between material production departments and non-material departments. From the perspective of its overall course, social production is an organic and unified whole composed of the four links of production, distribution, exchange and consumption. Products that are produced by material production departments, with the exception of the distribution, exchange and consumption carried out between local departments, are also distributed and exchanged among and consumed by non-material production departments. This special characteristic of the course of social production, makes it so that when we study the flow of social products, not only should we look at the mutual links between material production departments, but we should also analyze the mutually dependent links between material production departments and non-material production departments. Input-output tables play a unique role in satisfying this requirement. Proceeding from the needs of the national economy, it reflects collectively the activity of the whole economy in one table. Through a quantitative description of the entire course of social products production, distribution, exchange and consumption of social products, we can examine social production flows in a single department, and can make a comprehensive survey including the organic links among each department within the category of non-material production departments.

The input-output tables China currently compiled do not yet accurately reflect the overall course of reproduction of social goods. These tables are drawn up on the basis of the requirements for a balanced system of material products, but they serve as tables for balancing materials and supplies. In simpler terms, their first quadrant reflects consumption in the course of production of social product.

The second quadrant reflects the ultimate use of social products; the third quadrant reflects the initial distribution of national income. The fourth represents redistribution of social product, but for a variety of reasons, we do not yet have a method of compiling these figures. This is to say that these input-output tables have two aspects (the first is the production of social product, and the second is its final use), but lack an intermediate stage (referring to the factors and the process of redistribution of social product); this cannot but affect the usefulness of input-output materials. For example, when using input-output figures to calculate what effects changes in wages and prices can have on the various areas of the national economy, calculations in the area of material production are relatively easy, but calculations of non-material product are more difficult, so we must resort to other methods of calculation.

In continuing to compile current input-output tables, another problem worth considering is: along with China's implementation of the open door policy our international relations will grow over time; as we increasingly compare China with other countries, the need to draw on foreign experiences will also increase steadily. Input-output tables that comprehensively reflect the coordinated development and internal relations of the national economy must become an important link in international comparisons.

Although current input-output tables can be compared with the input-output tables of the Soviet Union and Eastern Europe, they cannot be compared to the input-output tables of the Western countries. The primary reason for this is that the input-output tables of Western countries include non-material production departments, whereas ours do not. In order to advance our international contacts and our ability to draw on foreign experiences, and to serve the open door policy, when we look at designing input-output tables, it will be essential to also include non-material production departments.

Of course, there are many difficulties in compiling input-output tables that include non-material production departments. Under current conditions, we can consider the following two aspects:

1. Based on a foundation of material production department input-output tables, through the adjustment of materials, take those portions of product flows within the realm of non-material production and devise a way to readjust them in accordance with the department breakdown within the non-material production areas. The input-output tables compiled by the Heilongjiang Statistical Bureau listed a number of non-material production departments in the second quadrant, taking a first step toward using this method. When readjusting materials, we can consult the United Nations book "A Comparison of National Economic Accounting Systems and National Economic Balanced Table Systems" (translated by Min Qing, published by the China Finance and Economic Publishing Co.). When designing a program, we should list the items that need adjustment and strategically adjust those materials.

2. Create a compilation method, directly compile an input-output table that includes non-material production departments. According to one suggestion,¹ Hungary originally compiled input-output tables of only material production departments. But starting in 1972, it began to include non-material production departments in input-output tables. When they compiled 1981's input-output table, they listed 30 non-material production departments. Based on this kind of table, it would be relatively easy to adjust the input-output tables of material production departments. If we had these two different input-output tables, we could satisfy a variety of domestic needs. At the same time, we could also make international comparisons with countries of the East and West, and give greater play to the role of input-output materials.

It should be made clear that whether we adopt the first method of the second method mentioned above, we should enthusiastically create conditions to speedily establish a system of indicators (such as revenue data) for non-material production departments using currency indicators as a foundation for adjusting materials and directly drawing up materials for non-material production departments.

1. Chen Xikang [7115 6932 1660], "The Use of Input-Output Techniques in Hungary's National Economy," in "Studies in Quantitative and Technical Economy" No 3, 1984.

II. Scope of Compilation

Input-output technology is a product for raising modern economic management levels. To draw up an input-output table whose material is relatively accurate and which reflects actual conditions relatively closely, we must have a foundation of high levels of economic management technology. In recent years, along with the development of China's socialist construction, all economic work has been placed on a path that centers on improving economic results. There have been improvements in management, and raising management standards has created favorable conditions for the compilation of input-output tables. However, China is a country with a vast territory, and economic and cultural development has been uneven. There are differences in the quality of management between different areas, and this creates problems for the compilation of input-output tables. For example, cost accounting materials are an important foundation for the compilation of input-output tables, and without relatively accurate cost materials, it is difficult to imagine that we will be able to compile relatively accurate input-output tables. But at present, cost accounting is a weak link. Generally speaking, for the few economically advanced areas, cost accounting is somewhat better, and for the economically less advanced areas, cost accounting is correspondingly less advanced. Cost accounting for large enterprises is somewhat better, while it is correspondingly weaker for smaller enterprises. Cost accounting for industrial and railway departments is somewhat better, while it is weaker for agriculture. This situation makes it clear that for a period of time in the future, input-output tables can only be compiled on a separate basis. With respect to national input-output tables, the State Statistical Bureau designs programs and compiles tables in accordance with national needs. With respect to input-output tables for each area, the statistical bureaus of each province, autonomous region and city under jurisdiction of the central government design programs and compile tables in accordance with the needs of each area. In order to gradually build and complete input-output statistics, the State Statistical Bureau should understand on a regular basis the regulatory situation of input-output table compilation of each area; it should convene conferences on an ad hoc basis to exchange experiences and to jointly explore the construction of input-output statistics with Chinese characteristics. Only then will we be able to design a set of relatively complete input-output tables and explanations on compilation, including unified classification standards, such as department classifications, product classifications, units of output, and so on. This should be provided to each area for their consideration so as to enable the input-output tables compiled by each area to be basically identical in specification and scope, and to be relatively well-researched.

How extensive should the scope of input-output tables be? How many products should material object input-output tables define? How many departments should value input-output tables define? In general, the scope of compilation should be based on the objectives of compilation, and the needs and capabilities of the situation. Compiling tables sometimes has a single objective, while sometimes it is multifaceted. Input-output tables that need to satisfy a variety of demands should have a larger scope, while input-output tables that

need to satisfy more specific objectives (such as energy tables) can have a smaller scope. For input-output tables that have a high demand for accuracy of materials, the scope can be larger, and where the requirements are relatively rough, the scope can be smaller. Because the scope of tables is large, the fine calculations provided in large tables when departments are divided in detail should be somewhat more reliable than the figures produced in the small-scale tables that are roughly divided into departments. From this we can see that the scope of tables is often limited by the source of the data. At present, China's statistical materials have areas that are not sufficiently complete, detailed or accurate, so the scope of compilation should not be exaggerated. In particular, the first attempt to compilation should be based on principles of small to large, from rough to detailed, from simple to complex, and on a general principle of gradual expansion. The scope of compilation should be a bit smaller, the variety of products should be a bit smaller, and department classification should be a bit more rough. The difficulties should not be too extensive. After some experience is attained, things can be expanded gradually. Of course, the range of products should not be too small, and departments cannot be too roughly classified, because if product classification is too rough and products are too few, the requirements will not be satisfied, and there will be an adverse impact on their utility. In accordance with the scope of the input-output tables introduced by the United Nations, "Aside from a few noteworthy examples, the recently compiled input-output tables tend to be divided into approximately 25 departments; Those that are now being compiled are divided into 50 to 100 departments." This makes it clear that the trend of the scope of foreign input-output tables is from large to smaller. At present, the scope of a few primary national input-output tables is relatively large. For example, the Soviet Union's 1972 input-output tables held 247 product types and 112 departments. Japan's 1975 input-output tables were divided into three compilations of 60 x 60 departments, 160 x 160 departments and 541 x 407 departments. The input-output tables of a few of China's provinces and cities generally hold about 150 products, and the number of departments exceeds 100. We can see that the scope of compilation of tables must be regulated in accordance with concrete conditions.

III. The Collection of Data

The compilation of input-output tables requires a great deal of accurate statistical data, financial accounting materials, and business accounting materials. How to adopt simple and easy methods that are in accordance with China's actual conditions, and how to conserve manpower and also be able to relatively quickly satisfy the demand for data for compiling input-output tables is an important link in determining whether or not we can properly compile input-output tables.

2. "Cost Accounting Systems for the National Economy," p. 127 Translated by Min Qingquan [7036 1987 0356] et al., published by Chinese Finance Press.

In order to fulfill the need for data to compile input-output tables, there are the following four general collection methods:

1. Widespread use of current materials. When it is discovered that current materials are insufficient, carry out additional necessary surveys. There are many advantages to the adoption of such methods, such as the avoidance of a large amount of survey work, reducing the burden of grassroots units, conserving manpower, and reducing the time needed to draw up tables. However, for this method it is essential that we have a relatively solid foundation of resources. Only if we have skilled personnel to compile tables can we guarantee the quality of compilation work.

2. Integrate survey work, and make use of survey materials. Countries that do this generally take the particular survey year as the particular year for compiling tables, and some countries place the basic requirements for compiling input-output tables into a survey program. Only if the materials cannot satisfy the needs of surveys do they use other surveys to supplement them.

3. Integrate them with regular forms and include the basic requirements of input-output tables in the regular system of statistical reporting (primarily annual statistical reporting). In adopting this method we should have a nationwide and powerful organizational structure, and collective and unified reporting systems. Although adopting this method will in general create little need to carry out other surveys, the amount of work in examination and collection of figures will be relatively great. Thus, it would be best to carry them out using electronic computers, thereby conserving manpower.

4. Issue surveys and gather data. It is possible to adopt abstract-survey, key-survey, and sample-survey methods to carry these out. In adopting these methods, we need to clearly define statistical survey units and the design and drawing up of tables. The amount of work to be done in training survey personnel and examining figures, and so on, is relatively great. We can adopt separate and different survey methods in accordance with different conditions.

These four data collection methods are basically appropriate for China. Through its 30 years of practical experience, China's statistical work has established relatively complete, collective and unified reporting systems and has accumulated a relatively abundant amount of statistical data. We can integrate the basic requirements of input-output tables with regular statistical reporting systems, and can also process and sort data based on our current data base. China's few regions that compile input-output tables all had different schedules in their adoption of these four methods. For example, they all used a large amount of annual reporting data, and fixed data from business departments, and some units relied primarily on current materials in their compilation of input-output tables. Also, Shanxi Province used key surveys and single surveys, Liaoning Province used published surveys, and Heilongjiang Province integrated annual report data collection, and they all attained abundant experience.

It should be explained that in order to facilitate the timely revival of the role of input-output tables, we should make every effort to make our data collection methods simple, labor-saving and easy. We should strive to reduce the time period used for compiling tables, and produce results early. Thus, when we determine data collection methods, we should continue to develop those methods that have proven effective, such as: materials that are already included in current reporting, through processing and appraising, can satisfy compilation requirements, and do not need to be published as surveys; those increasing and decreasing indicators and groups already included in current reporting which can be used as compilation materials, and we do not need to publish other surveys; where we can use sample materials to satisfy requirements, we do not need to carry out key surveys; and where we can get materials from relevant departments and grassroots units, we do not need to publish surveys. In the course of drawing up input-output tables we should embody the principle of less input, more output.

IV. Department Selection

The national economy is intricate and complex, and there are thousands of social products. From the perspective of and overall balance in the national economy, there is no need to carry it out based on the vast number of specific products. It is essential to take the multitude of products and construct some product departments [classifications] based on identical consumption structures, product technology and economic use, which are beneficial to the compiling of tables and the carrying out of analytical research. When input-output tables are compiled, the work is normally carried out based on the following three departmental classifications:

The first is product departments of "individual departments." This is the departmental classification required by input-output tables, and is social product in strict accordance with the above-mentioned "three identicals" principle of dividing departments. It is primarily in order to guarantee the linear relationship between input and output, to guarantee the accuracy and stability of calculation of consumption coefficients, so that we are able to relatively accurately embody production technology links and proportionate relationships among departments. In accordance with this requirement, we should always carry out department classification with particular emphasis on accordance with the production consumption structure and production technology conditions, and products for which the use of production is identical but consumption structures are not the same (such as hydropower and thermal power, or open-hearth steel, converter steel, and electric steel), we must separate our calculations, and will then be able to accurately reflect the structure of consumption. But this way, departments have to be divided extensively and in great detail, and the scope of compilation would be great. The responsibility for data collection and processing would be heavy, increasing the difficulty of compilation. At the same time, this department classification does not suit China's current economic management system. It is also not in line with the department classification of our current planned statistical system. Thus, its usefulness is quite limited.

The second is enterprise departments or "industrial departments." This means taking enterprises as units, and according to the above-mentioned "three identicals" principle and the primary products of the enterprise, putting the total output value of enterprises completely under the departments to which their primary products belong. For example, the machinery products produced by the metallurgy industry should all be counted in the metallurgy department, and so on. This way, the level of accuracy of the technological and economic links and proportionate relationships among each of the national economic departments that it reflects will be reduced a bit. But these methods of department classification are simpler and easier to use. They are basically appropriate to China's current economic management system and are the methods now being used by our planned statistical system. Drawing up input-output tables in accordance with these department classifications will be more in line with the current methods of data specification and calculation and have a great deal of utility.

Third is departments responsible for the work. Draw up local systems of input-output tables based on the responsible organizations. These tables will be in line with the current system of economic management, and can directly reflect the link between production and technology in local management systems.

Each of these three department classifications has its own special characteristics. Based on China's actual conditions, from a national perspective, we believe that we should simultaneously do a good job in compiling "single department" and "enterprise department" input-output tables, but place our primary efforts in doing a good job in drawing up the "enterprise department" tables, and not necessarily emphasize the special characteristics of the "single department" tables. Because although input-output tables that are drawn up based on single departments are relatively useful in the course of doing scientific research, their utility is comparatively less. This situation is not considered exceptional overseas, either. Many countries draw up "single department" input-output tables and "enterprise department" tables simultaneously. As to the "responsible department" input-output tables, we should draw them up based on the fundamental needs of management departments, to satisfy the needs of local departments.

V. Methods of Compilation

The work involved in drawing up input-output tables is relatively great, and the manpower mobilized and time that has to be spent is also relatively great. If we can select proper methods of drawing up tables, this will have a great deal of significance for the conservation of manpower, the conservation of time and the drawing up of tables that basically serve the actual situation.

With respect to value-type tables, there are quite a number of compilation methods. The use of these methods in general all overlap. First, for the sake of clarity, these methods can be divided into the following four types:

1. Product-based method. This means the multiplication of product output times a product's unit price to yield that production department's total output value. This method can use a large amount of current materials, collected data on product output and product unit price. It is in general relatively easy and calculations are relatively simple. But products are numerous and it would be impossible to collect them all. We can only collect data for the majority of primary products, and adopt rough calculations with respect to secondary products and small products. Some industrial products are not easy to divide up clearly. For example, when the manufacturing goods of some enterprises are sold to other enterprises to be processed and become finished products, should the former also be calculated as finished products? Calculating industrial output value by product is not the same as the current system that stipulates the calculation of output value according to the factory method and this has a great deal of influence on the usefulness of input-output tables.

2. Commodity-based methods. Commodities are the products to be sold by enterprises, and can be divided clearly. Industrial output value calculated according to the commodity-based method and output value calculated according to the "factory method" are relatively close, and can basically overcome the shortcomings of the product-based method. Other methods are similar to the product method.

3. Breakdown method. The breakdown method is composed of two aspects. The first is the gradual breakdown by product (commodity) output value of the enterprise's factory-method based output value; and the second is breaking down input structures for enterprises by product, and on that basis calculating that department's overall product input structure. These methods are both implemented using abstract surveys, key surveys, and sample surveys. Several areas in China that compile input-output tables use this method.

The point of excellence of the breakdown method is that the data calculation achieved based on the foundation of breaking down enterprises generally serves the actual situation, and the level of accuracy of calculations based on whole department figures is also relatively high. However, this method requires carrying out a fair number of surveys. It also requires collecting a vast amount of data from grassroots units, and carrying out examination and collection of data. It requires the mobilization and training of a relatively large number of personnel. It requires doing a good job in survey programs, explanations on compiling data and a whole series of preparatory work. It requires a vast amount of effort. At the same time, under current conditions in which our foundation in cost accounting is relatively weak, for an input structure that is broken down by product, data cannot be very accurate, and there can exist a number of difficulties.

These three methods are all suited to the compilation of input-output tables for individual departments and are now being used. To serve the needs of practical application, we must still convert them into enterprise department input-output tables. According to domestic and foreign experiences,

there are two methods of conversion: 1) When carrying out the breaking down of enterprises, seek out coefficients of individual departments and enterprise departments. Based on these coefficients, convert individual department input-output tables into enterprise department input-output tables. 2) Use the extrapolation method explained below to compile output tables (V tables). Based on the input-output tables for individual departments, use mathematical methods to extrapolate enterprise department input-output tables. No matter which conversion method is used, both will increase work capacity by a great deal.

4. Extrapolation method. This is the method of compilation recommended by the United Nations after its experience in compiling comprehensive input-output tables, and is also the U table-V table method. This method requires the compilation of one input table (also called a consumption table, or simply a U table) and one output table (also called a manufacturing table, or simply a V table). Based on these two tables, use mathematical formulas to extrapolate individual department and enterprise department tables.

With the extrapolation method there is no need to carry out the breaking down of individual departments for enterprises. Input-output tables can be drawn up based on current materials. Drawing upon the use of computers and mathematical methods, input-output tables for individual departments and enterprise departments can be extrapolated in a moment, thus conserving a great deal of work on training personnel, the collection and breaking down of materials, and calculation work. Because of this point of superiority, at present many countries have adopted these methods of drawing up input-output tables. In the past, the United States always used the commodity method and the breakdown method of compiling tables, but it later recognized the superiorities of the extrapolation method, and in 1972 it switched over to it. Of course, extrapolation also has shortcomings, which are mainly that when using mathematical methods to extrapolate, there are two assumptions. The first is the product technology assumption, which assumes that similar products have identical input structures regardless of which department produces the product. The second is the department technology assumption, which assumes that all products produced by the same department have the same input structures. These two assumptions are both extreme in nature, and used in conjunction with mathematical methods they may produce results that do not accord with the actual situation. If we do not make appropriate adjustments, then the accuracy of input-output data will be jeopardized. For example, under the conditions of these product technology assumptions, because the transfer of input always involves a corresponding minus of a related product, there is thus a resulting negative value.

When these problems appear, we should investigate our research, find the key to the problem readjust our corresponding data bases, and let the results of the extrapolation accord with the actual situation. It is also clear that mathematical methods must be effectively integrated with nonmathematical methods. Only then will we be able to produce high-quality input-output tables.

It must be noted here that input-output tables act as an important tool of economic analysis and the creation of overall balances and are similar to other methods of economic analysis. When reflecting intricate and complex

economic phenomena, the creation of certain assumptions and abstractions cannot be avoided. If some important factors and conditions are not reflected clearly, certain limitations will be produced. The two basic assumptions of the extrapolation method also exist in other methods of compilation, though they have not been mentioned explicitly. For example, in the breakdown method, when using sample data to break down comprehensive methods, if one treats sample unit input structures the same as nonsample unit input structures, certain deficiencies will also be produced. These deficiencies are always eliminated immediately after they appear in the course of calculation, or else they are concealed by certain phenomena and have not yet been discovered.

The above-mentioned four methods of compilation are definitely not mutually exclusive or contrasting, but can be complementary and used interchangeably. In fact, in different departments the methods of compilation used are also different. For example, agricultural output value is calculated using the product-based method, and agricultural input is also broken down by product. Industry is different. Industrial output is calculated according to the factory method, and is not suited to calculation by the product method, so as to avoid the production of different statistics. Industrial input can be broken down by product, and extrapolation can also be used. In sum, we should have many ways of compiling tables. We must grasp the use of these tables, and should not confine ourselves to one method, but should, based on China's special characteristics, proceed from the actual situation and sum up our experiences and improve in practice, and create methods of compiling input-output tables that accord with China's actual situation, and establish and perfect socialist input-output statistics that have Chinese characteristics.

Building input-output statistics is a new task, and there are many questions being debated with respect to methodology. With respect to their use, we must continue to develop and explore. Although the task is a difficult one, prospects are very broad. We hope that comrades will make concerted efforts, and work together to cultivate this new area, and use it to serve China's four modernizations.

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FINANCE AND BANKING

CHEN MUHUA ON TASKS OF PEOPLE'S BANK OF CHINA

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[Interview with Chen Muhua, state councillor and newly-appointed president of the People's Bank of China--date, place, and interviewer not given; uppercase passages published in boldface]

QUESTION: AS THE CENTRAL BANK AND THE LEADING FINANCIAL ORGANIZATION OF THE STATE, HOW CAN THE PEOPLE'S BANK OF CHINA EXERCISE CONTROL ON THE WHOLE WHILE BEING FLEXIBLE WITH REGARD TO SPECIFIC MATTERS IN MONETARY MANAGEMENT?

ANSWER: In September 1983, the State Council designated the People's Bank of China as the country's central bank in an attempt to strengthen the management and comprehensive balance of credit funds and better serve the state's macro-economic planning. Since then the bank has stopped offering industrial and commerical credits and dealing with savings deposits.

The People's Bank of China provides leadership for the exercises control over China's monetary system. It has 10 major tasks: (1) To study and draw up principles, policies, decrees and basic systems for the country's monetary work, and to take care of their implementation after they are approved; (2) To exercise control over the money supply and to regulate the circulation of currency on the market; (3) To exercise unified control over the interest rates of Renminbi savings deposits and loans and the exchange rate between Renminbi and other currencies; (4) To draft credit plans on behalf of the state and exercise unified management of credit funds; (5) To manage the state's foreign exchange and control gold and silver transactions and reserves; (6) To manage the state treasury; (7) To examine and approve the establishment, closure and merger of monetary institutions; (8) To coordinate and audit the transactions of the various monetary institutions; (9) To exercise control over the monetary market; and (10) To take part in international monetary activities on behalf of the Chinese government.

If it does a good job in the above-mentioned 10 fields, the People's Bank of China can, as the central bank of the state, play a positive role in exercising control over major matters while remaining flexible with regard to minor ones. In his government work report to the Third Session of the Sixth National People's Congress last March, Premier Zhao Ziyang put forward five requirements for improving economic control in light of China's current economic construction. His second requirement has a particularly strong

bearing on the work of the bank. According to his requirement, the bank will draw up a unified credit plan and monetary policy, strengthen its regulatory functions, strictly control the total amount of credit funds and currency in circulation, appropriately raise the interest rates of savings deposits and open up more loan sources. As the central bank of the state, we will set limits on the money supply for our branches in various provinces, municipalities and autonomous regions, as well as for the various special banks. The branches and the special banks should never exceed the limits set for them.

We called a national bank conference recently. The conference reviewed the bank's work in the first few months of this year and outlined the tasks for the future. While making efforts to strengthen macroeconomic control by every means, we will adopt various flexible methods to ensure the sustained, stable and coordinated development of China's economy.

QUESTION: YOU SAY THAT THE CENTRAL BANK AND THE VARIOUS SPECIAL BANKS WILL ADOPT THE METHOD OF "EATING FROM SEPARATE POTS." WHAT DO YOU MEAN?

ANSWER: I mean that all the credit funds of the People's Bank of China and the various special banks will be incorporated in a comprehensive state credit plan. The various special banks will adopt independent accounting. The verified working funds and credit funds for various banks will be left at their own disposal. Now a creditor-depositor relationship has been forged between the People's Bank of China and the various special banks. The various special banks and financial institutions should strengthen their cooperation in funds and make up each other's deficits so as to speed up the circulation of funds. Actually, these are concrete methods to ensure control over major matters and flexibility with regard to minor ones. They are put forward in view of the development of the economic situation. As they were just recently introduced, we need to constantly sum up our experiences and perfect them.

QUESTION: SOME JOINT-STOCK ECONOMIC UNDERTAKINGS HAVE APPEARED IN THE COUNTRY. WHAT IS THE STATE POLICY TOWARDS THEM? CAN THE SHARES BE SOLD AND BOUGHT FREELY? IS IT TRUE THAT CHINA HAS RESTORED STOCK EXCHANGE?

ANSWER: With the implementation of the policies of opening to the outside world and invigorating the domestic economy, many new things have indeed appeared. They include pooling funds and issuing stocks and bonds. We are now studying these developments. Our general principle is to give support to all things that are beneficial to the economic development. The departments concerned are now drafting regulations on work in this field on the basis of investigations.

At present we have not given consideration to the question as to whether stock shares can be sold and bought freely. The belief abroad that China has restored the stock exchange is not true.

QUESTION: SOME FOREIGN BANKS ARE PLANNING TO SET UP BRANCH OFFICES IN THE SHENZHEN SPECIAL ECONOMIC ZONE. WILL IT BE POSSIBLE FOR THEM TO OPEN BRANCH OFFICES IN OTHER PLACES IN THE FUTURE?

ANSWER: Last April the State Council promulgated the Regulations Governing Foreign Banks and Joint Chinese-Foreign Banks in Special Economic Zones. By now some foreign banks, including banks from the United States, France and Japan, have applied to set up branches in the special economic zones. Their applications are now being studied.

As we still lack experience in this field, it is far too early for us to permit foreign banks to set up branches in other parts of the country. The branch offices of the Hong Kong and Shanghai Banking Corp. and the Chartered Bank in Shanghai are an exception. They were left over from old China and we have not changed the fait accompli.

Relations between Chinese and foreign financial circles are becoming closer. There are 136 foreign representative offices in China. Of them, 72 are based in Beijing.

QUESTION: IT IS SAID THAT CHINA'S FOREIGN EXCHANGE RESERVES HAVE DROPPED. WHAT ARE THE REASONS? WILL THIS AFFECT THE WILLINGNESS OF FOREIGN BUSINESSMEN TO INVEST IN CHINA AND THE ISSUANCE OF CREDITS?

ANSWER: Generally speaking, we have a sound control over our foreign exchange reserves. At the end of 1984, they totalled US\$14.42 billion, a drop of US\$2.25 billion from the US\$16.67 billion last September. The major reasons is the all-time high level of imports, which are costing us a lot of foreign exchange. We think such a fall in foreign exchange reserves is normal, because it is a reflection of the development of our economic and technological co-operation with other countries.

We welcome foreign investors to play a role in China's construction. The political situation in China is stable. The country's modernization programme is advancing smoothly. Its investment environment is constantly being improved. Regulations governing economic co-operation with other countries are continuously being perfected. And the country has acquired more experience in conducting economic co-operation with other countries. Overseas investors can have confidence in making investment in China.

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FINANCE AND BANKING

BANK OF CHINA TO OPEN MORE BRANCHES ABROAD

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[Text] Beijing, June 17 (XINHUA)--The Bank of China, the country's sole foreign exchange bank, will set up a branch in Sydney, Australia, and upgrade its Paris representative office to a branch, according to a high ranking official of the bank.

Li Shutian, general manager of the bank's international department told XINHUA that the Australian and French governments have already granted the bank's applications. The two new branches are expected to go into business this year.

Besides, negotiation has been underway between the Bank of China and Japanese departments concerned to upgrade the bank's Tokyo office to a branch. The bank also plans to open two representative offices in Panama and Frankfurt.

At present, the Bank of China has branches in London, New York, Hong Kong, Singapore, Cayman and Luxembourg.

More branches would help facilitate China's foreign trade and economic and technical cooperation with other countries, especially promote China's investment overseas he said.

The assets of the Bank of China, totalled 200.3 billion yuan in 1984. Now it has 286 overseas set-ups including branches, subbranches and representative offices and has 1,185 banks working as its agents in 150 countries and regions.

CSO: 4020/265

INDUSTRY

AIRCRAFT MANUFACTURERS ADVERTISE VARIETY OF PRODUCTS

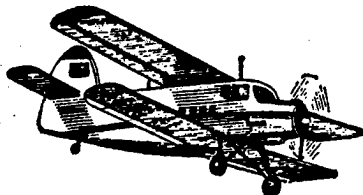
Beijing JINGJI RIBAO in Chinese 23 May 85 p 4

[Advertisement]

[Text] Select and purchase nationally certified design domestic production civil aircraft and help national economic construction.

Display and sale of domestic production civil aircraft will be held in Beijing during September. We welcome you to come and look around.

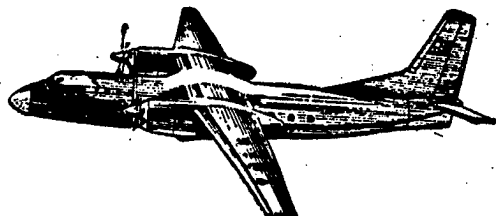
YUN-5 (Y-5)



Huabei Machinery Plant
Contact point: Shijiazhuang
Telephone: 24-251-342

This aircraft is a multipurpose aircraft whose cargo bay measures 4.1X1.6X1.8 meters and whose payload is 1.2 tons. This aircraft has excellent flight performance characteristics, is safe, and easy to maintain. The aircraft may be used in both passenger and cargo service, in agricultural and forestry seeding and fire-fighting roles, aerial surveys and photography, military training, parachute exercises, and rescue missions.

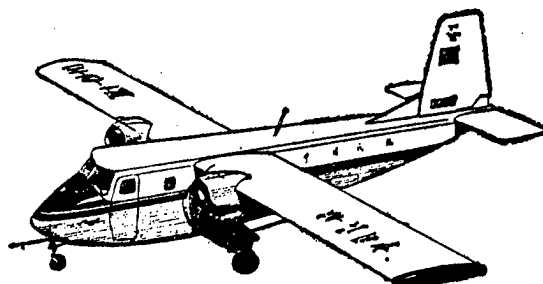
YUN-7 (Y-7)



Xi'an Aircraft Corporation
Telephone: 61973-4037

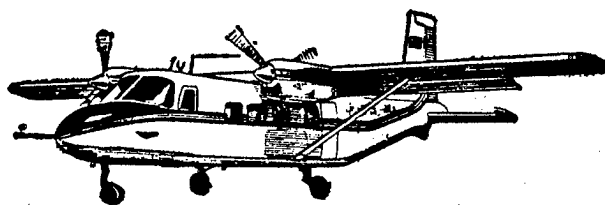
The Y-7 can accommodate 48 to 52 passengers. It is powered by two powerful Chinese-made Huosai-5A-I engines. It has excellent take-off capabilities at high elevations and in high temperatures. A reliable passenger carrier, this aircraft also has good take-off and land on dirt fields or other simply-built airstrips. It is suited to China's vast rural areas.

YUN-11 (Y-11)



The Y-11 is a twin-engine, multipurpose light aircraft. It is powered by two Huosai-6A engines and the cabin has an excellent field of vision. It can carry cargo, pesticides, and geological exploration and cartographic equipment. Automatic spoilers are located on the leading edge of the main wing and flaps on the trailing edge provide better lift. The aircraft is well suited to STOL operations and is now in use in Heilongjiang, Xinjiang, Changzhou, and other areas.

YUN-12 (Y-12)



This is a multipurpose light transport. It is equipped with two PT6 turboprop engines. It is suitable for short-haul passenger and cargo service and may also be used for airdrops, geological exploration, forestry missions, and other uses. This aircraft was designed in accordance with international airworthiness regulations. It has excellent performance, is simple to maintain and the powerplant has a long service life. It is also quite economical. The geological version is already in operation and the passenger version will come in an economy and deluxe model.

ZHI-9 (Z-9)



Harbin Aircraft Manufacturing Plant

The Z-9 is a light, twin-engined helicopter capable of accommodating 10-14 persons. It is being manufactured under license from Aerospatiale of France. It conforms to both Class A and Class B instrument and visual flight international airworthiness regulations and has low maintenance and operating costs. Adaptable to a variety of uses, it is both safe and reliable for passenger transport, ocean patrol and rescue, fighting forest fires, aerial photography, public security, and other roles.

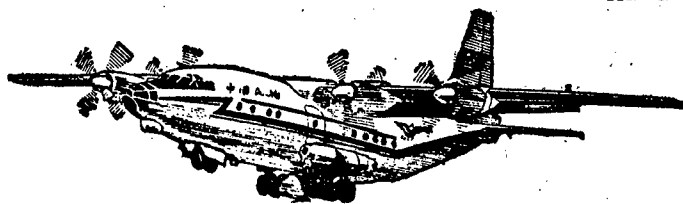
YUN-11 (Y-11)

YUN-12 (Y-12) Harbin Aircraft Manufacturing Plant

ZHI-9 (Z-9) Telephone: 62951-3198

YUN-8 (Y-8)

Shaanxi Transport Aircraft
Manufacturing Plant



The Y-8 all-purpose medium transport has a spacious mid-section cargo bay 13.5 meters long, 3-3.5 meters wide and 2.14-2.6 meters high. It is capable of transporting 20 tons of cargo per trip. The cargo section includes 96 fold-up seats and a 2.3-ton crane and power winch. Heavy equipment including trucks and tractors is accommodated by a 7.67x2.16-3.1 automatic by door. This aircraft can take off from and land on a variety of airfields and ship goods ranging from precision instruments to fresh food and glass and other breakables quickly, reliably, and economically.

CSO: 4013/143

INDUSTRY

BRIEFS

XIZANG TERTIARY INDUSTRY DEVELOPS--According to incomplete statistics, some 50,000 workers in Xizang region have engaged in commerce, transport, tourism, catering, service work and repair trades. The fixed assets and floating capital of tertiary industry is about 800 million yuan. According to statistics compiled by the regional tourism bureau, income from tourism amounts to some 1.82 million yuan. The number of workers engaging in cultural work has increased from some 2,900 people the year before last to some 3,100 people now. The whole region now has about 300 amateur literature and art performance teams. [Lhasa Xizang Regional Service in Mandarin 0000 GMT 27 May 85 HK]

HANGZHOU FOOD INDUSTRY HAILED--At an exhibition of new foodstuffs sponsored by Hangzhou's food industry yesterday, roast Beijing ducks, Texas fried chicken, American hotdogs, Italian ice cream, French bread and 294 other kinds of well-known and special foodstuffs were on display. These new, well-known and special foodstuffs were produced with advanced equipment and advanced domestic and imported foreign technology by Hangzhou's food industry. Wang Fang, Li Deqing, and other leading comrades of Zhejiang and Hangzhou attended the exhibition. Comrade Wang Fang hailed the rapid development of Hangzhou's food industry and expressed the hope that it would serve tourism better and keep up with the needs of the tourists and the people. [HANGZHOU RIBAO report] [Excerpts] [Hangzhou ZHEJIANG RIBAO in Chinese 25 May 85 p 1]

CSO: 4006/656

FOREIGN TRADE AND INVESTMENT

OVERVIEW OF U.S. INVESTMENT IN CHINA

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 85 pp 26-27

[Article by Wu Qichang [0702 0366 2490]: "Overview of U.S. Investments in China"]

[Text] Since China started in 1979 to allow investments by Western countries, the scale of direct investments by foreign business enterprises has been increasing year by year, and the relevant policies of our government have become more and more flexible. In addition to granting advantageous conditions to foreign investors, the local investment climate has also been improved, a fact which foreign investors view as highly important. Among them, investors from the United States have displayed a particularly positive attitude and have achieved excellent results. According to preliminary statistics, American direct investments in China, judging by all relevant agreements, amount to more than \$700 million. This sum includes more than \$100 million invested by Americans in Chinese-American joint ventures, almost \$600 million invested in the cooperative exploitation of offshore oil, and \$10 million invested in Chinese-American cooperative management enterprises.

Thirty-nine Chinese-American joint venture enterprises have been established to date. In amounts of invested funds as well as in items concerned, this is second only to Hong Kong. The branches of industry and trade in which American investments were made include machine building, chemical engineering, instruments and measuring devices, motor vehicles, textiles, foodstuffs, medical and pharmaceutical supplies, engineering services and tourism. These joint ventures are mainly located in Beijing, Tianjin, Shanghai, Liaoning, Sichuan, Hubei, Guangdong and Shenzhen.

The technical equipment provided by the American side in these Chinese-American joint ventures is very advanced, and the enterprises employ advanced managerial methods. Consequently, very good results have been achieved in those enterprises that have started production, even though they have been in operation for only a short time.

For instance, since starting production in April 1983, the Shanghai Foxboro Co, established jointly by the Shanghai Instruments Co and the Foxboro Co of the United States, has brought in all drawings, production technology and managerial procedures available from the American side, and is producing over

10 series of automatic industrial measuring devices. The quality of the products is up to the standards of the American Foxboro Co's production, and a portion of the production of these devices satisfies needs that in the past had to be satisfied by imports. The Hubei-Parker Seal Plant, a joint venture of the Hubei Motor Vehicle Industries Co and the Parker-Hannifin Co of the United States, employs production formulas, production technologies and a strict control of raw materials, as introduced by the American side; it also employs technical control methods of the Parker Co of America, with the result that the factory's production efficiency has caught up with American standards. The high-quality rubber seals produced are playing an important role in solving the problem of leakages in the machinery equipped with them, and marketing channels have opened up for the company's products in China and abroad. Current production exceeds the level of the plan but is still insufficient to meet all demand.

The Shanghai Gaoshi Essences Co, a joint venture of the Shanghai Daily Necessities Chemical Co and Florasynth Cintco, Inc of the United States, imports American technology and uses Chinese ingredients to produce excellent essences. The company's products are marketed overseas and have been well received by customers abroad. Since opening for business, the Great Wall Hotel in Beijing, a joint venture of the Beijing Branch of the China Travel Service and the Yi-shen [phonetic 0122 3088] Construction Co of the United States, enjoys a high reputation among all its guests due to excellent facilities and service. The hotel's business has flourished ever since its opening, and its rooms are regularly booked in advance for several months. The Beijing Jeep Co, a joint venture of the Beijing Motor Vehicle Plant and the American Motors Co, is one of the largest Chinese-foreign joint ventures, formed for the purpose of using AMC's advanced technology in restructuring the Beijing jeep and enabling them to reach advanced levels of efficiency. Since starting operations in January 1984, advanced managerial methods have been introduced in the production of the Beijing jeep, which greatly improved the quality of the plant's products. Other Chinese-American joint ventures are China Petroleum Logging-Dresser Dallas Cooperative Service Co, China Brown and Root Overseas Engineering Co, China South Sea-Baker Marine Drilling Corp, the Shanghai Offshore Joint Petroleum Engineering Co, the China South Sea-Reading Bates Drilling Co, the China South Sea Western Sai-de-ke [phonetic 6357 1795 2688] Well Drilling Co, the China Core Research Co, and the China South Sea-Magcobar Sludge Co. All of these Chinese-American joint venture companies are serving development of oil exploration in China's coastal waters. Several of these companies have already begun operations.

In opening up the continental shelf along the coast of China in a Chinese-foreign cooperative endeavor, the principal office of the China Offshore Petroleum Co has signed 23 contracts with foreign companies. Of these, 13 American companies were parties to 12 contracts with an impending investment of almost \$600 million. Among the 29 companies from 9 different countries, American companies are in the lead. The American companies are: Western Oil (Far East) Co, the U.S. Esso China Co, the U.S. Natomas (Far East) Co, the U.S. Getty Petroleum International (East Asia) Co, the U.S. Sun Exploration (East Asia) Co, the U.S. Texas (East Asia) Co, the U.S. Pennzoil (Far East) Co, the U.S. Philipps Petroleum International (Asia) Co, the U.S. Pecten Orient Co, the U.S. Chevron Overseas Co, the U.S. Texaco Petroleum (East Asia)

Co, the U.S. Arco Co, and the U.S. Santa Fe (Mining) Co. Some of these American companies have already started drilling and have obtained an oil flow that pays off exploration expenses.

In recent years, the Chinese Government, in consideration of the developmental needs of the national economy, gradually relaxed its policies regarding the importation of foreign capital and also gradually improved the investment environment. This was particularly true in 1984 when the Chinese Government decided to open up 14 additional port cities from Dalian in the north to Beihai in the south. These cities have good industrial foundations, good transportation facilities and enjoy substantial self-determination in their launching of foreign trade activities; they will also grant preferential treatment to foreign investors. Without doubt, these circumstances create very favorable conditions for investments by American industrialists in these cities. In November, at a conference held in Hong Kong on the question of investments in Chinese cities that have recently been opened up, over 100 American companies participated and indicated their intention to invest in more than 30 construction projects.

Investments by American industrialists in China is viewed with the greatest interest by both the Chinese and the U.S. governments. An agreement for the mutual protection of investments is now being negotiated between the relevant departments of the two countries. An agreement on the prevention of double taxation has already been signed by the finance ministers of both countries. Early in November 1984, conferences were held in Shanghai and Dalian on Chinese-American international investment and its legal questions. The former U.S. Secretary of State Vance led a delegation of more than 100 American industrialists to participate in these conferences. During the meetings, almost 40 joint venture agreements or declarations of intent were signed by the Chinese and American participants, involving a total of almost \$2 billion. From 26 November to 7 December 1984, a 29-member investment group of the U.S. Overseas Private Investment Corporation, headed jointly by Na-ke-rui [phonetic], president of the U.S. Overseas Private Investment Corp, and Te-luo-bu-li-qi [phonetic], president of the American Manufacturers Association, visited China. On the invitation of the Chinese Ministry of Foreign Trade, they visited Beijing, Shanghai, Guangzhou and Shenzhen, broadening their understanding of China's policy regarding the importation of foreign capital and investigating on the spot the investment climate in China. They held discussions with more than 80 Chinese corporations on investment questions and signed a number of agreements and declarations of intent. Both sides, furthermore, agreed on further discussions on a series of investment topics. American industrialists also enthusiastically participated in investment talks held in different provinces and cities and participated actively in many events dealing with the importation of foreign capital.

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CSO: 4006/523

FOREIGN TRADE AND INVESTMENT

QUESTIONS, ANSWERS ON FOREIGN ECONOMIC CONTRACT LAW

Beijing GUOJI SHANGBAO in Chinese 29 Apr 85 p 2

[Article by Liu Yinin [0491 0001 3046] and Zhang Yuejiao [1728 2588 1207]:
"Various Questions on the 'Foreign Economic Contract Law'"]

[Text] Question: Why is China enacting the "Foreign Economic Contract Law" after the "Economic Contract Law" has already been implemented?

Answer: The target of readjustment in China's Economic Contract Law is the economic contracts among legal entities in China; it corresponds to the characteristics of China's planned economy.

The "Foreign Economic Contract Law" readjusts economic contracts between China's enterprises or other economic organizations and foreign enterprises and other economic organizations or among individuals.

Furthermore, as for changes in the application of laws and contracts and the resolution of disputes, the "Foreign Economic Contract Law" has even more flexible specifications than the "Economic Contract Law" and it ensures that foreign economic contracts are even more stable. It is of benefit to safeguarding the lawful rights and interests of contracting parties and it embodies China's policy of opening up foreign trade.

Question: What are the conditions regarding the validity of foreign economic contracts?

Answer: Foreign economic contracts have legal validity once the contract has been concluded according to the law. In addition to observing the basic principles of mutual benefit, negotiated agreement, abiding by the laws of the PRC, and not harming the social interests of the PRC, parties to the contract must have legal standing, and contracts must go through legal channels and be in written form.

Contract validity is divided into automatic validity, validity upon confirmation, and validity upon approval. Most foreign economic contracts become effective automatically after the parties reach an agreement and sign the contract. For agreements reached through correspondence, telegram, and teletype, a signed letter of confirmation is required by one party. When the

letter of confirmation is signed, the contract goes into effect. All contracts that must be approved by the state as stipulated by Chinese laws and administrative rules, such as contracts for Chinese-foreign joint enterprises, cooperative management enterprises, and contracts to cooperate in exploiting natural resources and in technological transfer only have legal validity after approval from state examination and approval offices is received.

Question: How is one to understand the phrase "international practice?"

Answer: The explanation of "international practice" in legal application as stipulated by Article 38 of the International Court of Justice Agreement is: that which is accepted as common practice in law. The explanation of "international practice" in Article 9 of the U.N. Commodity Sales Contract Treaty is: "In international trade, that which is already generally known and regularly observed by parties to the same kind of contract for specified trade." It is clear that international practice refers to a common practice that is generally recognized and widely accepted. Those who observe such practices regard them as essential.

Question: What is one held liable for in breach of contract?

Answer: "If one party does not carry out the contract or carries out the contract obligations without meeting the stipulated conditions," that is known as breach of contract. At that time, the other party has the right to demand that the party that has been negligent compensate losses or adopt remedial measures. It is stipulated in the Foreign Economic Contract Law that "one party's liability for breach of contract should correspond to the resulting losses of the other party; however, it must not exceed the losses that the party violating the contract should foresee as a result of breach of contract at the time of signing the contract." This reflects the seriousness of investigating the legal responsibility of the defaulting party so as to ensure the legal rights of the other party. At the same time, it also sets a limit for the party violating the contract so that it does not have unlimited liability. The U.N. Commodity Sales Treaty has similar provisions.

The Foreign Economic Contract Law also stipulates: "If the penalty agreed upon in the contract is much higher or lower than the losses incurred from breach of contract, the party may request an arbitration body or court to make a reduction or an increase, as appropriate." This shows that the stipulations on liability for breach of contract are fair and rational.

Question: What are the procedures for modifying, rescinding, and terminating foreign economic contracts?

Answer: The signing of a foreign economic contract is a mutual decision of both parties. Modifying, rescinding, and terminating contracts are to be newly agreed upon by both parties on the basis of the original contract. Consequently, a mutual decision is required by both parties; one party may not unilaterally modify or rescind a contract. Major changes in contracts concluded with state approval require approval of the agency that originally approved the contract. The termination of such contracts requires that a

report besent to the agency that originally approved the contract for the record.

When one party commits a serious breach of contract or force majeure makes it impossible to implement all contractual obligations and when conditions for rescinding a contract as agreed upon in the contract occur, one party has the right to notify the other of recission of contract. Notification or agreement for modification, recission, and termination of a contract must be put in writing.

The "Economic Contract Law" stipulates that: When state plans relying on signed economic contracts are revised or cancelled, contract modification or recission is permitted. The "Foreign Economic Contract Law" includes this stipulation but goes further to ensure the stability of foreign economic contracts.

Question: How are disputes regarding foreign economic contracts resolved?

Answer: Disputes arising from "foreign economic contracts" may be resolved by the following three methods:

1. Parties should do their utmost to resolve a dispute through negotiation or third party mediation.
2. Regardless of whether negotiation and mediation are successful, parties may submit to the decision of Chinese or other arbitration agencies based on the clause concerning arbitration in the contract or on arbitration agreements written after the fact. Other arbitration agencies include arbitration agencies in the country being charged or third country arbitration agencies, as well as provisional arbitration tribunals set up on the basis of each case.
3. If a contract contains no arbitration clause, and no written arbitration agreement is reached after the fact, parties may bring suit in the Peoples' Courts.

The aforementioned items (2) and (3) are optional clauses and since most international arbitration is conclusive, they have binding effect for both parties. Consequently, once disputes have been submitted for international arbitration, the jurisdiction of the court is precluded. Article 193 of China's Civil Procedure Code stipulates: "Once a case has been decided by the PRC foreign arbitration agency, parties may not bring the suit to the Peoples' Courts."

9864
CS0:4006/665

FOREIGN TRADE AND INVESTMENT

MOFERT URGES IMPROVED FOREIGN TRADE MANAGEMENT, SUPERVISION

Beijing GUOJI SHANGBAO in Chinese 29 Apr 85 p 1

[Article: "Ministry of Foreign Economic Relations and Trade Urges Provincial Economic Relations and Trade Offices To Strengthen Foreign Trade Management, Supervision, and Inspection"]

[Text] Recently, based upon State Council principles concerning upholding unified foreign trade policies and implementing decentralized management, MOFERT [Ministry of Foreign Economic Relations and Trade] presented several suggestions to each province, autonomous region, and centrally-administered municipality economic trade department (committee, bureau) for improving management of foreign trade, supervision, and inspection.

1. Under the leadership of the local government and MOFERT, they are in charge of management of all kinds of foreign trade enterprises in their area. They must supervise and check that enterprises implement state foreign trade laws, principles, policies, and rules and regulations.
2. They must supervise and inspect all local foreign trade enterprises and enterprise economic associations to ensure that they completely fulfill all planned tasks handed down by the state.
3. They must coordinate management, supervise, and inspect all kinds of foreign trade enterprises according to the approved limit of operations and the division of labor in foreign trade businesses.
4. They must study measures for constructing a local production base for export commodities and for encouraging the development of the production of export commodities. They must also supervise implementation.
5. They must formulate methods of handling rewards and penalties for all local foreign trade enterprises and export products, and take charge of implementation.
6. Based on the authorization of MOFERT, they are responsible for examination and approval of applications to establish foreign trade enterprises in their area.

7. Within the scope of the authority of MOFERT, they may examine, approve, and issue permits for import and export commodities, and control export commodities for which there are allocations and quotas.

8. They are responsible for supervising the registration of trademarks for local export commodities and the conditions of utilization.

9. They are responsible for managing the permanent missions of foreign businesses, emigrant businesses, and Hong Kong and Macao plants and businesses that are built in their area.

10. They supervise local foreign trade enterprises in striving to improve management, strengthen financial and auditing work, and improve economic results.

11. They organize work in the exchange of news concerning the international trade market in their area.

In terms of administration, foreign trade is divided into two levels of management. MOFERT, including special agent offices, constitutes one level. Provinces, autonomous regions, centrally administered municipalities including municipal foreign trade departments (committees, bureaus) that have received approval from the party Central Committee and the State Council to enjoy provincial level economic managerial authority, constitute the other level.

(Draft supplied by Foreign Trade Management Bureau, MOFERT)

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CS0:4006/665

FOREIGN TRADE AND INVESTMENT

ISLAMIC ECONOMIC CORPORATION SET UP IN YINCHUAN

OW171728 Beijing XINHUA in English 1646 GMT 17 Jun 85

[Text] Yinchuan, June 17 (XINHUA)--A corporation aimed at boosting foreign investment in Islamic parts of China has been established here with the approval of the People's Bank of China, it was announced today.

The China Ningxia Islamic International Trust and Investment Corporation will work to build economic relations with other countries, said a local official.

It aims to attract capital and technology from Islamic and other countries to help develop Ningxia Hui Autonomous Region and other Islamic areas.

The corporation will act as agents for overseas and domestic investors, handle the paper work for imported goods and assembly with foreign components, and arrange compensation trade, technical transfers and leasing and insurance for overseas businesses.

It will offer consultancy services for investors on China's legal system, taxes, control of foreign exchange, financing and accounting, and provide information about international markets.

The corporation will also invest in foreign countries and in joint ventures, and will invite Chinese and foreign financiers as advisors.

Chairman of the board is Ma Tengai, vice-president of the China Islamic Association, and vice-chairman of the regional government.

Its head office is in Yinchuan, capital of Ningxia, and it plans to open branches in Islamic countries and Hong Kong and Macao.

Ningxia is inhabited by 1,100,000 Moslems of the Hui ethnic minority. The region has had close relations with Islamic countries in the past.

CSO: 4020/265

FOREIGN TRADE AND INVESTMENT

CHINA'S PROTECTION OF INDUSTRIAL PROPERTY RIGHTS DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 85 pp 40-43

[Article by Feng Datong [7458 1129 0681]: "Protection of Industrial Property and Patented Technologies (Part one)--Second Lecture at the Symposium on International Commercial Law"]

[Text] I. The Concept and Legal Characteristics of Industrial Property

The term industrial property in a broad sense comprises patents, utility models, industrial designs, trademarks, service signs, factory or firm names, designations of place of production or of origin to prevent illegal competition, but it refers mainly to patent and trademark rights. Most countries of the world recognize industrial property as an invisible property right with unique property characteristics and have enacted patent laws, utility model laws, industrial design laws, trademark laws, and other special legal provisions for its protection. From a legal point of view, the patent right, trademark rights and right to industrial property have the following three common characteristics:

A. Independence: Also called exclusiveness, which is a fundamental characteristic of all property rights. The inherent meaning is that the owner of a patent or trademark has the exclusive right of use, disposal and benefit of his patent or trademark. He has the right to use his patent or trademark himself but may also transfer the rights to others or allow others to use these rights against a remuneration for such use. No one except the owner of the right may use the patent or trademark without the owner's consent. Use without consent would constitute a violation of the owner's patent or trademark rights. The violator must bear legal responsibility for the consequences, compensate the owner of the right for all damages and in case of serious violations be subjected to investigation of criminal responsibility.

B. Regionality: Industrial property is of strictly regional nature. A patent or trademark granted by one country receives legal protection only within the territory under the jurisdiction of that country and has no validity outside that country's borders. No country is obliged to protect the patents and trademarks of another country. If the owner of a patent or trademark in one country intends to protect his exclusive right in another country, he must submit another application in that country. Protection in that country will

only be obtained after its authorized department has examined and approved the right in question. Precisely for this reason, foreign patents cannot enjoy exclusive use rights in China, prior to the official enforcement of a Chinese patent law, because they are not yet able to obtain patents in China.

C. Temporariness: The laws of all countries set certain time limits for the protection of industrial property. The owner of the right may enjoy exclusive use rights within the stipulated time limit, but on expiration of the time limit stipulated by law, the industrial property becomes public property; anyone may freely use it, and the owner has no right to interfere. The temporary nature of the patent rights is strictly adhered to in the laws of the various countries, and in principle no extensions are allowed after expiration of a right. However, extensions may be applied for in the case of trademark rights; it is merely necessary for the owner of the right to fulfill the procedures required by law when applying for extension before the expiration of his right; he may thus extend the exclusive use of his trademark for a very long time.

II. Patents

A. The Functions of the Patent System

Patent is an exclusive use right granted for a certain period of time by the government agency in charge on the application of an inventor after establishing that the invention conforms to the conditions stipulated by law. The patentee, on obtaining his patent, may enjoy the exclusive right of use, of manufacturing and marketing the object of his patent, or of using his patented process during the period determined by law. Anyone wishing to use the patented invention must obtain permission from the patentee, otherwise such action would constitute an infringement of the patent right and the person committing the infringement would have to suffer legal sanctions.

The patent system is a legal system for the protection of inventions and creations. Its main functions are: it demands that the inventor publish his inventions to have all of society gain knowledge of the invention and enable society to make use of it through proper legal channels (e.g., negotiating a patent license agreement with the owner of the patent). On the other hand, the patent system provides legal protection for the exclusive use right of the patentee, in that it prohibits anyone from wilfully using the invention without the permission of the patentee, to ensure that the patentee will not suffer any loss by publishing his invention. Implementing a patent system will enable the society at large, especially scientists and industrialists, to obtain prompt information and data on the latest scientific and technological achievements, which in turn will facilitate the widest application of an invention-creation, as it will also prevent duplicative research of the same topics. All these functions have a positive effect on the promotion of a society's science and technology and the development of production. For these reasons, some countries began several hundred years ago to institute patent systems. Currently, more than 150 countries have enacted patent laws and have concluded a certain number of international conventions and treaties aiming at the protection of industrial property or patent rights, thus promoting the international protection of patents. To protect and encourage invention-

creations and to meet the needs of socialist modernization and implement the policy of opening up to the outside world, China promulgated in 1984 the "Patent Law of the PRC," which will officially take effect on 1 April 1985.

B. The Substantive Conditions of Obtaining Patent Rights

According to the provisions of China's patent law, an invention is patentable only if it has novelty, inventiveness and practical applicability. These three requirements may be briefly explained as follows:

1. Novelty means that the invention was not published in any Chinese or foreign publication, was not publicly used in China or known to the public in any other way, prior to the filing of the application for patent. If an invention, prior to the filing of the patent application, has been publicly known, publicly used or previously been the subject of a patent application by someone else, it shall be considered as having lost its novelty and becomes ineligible for a patent.

In specific terms, according to the provisions of the Chinese patent law, the criterion by which we must judge whether a certain invention fulfills the time requirements of novelty is the date of the application for patent, and not the date when the invention was created. If two or more persons file application for patent of an identical invention, the patent right shall be granted to the one whose application was filed first.

Furthermore, according to the Chinese patent law, there are two conditions as to the territorial criterion within novelty: public disclosure in a publication, and worldwide applicability. This means that an invention can be regarded as having novelty only if it was not publicly disclosed in a publication either in China or abroad. If the invention has been disclosed in a publication either in China or abroad, it shall be considered as having lost its novelty. As regards public use or knowledge of it by any other means, the criterion is countrywide only, which means that it will be regarded as having novelty only if it was not publicly used or publicly known by any other means within China. Similar criteria are used by many other countries, including the United States, Japan, Canada, Switzerland, Sweden and Yugoslavia.

China's patent law, furthermore, stipulates that under certain conditions, certain inventions, although publicly disclosed by some means prior to the filing of the patent application, will not lose their novelty. This applies mainly to exhibits for the first time displayed at international exhibitions held or undertaken by the Chinese Government, disclosed in scholarly reports at scholarly conferences, or inventions divulged by someone without the consent of the inventor. The novelty in such cases shall not be considered as having been lost as long as the inventor files his application within 6 months after the occurrence of these circumstances. Moreover, where any foreign applicant files an application in China within 12 months from the date on which he first filed for patent in another country for the identical invention, he may enjoy a right of priority, in accordance with any agreement between the country to which he belongs and China, or in accordance with any international convention to which both countries are party (e.g., the Paris Convention on the Protection of Industrial Property), or on the basis of the

principle of mutual recognition of the right of priority. This means that the date of filing for the first time in the foreign country shall also be regarded as the date of filing in China; novelty shall not be considered as having been lost because the invention was already divulged by his application for patent abroad. Most countries recognize this right of priority.

2. Inventiveness means that, compared with the technology existing before the date of filing, the invention has prominent substantive features and represents a significant advance. The patent laws of some countries call this demand "nonobviousness." It requires that the invention must not be obvious to the common practitioner in the same technical field to qualify for a patent right. For instance, according to the patent law of the United States, inventions that are obvious to the common practitioner in the same trade do not fulfill the condition of "nonobviousness" if it only involves changing the shape or a machine or article, its dimensions, or moving the position of components or their revised composition; these are not considered new inventions and cannot be granted patent rights.

3. Practical applicability means that the invention can be used or manufactured in production departments and can produce effective results. These production departments are mainly industry, agriculture, excavating industry, forestry, fishery, animal husbandry, communications and transportation. According to the laws of certain countries, purely scientific principles, the occurrence of natural phenomena and the ways of dealing with them, as well as property systems, are not considered as meeting the demand of practical applicability and cannot be granted patent rights.

C. Nonpatentable Inventions

According to the provisions of the Chinese patent law, the following inventions or discoveries are not patentable:

1. Scientific discoveries;
2. Rules and methods for mental activities;
3. Methods for the diagnosis or for the treatment of diseases;
4. Food, beverages and flavorings;
5. Pharmaceutical products and substances obtained by means of chemical processes;
6. Animal and plant varieties;
7. Substances obtained by means of nuclear transformation.

However, processes used in the production of items 4, 5, and 6 can be granted patent rights, which will then be called process patents. In addition to the above-mentioned, no patent shall be granted for any invention-creation that is contrary to the laws of the state or social morality, or that is detrimental to public interests.

In international practice, the patent laws of many countries have specific provisions regarding inventions that cannot be patented. The reasons for not granting patents are mainly based on considerations of the interests of the state, public welfare, protection of the industry in the country in question or its safety. The pattern of development of patent systems in various

countries demonstrates that owing to scientific and technological progress some items which used to be unpatentable have now become patentable. In Japan, for instance, the Japanese patent law of 1959 prescribed that no patent shall be granted to foodstuffs, beverages, flavorings, pharmaceuticals and substances manufactured by chemical methods. The reasons at that time were to safeguard public interests, to protect the Japanese chemical industry which was still in a rather backward condition, and to prevent foreign enterprises from monopolizing the Japanese market after obtaining Japanese patents. By the 1970's, however, Japanese industry was equal to the industries of Europe and America, and when revising the Japanese patent law in 1975, foodstuffs, beverages, flavorings, pharmaceutical and chemical products became patentable. Presently, the United States, Great Britain, France, the FRG, Sweden, Norway, Denmark and Finland all recognize that the above-mentioned inventions can be patented.

D. Patent Application, Examination and Approval Procedures

According to the provisions of the Chinese patent law, a patent application must be submitted in writing to the patent office and must include a request, a description, a claim to patent, and an abstract. If necessary, drawings and other required documents shall be attached. The application may be filed by the inventor himself or his legal assignee or heir.

According to the fundamental principle of the patent law, only one patent shall be granted for one invention. If two or more persons apply for the same invention, the patent office must decide to whom to grant the patent. In international practice, this situation is dealt with according to two different principles: one is the principle of prior invention, and one is the principle of prior application. According to the principle of prior invention, the one who can prove his prior invention in such situations shall be granted the patent, regardless of who applied first. According to the principle of prior application, the one who files first shall be granted the patent, regardless of who invented it first. Presently, a minority of countries, including the United States, Canada and the Philippines, follow the principle of prior invention, while the majority of countries, including China, follow the principle of prior application.

According to the Chinese patent law, the patent office must upon receipt of an application for patent institute a preliminary examination. If the application conforms with the formal requirements, it shall publish the application within 18 months of the date of filing. Within 3 years, the applicant may at any time request that a substantive examination of his application be carried out to determine whether a patent can be granted. If the applicant fails to meet the time limit for requesting the substantive examination without justifiable reason, the application shall be deemed to have been withdrawn. This procedure is called "prior publication, later examination." Most countries employ this system, but they differ as to the time limits for requesting substantive examination and as to who is entitled to request the substantive examination. Some countries have a 5-year time limit and others a 7-year time limit for the request of substantive examination. Some countries also stipulate that not only the applicant, but any other interested party may request the substantive examination. Following

the "prior publication, later examination" principle has two advantages: one is that early disclosure of an invention will prevent others from engaging in the same line of research; another advantage is lightening the workload of the patent office in not having to start examination on each incoming application, because many applicants, for a variety of reasons, submit the application but do not necessarily intend to obtain a patent. Some apply merely to prevent others from obtaining a patent for the same invention. These persons will, therefore, not necessarily request the substantive examination after having filed their applications.

After completing the substantive examination, the patent office, on finding no cause for rejection of the application, shall publish the application, and anyone may file an opposition within 3 months of the date of publication. If no opposition is filed within the time limit, or if the opposition cannot be justified by law, the patent office shall grant the applicant his patent and issue a patent certificate. If the patent office finds the application not in conformity with legal requirements, it shall notify the applicant, asking him to respond or to amend his application within a specified time limit. If the application is still found not in conformity with the legal requirements after receipt of the applicant's response or amendment, the patent office shall reject the application. On rejection of his application, the applicant may, within 3 months, file a request for reexamination. This shall be carried out, and a decision arrived at, by the reexamination board of the patent office. Should the applicant be dissatisfied with the board's decision, he may institute legal proceedings in the people's court within 3 months.

E. Handling Patent Applications from Foreigners

The patent laws of all countries generally afford foreigners the same treatment and legal protection as citizens of their own countries. However, for any foreigner who has no residence or business office in the country in question, the laws generally require that he entrust his patent applications to an agent who has his residence or business office in the country in question. According to the provisions of the Chinese patent law, the Chinese patent office shall accept the application of any foreigner who has no regular residence or business office in China and wishes to file an application for patent in China, in accordance with any agreement concluded between his country and China, or in accordance with any international treaty to which both countries are party, or on the basis of the principle of reciprocity. However, when applying for a Chinese patent or for handling other patent matters in China, the above-mentioned foreigner must entrust his representation to a patent agency organ designated by the PRC State Council. The specific matters concerned shall be designated by the State Council and shall be the responsibility of the Patent Agency Department under the jurisdiction of the China Council for the Promotion of International Trade.

Moreover, any Chinese citizen or entity intending to apply for the foreign patent of an invention made in China must first file an application for patent with the Chinese patent office, and shall then, after obtaining approval from the department in charge, entrust the Patent Agency Department of the China Council for the Promotion of International Trade to apply on his behalf for the patent in the country in question.

F. Protection of Patent Rights

The patent laws of all countries stipulate protection of the exclusive right of the patentee during a specified period of time, prohibiting any infringement of his patent right. However, the periods of protection of patent rights differ from country to country, generally being fixed at 15 to 20 years. In Great Britain, France and Belgium the patent period is 20 years from the date of application. In the United States it is 17 years from the date of issue of the patent. In China the period is 15 years from the date of application. Within the period of validity of the patent, the patentee must pay the patent fee prescribed by law, otherwise his patent will be declared expired.

According to the provisions of the Chinese patent law, if the patent right suffers an infringement, the patentee or any interested party may demand to order the infringing party to stop the infringement, and may, moreover, demand compensation for damages, or may institute legal proceedings in the People's Court. In serious cases where the infringement constitutes a criminal act, an investigation may be carried out according to law.

III. Protection of Utility Models and Designs

The term "utility model" refers to the proposed new shape or structure, or to both these qualities combined, in a product which is useful in its application. The term "design" (industrial design) refers to new designs of shapes, drawings, coloring, or of a combination of these qualities, for a product that is appealing to the eye and useful in industrial applications. Some countries call patents for these items "small patents," and have enacted special laws to grant them protection similar to patent protection.

The legal provisions that protect utility models and designs are in many respects the same or similar to the provisions of the patent law. For instance, if the exclusive right to a utility model is to be obtained according to law, it has to have novelty, inventiveness and practical applicability, an application in writing must be filed with the patent office, and it must be examined and approved by the patent office. It is only then that it will receive legal protection and that the patentee will enjoy exclusive rights within the time limit specified by law. The main differences in the patents for utility models and designs are the following: (1) The legal standards for inventiveness for models and designs are generally lower than those for other patents. Some new technological conceptions that do not completely fulfill the conditions of invention patents can obtain legal protection if applied for as utility models or designs. For instance, according to the Chinese patent law, the demand in the case of inventions is that they are of "outstanding" substance and that they must be "markedly" progressive, but in the case of utility models and designs the demand is only for them to be of substantial nature and progressiveness. (2) The time limit for the legal protection of models and designs is generally shorter than that for inventions. For instance, the patent law of the FRG stipulates that the time limit for patent protection is 18 years, but that utility models are protected for only 3 years, with the possibility to be extended for another 3

years, that new designs are protected for 3 years, but may be extended to 10 or 15 years on the request of the applicant. (3) Application fees are generally lower and examination times shorter for models and designs than for inventions.

According to the Chinese patent law, China grants patents to utility models and designs with a 5-year term of protection and the possibility to apply for a 3-year extension. Many provisions regarding patents for inventions are applicable to utility models and designs. The owner of a utility model or design right can enjoy the same legal protection during the specified time limits as enjoyed by the owner of a patent for an invention.

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SPECIAL ECONOMIC ZONES

IMPORTANCE OF CREATING COMPLEXES OF SPECIAL ZONES

Kunming JINGJI WENTI TANSUO [INQUIRY INTO ECONOMIC PROBLEMS] in Chinese No 4,
20 Apr 85 pp 1-6

[Article by Wu Jixue [1566 4949 1331] and Yang Linjun [2799 2651 6511]:
"Strategic Significance of Establishing SEZ Complexes Comprising Special Zones
in the Interior"]

[Excerpt] What counter-measures should we take to cope with the realities of increasingly vigorous development of special zone economy in the world's economic system? We once suggested that on the basis of the four existing SEZ's and the 14 coastal cities opened to the world, we should establish special zones in the hinterland with resource and trade potential and of an industrial park character. This article intends to explore the strategic significance of China's SEZ complexes.

Our purpose is to make clear to the readers by means of the above exposition that opening to the world is an inevitable trend of historical development and also the way to reinvigorate China. For the present, it is especially important for our opening to systematically and rapidly establish a SEZ complex. China's economy and the world's economic system will be closely related through this SEZ complex. For a long time, the good earth of China had been shrouded by trade protectionism greatly restricting the economic contacts between China and various countries in the world. Opening to the world by merely relying on conventional uniform economic contacts between governments is far from adequate and it is also very difficult to cope with the fluid and everchanging situation in economic development. The foreign economic activities in recent years have time and again substantiated this point. SEZ's can rightly fill up this deficiency; preferential treatment, the openness, and flexibility of the SEZ's enhance the economic relations between China and various countries in the world. Not mentioning the countless special zones in other countries, due to its successful opening to the world, economic development in the city of Shenzhen was achieved at high speed after running it as an experiment for only 4 years. Besides establishing economic contacts with compatriots in Hong Kong and Macao and overseas Chinese compatriots, Shenzhen has now also made contacts with the United States, Japan, Britain, France, Sweden, Switzerland, Czechoslovakia, Romania, Korea, FRG, Canada, Australia, Norway and Ireland and other countries and regions which have all sent officials and trade delegations to Shenzhen for economic talks; and these economic contacts are increasing with each passing day.

II. The SEZ Complexes Comprising Hinterland Special Zones Will Play a Role in Promoting Rapid National Economic Development

In 1978 when China's first special zone was shown to the world, the United Nations called a meeting of great consequence in Manila to discuss special zone economy. At the meeting, economists of various countries had all noticed that the SEZ represented a good way of expanding trade and promoting production without jeopardizing national sovereignty. It is this SEZ function of promoting the development of productive forces that basically motivated various countries and regions to create SEZ's; it is also China's hope in establishing SEZ Complexes.

First, the SEZ complexes can achieve the goals of creating more foreign exchange and absorbing more foreign capital. Of course, these two goals can be attained by other means. However, by implementing more open, more preferential and more flexible policies, a SEZ can rapidly absorb and utilize foreign capital in a more concentrated way and in larger amounts. This has been verified time and again by countries and regions establishing various types of SEZ's. Although our SEZ's are in their infancy, functions of creating foreign exchange and utilizing foreign capital are evident. For over 2 years the Xiamen SEZ has received over 900 travelling businessmen from three countries and regions and negotiated more than 400 projects; 25 wholly-owned, joint ventures, and other cooperative projects were signed and the total foreign capital investment came to \$150 million, out of which 18 official contracts and agreements were signed between January and September 1983 for a total investment of \$110 million. By May 1983, the Shenzhen SEZ had signed 1,847 agreements with foreign businessmen. While the planned investments by foreign businessmen came to HK\$ 1,091,832, the actual amount of capital put to use was 208,999 or 19 percent of total amount of investment. Thus foreign capital has become a primary source of funds for Shenzhen construction. See table below:

Foreign Capital Investments in Shenzhen SEZ, 1979 to May 1983

Unit: HK\$10,000

Investment in Trade	No of Agreements	Planned Investment	Actual Investment	Percentage of Planned Investment As Actual Investment
1. Industry	1,308	116,050	84,222	74.5
2. Commerce	53	60,460	11,923	19.72
3. Tourism	13	99,962	12,270	12.27
4. Transport	17	3,388	1,698	50.1
5. Real Estate	42	746,810	66,426	0.9
6. Agriculture	399	24,712	13,015	53
7. Others	15	40,420	19,445	48.1
Total	1,847	1,091,832	208,999	19

Of Shenzhen's total industrial output value in 1982, the output value of Chinese-foreign joint ventures, cooperative ventures, and wholly-owned enterprises amounted to 100.3 million yuan and, output value of processing on

order came to 100.68 million yuan. The combined total amounted to 200.81 million yuan accounting for 55.45 percent of the industrial output value of the whole city in that year; in the same year, the export of the SEZ industrial products totaled 189.05 million yuan or 48.21 percent of the total industrial output value in that year. It can be assumed that if a SEZ complex can be established, it will play a still bigger role in developing our national economy in the areas of creating foreign exchange and absorbing foreign capital.

Second, advanced technology and advanced equipment may be directly imported from developed countries and regions through the SEZ complexes. As to the advanced technology or equipment imported in a concentrated manner in complete sets or in parts by the SEZ's, so long as we organize forces properly, study seriously and pay close attention to digesting and absorbing them, they may be quickly shifted to non-SEZ's in a planned way. In this way, our SEZ's will not be isolated SEZ's but rather a conscious "organ" of division of labor in the organism of the entire national economy. With respect to importing advanced technology and advanced equipment, our work is still far from being ideal as the number of highly technical, large, precision and sophisticated projects still remains rather small. Nevertheless, some gratifying results have been achieved. Xiamen SEZ imported 1,109 units (sets) of equipment between 1979 and March 1983 valued at 12.75 million yuan, out of which the technology dealing with color films and color photo paper imported by the Xiamen Photosensitive Factory from the U.S. Kodak Co had reached a highest annual output value of 24.7 million yuan after the contract was concluded, or about one-fifth of Xiamen's present total industrial output value, and the annual tax delivery was 120-million yuan. The Xiamen chemical manufacturing plant in May 1982 imported from West Germany's (? Karl Mayer) [phonetic 0595 1422 6701 5102] Co four sets of equipment including a La-she-er [phonetic 2139 5287 1422] jacquard warp loom, a sectional warp beaming machine, a punching machine and a duplicating machine which were put into operation in just 3 months. This warp loom can design the patterns itself with faster changing of pattern variety thus helping to upgrade and update products and increase competitiveness; it now can produce 6.73 million square meters of jacquard cloth annually and earned 840,000 yuan in taxable profits. Shenzhen SEZ has also imported numerous projects. The Haihong paint factory in the Shekou Industrial District imported from Denmark the mixing data for various types of "Old Man" brand paint. After finding the trial-production up to standards, the (? Hempel) [phonetic 0077 7324] Co of Denmark agreed to let the factory market the product under the "Old Man" brand and yielded some international sales outlets to open international market for that factory to sell its products. The Huamei Iron and Steel Plant imported individual key technical equipment from abroad with other machines and certain parts provided by the interior, an energy-saving advanced technological line was created after trial assembly was carried out. In addition, the microwave relay-digital control switchboard communications systems being used by the Shenzhen City printing products factory and the Shekou Industrial District has utilized advanced original parts from all over the world.

Third and last, the SEZ complexes provide a good place for us to draw lessons from the advanced management methods of developed countries. There are many channels and many ways to do this, including collecting and studying data of

modernized management from abroad, sponsoring enterprise management training organization with the cooperation of units concerned abroad, launching activities in institutes of higher learning and research organs for special subject teaching and scientific research, organizing pertinent personnel to go abroad for on-the-spot inspection and inviting management experts from abroad to come to China to give lectures and guidance. The emergence of SEZ's has provided us a practical and effective way in this aspect: that is, through the importation of foreign capital and by cooperating with them in practical work, to study, inspect and research their management methods. This can be accomplished in all Chinese-foreign joint ventures and wholly-owned foreign enterprise. Furthermore, investments by numerous countries in the SEZ's have also given us a new opportunity to compare and to blaze new trails on the management methods of many developed countries, particularly the capitalist countries. On the subject of learning management expertise from capitalists, Lenin pointed out emphatically: "Sit side by side with capitalists and learn from them about operating trusts and managing capitalism. Under the Soviet regime, state capitalism is an import of socialism and a condition for the genuine victory of socialism" ("Complete Works of Lenin," Vol 3, p 555). Tackling state capitalism with proletarian astuteness, resourcefulness and boldness of vision, Lenin invited people like American "oil tycoon" Armand Hammer to the Soviet Union to run enterprises, observing them closely and successfully drawing lessons from the capitalist advanced management methods at that time (such as the Taylor system). Today, with similar astuteness, resourcefulness and boldness of vision, the CPC Central Committee and the State Council have established SEZ's on the good earth of socialist China and opened up a larger arena for us to learn and draw lessons from capitalists their advanced management methods, which is an application and development of Leninism. It should be pointed out that we should never apply or copy the capitalist management methods mechanically but must give play to our own good qualities by integrating with the realities in our country, supporting and developing China's strengths.

III. The SEZ Complexes Embracing Special Zones in the Hinterland Will Become Vanguard Pilot Zones

It is more easily discernible that the significance of the SEZ economic form lies not only in its function of promoting the development of productive forces. We feel that paying attention only to this aspect is not sufficient. From the perspective of the relations of production, the SEZ complexes established in China should also serve as vanguard pilot zones pursuing reform of the economic structure. Overlooking this point will reduce the SEZ's strategic significance and practical role.

Carrying out overall economic structural reform in a country deep-rooted in centuries of malpractice is a grand, historic systematic project. In the course of this grand project, the work of opening vanguard pilot zones should not be overlooked. We may not have realized, or it may have occurred consciously or spontaneously, but the rural economic reform developed at the very beginning in vanguard pilot zones (Anhui, Gansu and other places); the expansion of the decision-making power in industrial economic reform also began in vanguard pilot zones (Sichuan, Chongqing and other places); in the current urban structural reform, many methods of work (such as the open

bidding system, the system of advertising for qualified personnel, the floating wage system, the contractual labor system, and so on) all originated in vanguard pilot zones (the SEZ's represented by Shenzhen). A vanguard pilot zone is different from the former pilot project for promoting work. The important difference between a pilot zone and a pilot project lies in the fact that the pilot zone has a total and mass character and more closely resembles actual society. Unlike a specific, discrete project, economic structural reform is a systematic project in which pilot project-type experiments are hard to develop, while summarizing experience acquired at the selected point is also difficult to popularize due to its limited nature; experiments on economic structural reform actually should be conducted in the vanguard pilot zones.

Some say: "Without reform there would be no SEZ's today." This is very true. We should add, however, that the practice of the SEZ's has enriched our reform. Some of the methods of work in the SEZ's have greatly enlightened the current reform. 1) The SEZ's have experimented with reform of the hiring and wage systems on a broader scale thereby providing valuable experience in overcoming egalitarianism, implementing the principle of to each according to his work, and insuring the rational circulation of qualified personnel and making the best possible use of men. 2) By responding to the demands of the commodity economy, emphasizing market demand, and applying economic means, the SEZ's have provided us valuable reference experience for our economic structural reform, such as respecting the role of the law of value and marketplace operation. 3) Various enterprises in the SEZ's are playing the role of commodity producers, the enterprises possess tremendous decision-making power, the economic relations among the various enterprises are that of commodity producers, and enterprises have assumed independent operations and distribution and are responsible for their own profit and loss. All these have provided us experience that we can draw upon in expanding the decision-making power of enterprises and perfecting the economic relations between socialist enterprises. 4) By implementing separation of party and government from enterprise functions and establishing simplified and highly efficient management organs with each taking sole responsibility, the SEZ's have also provided us valuable experience in structural reform of management and in enterprise consolidation.

The SEZ's ultimately are different from ordinary economic zones; thus the policies and methods within the SEZ's should be differentiated by level: general questions and general principles coming under the category of economic structural reform can be promoted nationwide such as expanding enterprise decision-making power, invigorating commodity circulation, implementing the principle of to each according to his work, ensuring circulation of qualified personnel, and so forth; general policies and systems coming under the category of SEZ's such as the preferential policy and the open door policy may be tried out in other open coastal port cities; special policies and special systems belonging to the category of SEZ's such as no settlement of exchange for foreign currencies, foreign currencies are allowed to circulate freely and different prices are allowed to exist and so forth; all this is applicable to SEZ's and not suited to other areas. Of course there should also be a process of perfecting, re-exploring, re-creating and rediscovery.

IV. The SEZ Complexes Encompassing Hinterland Special Zones Will Become Zones for Emulating the Capitalist Mode of Production

In establishing SEZ's, absorbing foreign capital, and doing business with capitalists, our purpose is to import advanced technology and learn advanced management methods so as to improve and strengthen ourselves. This is one aspect of the issue. We are now engaging in socialist modernization for the ultimate goal of defeating the capitalist system so as to bring about magnificent communism throughout the world. This has been the conviction of our party, our state and our nation which we should hold firm and bear in mind at all times. Thus, in establishing a SEZ complex we should not forget to make it into a zone for emulating the capitalist mode of production. This is the other side of the issue. In the past, whenever emulating capitalism was mentioned it was met with overall boycott, thorough criticism and ruthless struggle. Today, when we mention emulating the capitalist mode of production we mean "standing firm" and through contacts and cooperation, using its good qualities to make up for our shortcomings and discarding its decadent part to uphold our superior qualities.

The primary concern in emulating capitalism in the SEZ's is to uphold the socialist orientation. This is not boastful or empty talk but refers to the principles we have adhered to, the policies we have promoted, the systems we have implemented in the SEZ's and the economic activities we have pursued; in essence, it promotes socialist modernization. More specifically, it means truly exercising the above-mentioned functions of the socialist SEZ: turning it into a hub and a bridge linking socialist China with the world's economic system; turning it into an arena for creating foreign exchange, absorbing foreign capital and importing advanced technology and management methods; and making it into a vanguard pilot zone for economic structural reform in China. Enthusiastic pursuit of all of these will promote the development of our social productive forces and perfect the socialist relations of production, which is tantamount to upholding the socialist orientation in a true sense. Upholding the socialist orientation, our economic construction will be further developed, the material foundation of socialist society will become more solid and the socialist society will remain invincible; this is our substantive victory in emulating capitalism. What people should watch out for is that while we are carrying out economic structural reform and opening to the outside world, the "leftist" inclination of some people may be hidden under the slogan of "upholding the socialist orientation." In their view, upholding socialism is in fact upholding egalitarianism, upholding "eating from the same big pot" and upholding the closing of the country to international intercourse. There have been complaints and gossip about establishing SEZ's. At home, some people look upon establishing SEZ's as nothing more than earning foreign exchange and making more money; some people even consider SEZ's as a way to absorb foreign capital by promoting capitalism. There are also people overseas who look upon SEZ's as a way to "model after Hong Kong." This has presented us with the task of strengthening the study of the SEZ's economic form and publicizing our socialist orientation in operating them.

Economic results, good or bad, are extremely vital to emulating capitalism in the SEZ's. Whether we realize it or not, emulation exists from beginning to end in our dealings with capitalists. Our side emulates the capitalist side in

every link and at every hour from negotiation of projects to the signing of contracts, from absorbing investment to proportionate division of profits, from construction to enterprise management and from business discussions to delivery of goods. This process involves a contest of intelligence between the interested parties and between two different social systems. And the outcome of all such emulation is reflected in a certain target showing economic results which in turn is expressed by the input and output ratio. We can win honor for socialist society only when we achieve higher results in competing with the capitalist countries and enterprises wholly owned by capitalists.

When emulating capitalism in SEZ's, we must conscientiously develop spiritual civilization by "importing to a certain extent and boycotting to a certain extent." Because the SEZ's are dealing with various countries with different social systems and maintaining extensive contacts with the international market, they cannot avoid capitalist conduct and influence and the ideological erosion which will prevail over a long time. First of all, SEZ's must carry out long-range struggle against smuggling and peddling of smuggled goods, guard against reselling goods and materials for illegal profits by certain people who take advantage of the preferential treatment they enjoy in the SEZ's, and resolutely strike against speculation, swindling, corruption, accepting bribes and other similar activities. Second, in importing, all things decadent and degenerate and eroding people's soul entering the SEZ's should be resolutely rejected. While doing well in developing material civilization in SEZ's, practical steps must be taken to develop spiritual civilization. Political and ideological education with communism as the core must be strengthened continually. Scientific, cultural, and educational undertakings must be energetically pursued to train a generation of new qualified personnel and bring about a generation of new customs.

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SPECIAL ECONOMIC ZONES

GOALS, METHODS OF SEZ FINANCIAL SYSTEM REFORM DISCUSSED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 4, 20 Apr 85 pp 34-37, 41

[Article by Su Yanhan [5685 1750 3352]: "Discussion of Reform of SEZ Financial System; Special Policies and Flexible Measures"]

[Text] At present, under the guidance of the resolution of the 3d Plenum of the 12th CPC Central Committee on reform of the economic system, the SEZ economic system has just entered an even more comprehensive and intense period of reform. Major reforms are brewing in the SEZ financial system (this article is limited to examining the financial systems of Shenzhen and Xiamen). In this article I will outline this matter and present some of my opinions.

I. Changes in SEZ Finances

After several years of development, several basic economic conditions are occurring in China's SEZs that make it necessary for the SEZ financial system to undergo comprehensive reforms:

First, a comprehensively developed economic structure based on advanced technology and modern industry is forming. This structure absorbs foreign capital brought in from world export processing zones as well as experiences in the technological construction of processing industries. This structure also adopts, to a certain extent, various methods such as having large world free ports and free trade zones that use foreign capital to develop a plural economy, thereby creating the largest of small-scale economic zones in the world that can take in huge amounts of capital.

Second, a social economic structure guided by the socialist economy which consists for the most part of a state capitalist economy with a certain proportion of the economy privately operated by foreign commerce. Most important in this structure is the international economic link of the socialist economy and foreign capital.

Third, a market economy under the guidance of planning has been forming. The law of value has become the major means of steadily readjusting the SEZ commodity economy.

Fourth, an externally-oriented economy that participates in the international division of labor has been forming. Commodity production and exchange that are geared to the world market are expanding rapidly while import and export trade occupy an increasingly important position.

These conditions have generated a series of major changes in the SEZ financial system:

1. The capital structure and scope of the reproduction process in SEZs differ from the past. Following the large influx of foreign and overseas Chinese capital, significant changes have occurred in the structure and scope of idle funds from the reproduction process and in the demand for funds. Claim and obligation relations from centralizing bank credit have become more complex, credit targets and limits are expanding, and the channels of capital circulation have become more diverse.

2. Various currencies are in circulation. The RMB is the domestic currency but it cannot meet the needs of the SEZ externally-oriented economy and the needs of rapidly developing foreign commodity circulation. It is inevitable that large numbers of foreign exchange certificates and Hong Kong dollars are put into the SEZ market and, together with the RMB, they have become a major medium of circulation. Some Hong Kong dollars are also kept as reserve currency. Although bank credit is still the chief means of putting currency into circulation, the proportion is clearly decreasing. The elasticity of currency flow is greater and conditions for maintaining normal currency flow are becoming more complex. Changes are occurring in the composition of bank reserves, in the forms of credit, and in regulatory mechanisms. Control of foreign exchange is also becoming more relaxed.

3. A varied financial system with a diversified economy has appeared. In Shenzhen SEZ, in addition to the original state-run banks, there are also branches of the Nanyang Commercial Bank of Hong Kong and British offices of the Hong Kong and Shanghai Banking Corp, Standard Chartered Bank, the U.S.Huaqi [5363 2475] Bank, the Bank of Paris, Industrial Bank of Japan, and Sanwa Bank. In Xiamen SEZ, the six banks in the Hong Kong-Chinese bank system have set up and developed a joint capital limited company with the SEZ. Some foreign banks are discussing opening up some branches in the SEZ. Money capital has already begun to flow into the SEZ. At the same time a number of local state-run financial companies, trust investment companies, and insurance companies have also been established one after the other. The SEZ financial structure is changing. There is overlapping and competition in banking services and the whole financial sphere is becoming more lively.

4. The regulatory role of the law of value in capital movement is becoming increasingly stronger. SEZs do not fully comply with the planning directive for credit and cash in distributing credit funds and putting cash into circulation. The role of the law of value in regulating products and values is gradually expanding. The impact of profit rates and interest rates on domestic capital and the flow of foreign investments is increasing. The emergence of the market exchange rate has further strengthened the function of the law of value. Changes in international market interest and the financial climate have

steadily improved the collection and apportionment of enterprise capital and the function of the existing method of conversion.

5. The circulation of externally-oriented funds has occurred on a large scale. A large number of SEZ enterprises have just implemented capital circulation by means of import, export and foreign revenue and expenditure. The international market has already become the major condition for SEZ reproduction. Foreign exchange capital that runs counter to product circulation frequently flows in and out of the borders. International payment transactions, international settlements of accounts, and international credit operations have doubled and redoubled and links with international financial markets and international capital transfer are gradually improving.

These new changes established in the early stages of the SEZ financial system clearly indicate the growing contradiction with the externally-oriented credit economy just forming which corresponds to the developing commodity economy and with the closed-type financial system. Comprehensive reform of the financial system is imperative.

II. Objectives of the Reform of the SEZ Financial System

The SEZ economy is a unique part of the whole national economy in that it is directly linked to the world economy; the SEZ financial system is also a part of the national financial system and it is directly linked to the international financial system. This unique status of the SEZ economy and financial system requires that we study and determine the objectives, at different levels and at different times, of the reform of the SEZ financial system.

When considering the structure, characteristics, mechanisms, and scope after the SEZ credit economy was fully formed, the direct goals of the reform of the SEZ financial system should be: pluralism, enterprization [qiyehua 0120 2814 0553], to function more like a market, internationalization, and modernization. Pluralism refers to the diversification of the financial structure, which should consist of both sectors of the diversified economy and financial organizations with state-run specialized banks as the mainstay and SEZ central banks as the core. Enterprization refers to making financial organizations more enterprise-like. All SEZ banks and their financial organizations must become economic entities that function as enterprises. They must have independent management, be responsible for profits and losses, and develop comprehensive or varied financial services. Functioning more like a market refers to making the financial market and financial organizations function more like markets. All financial organizations and financial activities must form an organic link primarily through the market, and SEZ capital movement must be regulated primarily through the market. Internationalization refers to the internationalization of financial activities, having close ties with international currency movement, capital circulation, and credit activities, and broadly adopting the method of financial services of international banks in the same field. Modernization refers to modernizing business technology. These "five transformations" are determined by the economic conditions in the SEZs; they are the necessary

consequence of SEZ financial development. But the "five transformations" only point out the pattern of goals in reforming the SEZ financial system. As far as higher economic objectives are concerned, they are only a means to an end.

In the reform of the SEZ financial system, two interrelated economic goals should be attained in the overall SEZ economy:

1. Promoting continued rapid growth of the SEZ economy. Based on experiences in the Shenzhen and Xiamen SEZs, in order to attain this goal the SEZ financial system must play a role in leading the way in the economy and in developing capital. It should use its flexible financial circulation and superior financial services to promote importing from abroad and linking up with the interior on a large scale and accelerate the cycle and turnover of currency capital, production capital, and commodity capital. To this end, SEZ banks must speed up their own restructuring and become organizations that create credit and are motive forces for economic development. They must eliminate all backward management methods in the SEZ financial system and those rules and regulations that do not conform to SEZ economic development.

2. Urge that a balance be maintained between aggregate supply and demand in SEZs. This is an important prerequisite for consolidating currency value, stabilizing the market, and implementing extensive reproduction. The SEZ economy which is based on the importing of capital and resources not only may bring about the doubling and redoubling of aggregate demand, it may also cause the aggregate supply to rapidly increase. It is entirely possible that the two may increase in synchronization. However, this possibility depends to a certain extent on SEZ banks which play a regulatory role. On the one hand, SEZ banks must conform to the market mechanism and enliven the SEZ financial system. On the other hand, they must also improve macroscopic regulation so as to maintain a balance between aggregate supply and demand in order that they increase in coordination. Together with planning departments, they should play a key role in maintaining a comprehensive balance. This requires restructuring the financial system and expanding the autonomy of SEZ banks so that they may readjust the structure and flow of credit capital in a flexible manner, guide all economic sectors in maintaining a specific proportionate relationship, continue to perfect the financial regulatory system, and bring about the control of value in the SEZ economy.

These two goals of the reform of the SEZ financial system are interrelated. The continued development of the economy is the basis for achieving a balance between aggregate supply and demand, which in itself is a necessary condition for continued economic growth. Of course, at different stages of economic development there may be differences in emphasis. For example, during the early stages of the issuance of SEZ currency more emphasis was placed on maintaining a balance and stabilizing currency. However, during the entire construction period, the major goals of reform of the SEZ financial system are still to promote economic growth and then proceed to promoting the national establishment of the four modernizations.

III. Implement Major Transformations of the SEZ Financial System

In order to implement the aforementioned goals of reform, from now on it is necessary to regard SEZ central banks as the axis and rapidly and thoroughly urge the reform of the SEZ financial system in an orderly way. The following several major transformations should be implemented through reforms.

A. Transform subsidiary financial offices into comprehensive departments that occupy a central position in the SEZ national economy.

Following the rapid expansion of SEZ market capacity, commodity and currency exchange have become unprecedentedly lively and credit activities have become more frequent. The overall economy is relying increasingly upon bank regulation. Consequently, by transforming the old banking system of the past that consisted of subsidiary financial bodies and organizations that received and paid out money, by strengthening and improving the status of SEZ central banks and by giving full play to the role of SEZ central banks, it is possible to meet the needs of rapid growth in the SEZ economy: 1) SEZ central banks should become comprehensive economic departments that exist simultaneously with planning committees and financial departments under the direct leadership of the SEZ government; 2) SEZ central banks should be financially independent and have the right to make financial policies in their own area; 3) SEZ central banks should participate in, study, and formulate SEZ economic policies, annual projected plans, and economic development plans.

B. Transform the simultaneously existing "four banks" into a diversified financial system that has SEZ central banks as its core.

After the establishment of the SEZs, the system of the simultaneously existing four banks continued. At present, although the SEZ People's Bank has been changed into a central bank, if we turn the SEZ People's Bank of China over to the planning committee, the Bank of China over to the economic relations and trade committee, the Construction Bank over to the construction committee, and the Agricultural Bank over to the leadership of the agricultural committee, and basically maintain the vertical system of each specialized bank and its main office, the contradictions between the original financial system and the SEZ economy will basically go unresolved. A relatively independent commodity economy is just forming in the current SEZ economy and naturally a relatively independent financial system must form in SEZ financial affairs. This system should include the following financial organizations: 1) SEZ central banks that were once SEZ People's Banks; 2) SEZ specialized banks and local state-run and collective financial organizations; 3) foreign banks, overseas Chinese banks, joint capital banks, and foreign financial companies. Vast foreign experience has shown that with a market economy it is necessary to give full play to the functions of central banks. The development of their role is determined by relations with commercial banks. Although China's SEZ economy is not a capitalist market economy but rather a market economy under the leadership of a socialist economy, it still must pay attention to developing the role of central banks and correctly handle its relations with other financial organizations:

1. Under the leadership of the national central bank and the SEZ government, SEZ central banks should become the highest financial organization and give priority to SEZ leadership. In view of the special nature and complexity of SEZ finances, it should be regarded as a provincial level local branch. Under the leadership of state guidelines and policies and the financial policies of national central banks, it should make full use of its function as a central bank to unify control of credit funds, the issuance of currency, foreign exchange bullion, financial organizations and the financial market in SEZs.

2. SEZ specialized banks should be financial organizations under the leadership of the main offices of specialized banks and SEZ central banks. They should give priority to the leadership of SEZ central banks. SEZ central banks should control, guide, coordinate, and supervise specialized banks within their zone and supply capital according to the operational needs of SEZ specialized banks. SEZ specialized banks may open credit accounts and deposit accounts in SEZ central banks. Deposits should be made according to a prescribed proportion.

3. Foreign, overseas Chinese, and joint capital banks must accept the control and supervision of the SEZ government and SEZ central banks and expand operations according to the registered prescribed limits. In addition to deposits from outside the borders, they should make deposits of reserve funds into SEZ central banks and they should observe regulations of SEZ central banks or the Joint Bank Conference regarding interest rates, exchange rates and various charges.

C. Transform highly centralized planning management to controlling credit funds and the total amount of currency primarily through market regulation.

The SEZ economy is a market economy under planning guidance. The law of value governs SEZ commodity production and exchange. Capital's lateral links will be consolidated. Since the issuance of SEZ currency and the pricing system separated from the interior, financial capital has been increasingly brought into the SEZ, and the elimination of correspondent banks and the overlapping of operations is increasing. Negotiable instruments and the commercial acceptance of negotiable instruments are developing. Transferable stocks and bonds will increase steadily and discounting services will emerge as necessary. After stocks, bonds, and other long-term securities as well as commercial negotiable instruments, transferable deposit certificates, and other short-term securities are put on the market, and following the development of services such as the acceptance of bills, mortgaging, and discounting, the SEZ financial market will form of its own accord. Under such conditions, when appropriate, it is necessary to establish a complete regulatory system that gives priority to market regulation while regarding planning guidance, including laws, regulations, and administrative measures, as subsidiary. SEZs should fully apply all economic regulatory measures, consolidate the deposit reserve fund system, and implement a reserve rate that is lower than in the interior. SEZs should promptly readjust policies on the exchange rate and interest rate while implementing a floating exchange rate and an interest rate different from those of the interior. SEZs should handle rediscounting services and the open market operations of buying and selling negotiable securities, etc.

D. Transform centralized and unified control of foreign exchange to free exchange and free capital circulation.

No SEZ may implement the same kind of system for controlling foreign exchange as the interior. The development of foreign commodity circulation, the externally oriented circulation of capital, and the circulation of various currencies are spurring on basic changes in the SEZ exchange control system. The issuance of SEZ currency will certainly accelerate and complete this process of change. Henceforth, currency will be freely convertible, foreign exchange capital will be freely adjusted, and costs for settling internal trade accounts will no longer exist. Control of foreign exchange income and expenditures for regular items and capital items will be greatly relaxed. The establishment of this system will play a major catalytic role in internationalizing the SEZ economy and make it function more like a market. The change in the SEZ currency exchange rate will affect SEZ market prices, import-export trade, and capital circulation. The implementation of freely convertible currency will improve ties between the international financial market and the SEZ financial market and the international role of the law of value will be further strengthened. The operations of all SEZ specialized banks will change because of this. There will be an increase of foreign exchange deposits, and joint bank transactions within the Hong Kong Chinese banking system will gradually be set up. Specialized banks will directly manage joint bank accounts. The bank assets and liabilities structure will have new features and circulation will greatly increase. At the same time numerous foreign and overseas Chinese banks will expand so that it will be necessary to open SEZ branches and offer out-of-port financial services. It is estimated that with the implementation of the new exchange control system and related policies and measures, SEZ finances will enter a new stage.

E. Transform single service financial offices that supply capital into full financial banks.

The internal management system and method of operations of SEZ banks require major reforms. The autonomy of SEZ banks should be expanded according to the spirit of the principles of simplifying administration and expanding powers, and separating the state and enterprises. Besides the full powers mentioned above that should be bestowed upon SEZ People's Banks so that they can exercise the functions of central banks, SEZ specialized banks should also have the right to independently arrange approved and allocated credit funds and to exercise independent management. They must reform the financial system of controlled revenue and expenditures, implement independent accounting, and be responsible for profits and losses. They must reform the internal control system and the wage system, and implement the system of responsibility in one's position and a floating wage system that is tied to business results. Banks should have the right to independently determine the method of deposit services, develop full financial services and gradually implement the internationalization of financial services.

IV. Steps and Prerequisites for the Reform of the SEZ Financial System

If such major reforms are to be carried out in the SEZ financial system, given that current conditions are not yet right, they must be carried out in stages. During the present stage, we should first proceed from the following several areas:

1. Improve the SEZ central bank system; establish SEZ central banks in a leadership capacity in the financial system; organize and establish a coordination office in the SEZ financial system (such as the Joint Bank Conference); and unify research and draw up plans for the reforms of the SEZ financial system.
2. SEZ central banks must unify control and regulate credit funds for all the zones and set up a deposit and reserve fund system. Based on the principle of separation of state and enterprises, SEZ specialized banks must implement independent management and accounting and assume responsibility for profits and losses.
3. SEZ central banks must control the issuance of SEZ currency and implement free exchange and free capital circulation.
4. Based on the principles of giving proper consideration to the original division of labor and permitting overlapping of operations, all SEZ specialized banks must gradually expand the scope of their operations, handle foreign exchange deposits and proceed toward becoming full service banks.
5. Diversify forms of credit and financial means, use negotiable instruments in commercial credit, issue transferable stocks and bonds, and offer acceptance and discounting services.
6. Increase local financial organizations, introduce foreign and overseas Chinese banks and establish joint capital banks. Consider allowing foreign and overseas Chinese banks as well as joint capital banks to offer out-of-port financial services.

The aforementioned reforms will bring about even more profound changes in the SEZ financial sphere. The direct result of this will be the formation of an SEZ financial market, which will enable the reform of the financial system to enter a new stage. At long last an SEZ financial system will form that corresponds to the SEZ credit economy. This system will be characterized by its use of the market mechanism for circulation. At present it is urgently necessary that some major terms be set forth for the reform of the SEZ financial system:

1. Support the major reforms of the SEZ financial system. After the issuance of SEZ currency, the relatively independent financial system that formed must be simplified and have expanded powers. The autonomy of SEZ finances must be expanded. National banks must support the SEZ People's Bank in exercising its function as a central bank and allow SEZ specialized banks to function more like enterprises and practice independent management.

2. Formulate laws and regulations for SEZ finances. At present the problem of the lack of laws and regulations in the SEZ financial system is extremely serious. We must formulate and perfect legal norms on the relationship of currency and credit in SEZ financial activities as soon as possible, including banking laws, negotiable instruments laws, mortgage and rent laws.

3. Select and train a group of financial cadres. We should select cadres that both understand financial operations and have competence in macroeconomic administration to strengthen the leading groups in SEZ central and specialized banks. Concerned units may be authorized to train a group of specialists in international finance so as to strengthen the backbone of the SEZ financial system.

4. Improve policy-making research on the SEZ financial system. Establish a research organization for SEZ financial affairs that consists of specialists in various areas to explore the theoretical problem of major policies on SEZ financial matters.

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TRANSPORTATION

MINISTER CALLS FOR SPEEDY TRANSPORTATION DEVELOPMENT

Beijing BAN YUETAN [SEMI-MONTHLY TALKS] in Chinese No 4, 25 Feb 85 pp 10-12

[Article by Gao Ping [7559 5493]: "Minister of Communications Qian Yongchang Calls for Speedy Development of Transportation"]

[Text] The present difficulty buying tickets, getting on a bus and transporting freight is something that boggles the mind. As a result, there are times when fatted hogs have become emaciated, live fish have died and products, instead of being turned into commodities, have become waste materials. The masses are at a complete loss to understand why highway transportation has reached such a sorry state. What are the communication and transportation departments planning to do to correct this situation? To find an answer, this reporter had an interview with Qian Yongchang, Minister of Communications.

Having served as deputy minister and minister of communications for over 2 years, Comrade Qian Yongchang, 51, has studied the situation in depth at the basic level and has a full understanding of what occasioned the difficulties. Upon learning the purpose of my visit and coming straight to the point, he said, "Transportation constitutes the weakest link in our four modernization projects of construction, and highway transportation represents the weakest link in our communication and transportation system. Our highways are not only few in number but also of a low standard and poor quality."

Touching upon the causes for this, Minister Qian pointed out with a sigh that for a long time, China failed to appreciate the need to give priority to transportation in the effort to develop the economy and that highway transportation had been put on the back burner. Due to the small amount of investment, progress was slow in basic highway installations and the development of motor vehicle transportation capacity. It was not until the 3d Plenum of the 11th CPC Central Committee that the situation took a turn for the better when the Central Committee listed communication as one of the key strategies and repeatedly stressed the importance of developing highway transportation. It was not until then that highway construction was developed at the rate of around 15,000 km per year.

On the subject of highway transportation, the leadership comrades in the Central Committee have in recent years repeatedly stressed the importance of developing highway transportation, getting over the "craze for railways," and building roads that are wide, flat and straight.

In order to relieve the pressure on highway transportation, the Ministry of Communications adopted in 1983 a series of effective reform measures such as the separation of enterprises from politics, the simplification of administration, experimenting with the relaxation of control at selected points, the elimination of monopolistic practices, giving encouragement to joint efforts made by the state, the collectives and individuals, and the raising of funds from various sources for road and bridge construction. In 1984, over 14,000 km of highways were constructed throughout the nation, showing an increase of almost 100 percent over the previous year, and 29,000 km of highways were rebuilt or widened to register the highest rate in recent years. There are now 930,000 km of highways open to traffic throughout the nation. Except for Medog County in Tibet, every county in China is accessible to highways and 90 percent of the villages are accessible to motor vehicles so that a highway transportation network extending in all directions may be said to have been tentatively established. With the relaxation of policy, specialized individual transportation enterprises have come to the fore. Up to now, 130,000 motor vehicles operated by individuals and joint households have joined the ranks of the highway passenger and freight transportation system.

Answering his own question concerning what caused the state of emergency on every side despite the considerable development of highway transportation in recent years, Minister Qian said that it was due to the poor quality and low capacity of the highways and the fact that the rate of development still lagged behind the increase in the volume of passenger and freight traffic.

There is still no expressway among the 900,000-odd km of highways in China. There are only 255 km of first class highways capable of handling 2,000 motor vehicles in a 24-hour period and only 17,000 km of second class highways. Thirdclass highways constitute only 14.4 percent of the total while fourth class and substandard highways each account for 40 percent of the total. Black-topped highways constitute only 19 percent of the total highway mileage in the nation. Most of the highways are made of gravel, stones and mud and are open to traffic only in good weather. Highways are congested and the average speed of traffic is only 30 km per hour. It is estimated by concerned parties that when the per-capita income in the rural areas increases by 1 percent, the volume of passenger traffic increases by 1.7 percent, and that when the gross value of agricultural production increases by 1 percent, the volume of freight in the rural areas increases by 0.9 percent. With the adoption of the open door policy and of invigorating the domestic economy, there has been rapid development in industrial and agricultural production and the tourist trade in recent years. Now that peasants are increasingly engaged in circulation, the exchange of commodities between the cities and rural areas as well as the provinces is being carried out at an accelerated pace. The flow of passenger as well as freight traffic is increasing by the day. Judging from the ratio of their respective growth rates, the present growth rate in highway development is hardly sufficient to meet the needs of national economic development.

When the subject was directed to ways and means to improve the critical highway transportation situation this year, Minister Qian replied without hesitation that the only solution was to open up and invigorate traffic, to remold and to make full use of potential and to increase transportation capacity.

"For the present year, priority will be placed upon improving the quality of and upgrading road surfaces and on increasing highway mileage," said Minister Qian. "The most pressing need at the moment, however, is to improve the quality of road surfaces. At the same time, it is necessary to develop highways radiating from cities (areas) of economic importance, including a number of expressways and first class highways, to accelerate the flow of commodities."

In answer to the question as to how to resolve the problem of the shortage of funds for highway construction, Minister Qian replied, "The government currently is not in a position to furnish us a large amount of funds. However, highway transportation has many levels, channels and forms. Encouragement should be given to the various departments, regions and trades and businesses to act in concert with each other. Effort should be made to mobilize the masses to participate in the development of transportation by making use of all the means of transportation belonging to the state, the collectives and individuals. Funds should be raised from various quarters with the understanding that the party which builds the highways is to exercise control over and profit from them. At the same time, foreign capital should be brought in for highway construction."

In recent years, the number of individually owned motor vehicles for the transportation of passengers and freight is equivalent to half the number owned by the communication and transportation departments. This represents a sizable supplement to state transportation enterprises. This year, the state will also import a number of motor vehicles and sell them to the specialized individual and collective transportation enterprises to help develop their operations.

The contract responsibility system will be widely adopted this year for car drivers in order to improve their service attitude and to accelerate the turnover of motor vehicles.

As the interview concluded, Minister Qian said with great confidence, "The Ministry of Communications is presently engaged or planning to engage in the construction of several expressways and two first class highways. By 1990, there will be 2,000 km of expressways and 23-m-wide first class highways and 1 million mu of highways in the nation. By that time, highway transportation shortages will be eased to a considerable extent."

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TRANSPORTATION

MINISTER QIAN STRESSES TRANSPORTATION TASKS DURING SEVENTH 5-YEAR PLAN

Beijing ZHONGGUO JIAOTONG BAO in Chinese 30 Mar 85 p 1

[Article: "Focus on the Three Undertakings and Lay a Foundation for Construction During the 'Seventh 5-Year Plan'; Comrade Qian Yongchang Discusses This Year's Tasks of Constructing Basic Transportation Facilities; Coastal Harbors Must Put 33 Deepwater Berths into Operation; Build 20,000 km of New Roads; Rebuild 30,000 km of Roads; Focus on the First Phase of the Project To Manage the 'Four Rivers' and Remove 10 Inland Waterway Locks Which Obstruct Navigation"]

[Text] At the National Communication Work Conference Qian Yongchang said: "This year is the key year of transition between the "Sixth 5-Year Plan" and the "Seventh 5-Year Plan." It is necessary to earnestly focus on the three undertakings in the construction of basic transportation facilities and lay a foundation for the further development of communication and transportation during the "Seventh 5-Year Plan."

The three undertakings are: to ensure that coastal harbors build and put into operation 33 deepwater berths while concentrating on completing the project urgently needed by the state for transporting maize from Dalian port and Ganjingzi and the project of rebuilding the three crude oil port cities of Dalian, Qingdao, and Nanjing, and ensure progress on the projects; to newly build 20,000 km of roads and rebuild 30,000 km of roads; to focus on the first phase of the project to manage the Xi Jiang and the project to eliminate 10 inland waterway locks that obstruct navigation.

Qian Yongchang said: During the "Seventh 5-Year Plan" the development trends and characteristics of shipping, road passenger transportation, and freight transportation are: coal and crude oil are the primary natural resources for transportation and will continue to be the major sources of water transportation. They are in a pattern of stable growth. The transportation of foreign trade materials will develop at an even faster rate. There will be great development of short-distance transportation between cities and towns, regions and especially among coastal cities and central cities. The volume of passenger transportation will increase even more rapidly.

Qian Yongchang said that to this end communication and transportation must continue to give priority to the transport of energy resources and foreign

trade, to rural transportation, and to passenger transportation; to strive to expand the handling capacity of large ports; to improve construction of inland waterways; to accelerate the rebuilding and new construction of roads; and to continue to develop and replace oceangoing vessels. This will meet the demands for development of the national economy.

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TRANSPORTATION

TRANSPORTATION PLANS DURING SEVENTH 5-YEAR PLAN DISCUSSED

Beijing ZHONGGUO JIAOTONG BAO in Chinese 30 Mar 85 p 1

[Article: "Qian Yongchang Discusses Communication and Transportation Plans During the 'Seventh 5-Year Plan'; Improve Technological Transformation, Rebuilding, and Expansion of Existing Enterprises; Build 120 Deepwater Berths Along the Coast and 36 Medium and Small Berths; Give Priority to the 'Three Rivers and the Two Waterways' in Inland Shipping; Greatly Increase Passability of Existing Roads"]

[Text] On March 25 Minister of Communications Qian Yongchang presented development plans for communications and transportation during the "Seventh 5-Year Plan" period to representatives attending the National Communication Work Conference. Qian Yongchang said that during the period of the "Seventh 5-Year Plan," 120 deepwater berths and 36 medium and small berths will be built in coastal harbors. In this way the number of coastal harbor berths will reach 542 of which 319 will be deepwater berths. The harbor traffic volume will increase by approximately 61 percent over 1985.

When discussing inland shipping, Minister Qian said: "We must give priority to the three rivers and two waterways (Chang Jiang, Xi Jiang, Heilong Jiang, Beijing-Hangzhou Canal, Huai He), improve navigation conditions of major tributaries when necessary, remove 180 locks which obstruct navigation in a planned way, and improve 10,000 km of channels so that there will be 7,000 km of navigable channels for barges over 1,000 tons."

Qian Yongchang said: "Road construction must strive to increase the passability of existing roads, improve the grade standard of roads, and build 1,500 km of roads connecting to main highways. In a planned and orderly way we must change sections of highways that have a daily traffic volume of over 5,000 vehicles to grade 1 roads and sections with a daily traffic volume of over 2,000 vehicles to grade 2 roads; build expressways from Beijing to Tianjin and from Guangzhou to Shenzhen; and build over 60,000 km of roads in counties and villages." Lastly Qian Yongchang said: "By 1990 the freight volume of transportation sectors will be 1.82 billion tons, 1.2 billion of which will be transported by road and 620 million tons of which will be transported by water."

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TRANSPORTATION

JIANGSU VICE GOVERNOR ON DEVELOPING TRANSPORTATION

OW030007 Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 30 May 85

[Text] Addressing the provincial transportation conference, Chen Huanyou, member of the Standing Committee of the Jiangsu Provincial Party Committee and vice governor of Jiangsu, stressed today that without reform, Jiangsu's communications and transportation will be unable to develop. He said: We must restructure the communications departments' administration and enliven the transportation, keep up with Jiangsu's economic development, expedite its trade and greatly improve the passenger services.

Comrade Chen Huanyou said: While the relatively rapid development of Jiangsu's communications and transportation has contributed significantly to the province's economic development, the development of the province's communications and transportation, which are vanguards of the economy, lags behind industrial and agricultural development. Because of poor infrastructure and inadequate facilities, communications and transportation are weak links in Jiangsu's economy.

Comrade Chen Huanyou urged all Jiangsu communications departments to do the following four jobs well immediately so that the province's communications and transportation can be developed as quickly as possible.

1. Restructure the communications departments' administration and continue to transfer provincial enterprises to the administration and continue to transfer provincial enterprises to the administration of lower departments; and give these enterprises decision-making authority and enliven their operation, instead of simply changing their administrators.
2. Strengthen communications administration. Keeping in mind the new problems appearing in economic development, all areas should step up their control of publicly owned and individually owned trucks and buses. The problems caused by peasants drying grain on highways must be properly settled.
3. Fulfill the state's major transportation projects. After the transportation enterprises have acquired greater decision-making authority and have begun operating on contract basis, they should, in addition to making profits, also consider improving their services to the public. If their interests contradict those of the public, the enterprises' interests should be

subordinated to the interests of the whole. Workers and staff members must be educated to rectify their guiding thinking and improve their service.

4. To improve the operation of transportation enterprises, tap their own potential. Enterprises must not wait for assistance from society so that the burden on society will not be increased.

The provincial transportation conference took place in Nanjing 27-30 May.

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TRANSPORTATION

WORK TO BEGIN SOON ON CHINA'S LONGEST LOCAL RAILWAY

Shanghai SHIJIE JINGJI DAOBAO [WORLD ECONOMIC REPORT] in Chinese 25 Mar 85 p 2

[Article: "Construction Work Will Soon Begin on China's Longest Local Railway"]

[Text] According to Han Yaogen [7281 5069 2704], our special correspondent in Shenzhen, Zhou Hui [0719 1920], first secretary of the party committee of the Nei Monggol Autonomous Region, revealed that Nei Monggol will begin construction of the nation's longest local railway within the year and that it would also assume responsibility for the construction of a railway bridging the northeast, northern China and the northwest.

When questioned by the reporter as to the significance of this "land bridge," Zhou Hui, having dealt at length with China's economy from the macroscopic point of view, stated that the vast northwestern territory would be a key area for development at the close of the present century and the early part of the next and that the northeast, an established industrial base in our nation, would serve as a large logistic base for the development of the vast northwestern area. He explained that the construction of the 850-km railway from Jining to Tongliao in Nei Monggol (the Ji-Tong line) would open up the most direct transportation corridor between the northeast and the northwest and that materials from the northeast would no longer have to be transported by a roundabout route to the vast regions in the northwest and the southwest.

Zhou Hui pointed out emphatically that almost one-fourth of the enterprises in the northeast are at a stalemate or a semi-stalemate due to the shortage of energy resources and that while the shortage of coal would amount to over 50 million tons by 1995, both Nei Monggol and Ningxia to the west have large reserves of good quality coal. In the western part of Nei Monggol alone, because of transportation difficulties, almost 10,000 tons of coal are spoiled by being kept too long in stock or lost to spontaneous combustion every year. For this reason, the production of coal is limited to the amount that can be transported. The completion of the Ji-Tong line would resolve this contradiction from the macroeconomic point of view and would prove to be beneficial to the regions along the Bashang region in Hebei and the outer suburbs of Beijing.

Producing a map of Nei Monggol, Zhou Hui pointed out to the reporter that, after having made a study of the autonomous region, experts have come to the

conclusion that consideration should be given to the exploitation of the "golden triangle in north China" formed by Hohhot, Baotou and Jungar, all of which are roughly 150 km apart, as a major economic area for the development of heavy chemical industries. Upon the completion of the Ji-Tong line, it will be possible to transport the ample resources of Nei Monggol through Tongliao, a railroad juncture in the east, to Jilin and Heilongjiang in the north and Dalian in the south. This railway would thus offer Nei Monggol an outlet on the Pacific coast. Highly elated by the prospect of opening up the autonomous region to the outside world, the people of various races in Nei Monggol have come to regard the Ji-Tong line as one which will bring economic prosperity and wealth to the region.

Replying to the reporter's question as to how the Ji-Tong line should be constructed, Zhou Hui said that the areas traversed by the railway across the hinterland of Nei Monggol are flat, that construction costs are low because of the small number of bridges that have to be built over culverts, that joint efforts should be made by the central and local governments with emphasis on the latter and that the railway could be completed within 5 or 6 years. The Ministry of Railways has already decided to give its support by making railway equipment dismantled from old railways available to the project at reduced prices as its share of the investment. Nei Monggol, which welcomes investments by the various provinces and cities, is also interested in investments from abroad. Zhou Hui further emphasized that Nei Monggol would give favorable consideration to the issuance of railway bonds at an interest rate no lower than that offered by banks, that the construction cost of this railway is low, the volume of transportation is high, the economic benefits are considerable and that Nei Monggol is fully capable of repaying capital with interest.

On the subject of the development of Erenhot, a northern gateway to China, Zhou Hui revealed that reserves of almost 100 million tons of petroleum have been found, that plans have been made to set up a jointly financed refinery capable of producing 1 million tons of petroleum a year, and that housing will be put up to serve as a base for the further development of trade in the border area.

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CSO: 4006/632

TRANSPORTATION

DEVELOPMENT OF TRANSPORTATION COOPERATIVES COMMENDED

Beijing ZHONGGUO JIAOTONG BAO in Chinese 2 Mar 85 p 1

[Commentary: "Helping Peasants To Develop Transportation Cooperatives"]

[Text] With the development of commodity production in the rural areas, there has occurred a sharp division of labor and businesses within the agricultural sector as well as in all the rural communities. The clearcut division of labor has given rise to an increasing number of new lines of business. As was pointed out by Karl Marx long ago, "The transportation enterprise has, on the one hand, taken on the role of an independent production department and become a special field for the investment of production capital while, on the other hand, it signifies the continuation of the production process within the circulation process and the continuation of the production process in support of the circulation process" ("Selected Works of Marx and Engels" Vol 24 p 170).

The division of labor and business has given rise to two demands. First is the socialization of services, because the greater the reliance of the various businesses on society, the greater is their need for the services of other industrial departments. Second is the need for cooperation. While the potential of household operations continues to grow, their limitations have become increasingly evident in that they are experiencing increasing difficulty in enlarging the scale of their production operations, improving their technical standards and installing advanced heavy equipment. These limitations are particularly evident in the transportation enterprises. To promote the division of labor and businesses in the rural areas, the various departments must bear in mind the two demands mentioned above if they are to do their work in a creditable manner and to develop by gradual degrees and according to a plan the various service trades for the benefit of society. They must let no opportunity go by in developing step by step the cooperative economy in all its forms.

The services rendered to society by the transportation enterprises are wide-ranging, involving as they do the sources of supply, loading and unloading, the supply of motor vehicles, maintenance, renewal, technical training, insurance, consultation, etc. Due to the large number of weak links and even the absence of necessary links, a great deal remains to be done.

Although the development of transportation cooperatives has barely begun, it has already attracted the attention of the CPC Central Committee. The

government has already decided to give the project the necessary support, including the sale of a large number of motor vehicles to the rural transportation cooperatives.

Rural transportation cooperatives have for the most part been organized in two different ways. One is through the buying of shares, the purchase of transportation equipment on a cooperative basis, and the payment of dividends to shareholders. The other is for the shareholders to make the transportation equipment in their possession available to the cooperatives and to engage in operations on a cooperative basis with the production and marketing enterprises. No matter what form is adopted, the cooperatives are organized voluntarily by the peasants and are more vigorous and profitable than the specialized transportation enterprises. As the transportation cooperatives are being developed, the communication and transportation departments must take the initiative in establishing coordination with the agricultural cooperatives in purchasing the proper transportation equipment, the training of drivers and administrative personnel, the formulation of simple rules and regulations, the establishment of the responsibility system, and the rendering of various services to the cooperatives with which they can also engage in joint operations and coordinated transportation. State communication and transportation departments can also sell, rent or lease their surplus motor vehicles and ships to the cooperatives.

Due to the impact of "leftist" ideas in the past, we have had many unhappy experiences in promoting mutual assistance and cooperation. We must avoid making the same errors in our effort to help the peasants to establish transportation cooperatives. We must take a positive and cautious stance. First, we must not uproot the seedlings in an effort to help them grow and insist on organizing such cooperatives when conditions do not warrant. We must also render our support to the specialized transportation enterprises on a continuing basis. Second, we must not take into our own hands a job that should be done by somebody else. We must respect the right of the peasants to make their own decisions and allow them to take the initiative to join or to secede from the cooperatives of their own free will. Third, we must refrain from insisting on egalitarianism, allow the members of the cooperatives to determine the amounts of distribution based mainly on the amounts of work done and the number of shares held by the members. Fourth, we must allow the existence of various forms of cooperation ranging from close cooperation to the looser type of union and seek to make improvements from top to bottom one step at a time.

In short, the communication and transportation departments must seek to promote the development of the transportation enterprises in the rural areas by making positive efforts to develop the transportation services and by rendering assistance to the peasants in the development of transportation cooperatives and to promote the development of rural commodity production by developing the transportation enterprises to enable the peasants to achieve a degree of affluence within the shortest period of time.

9621

CSO: 4006/632

TRANSPORTATION

CHINA INCREASES NUMBER OF DOMESTIC, INTERNATIONAL AIR ROUTES

Beijing JINGJI CANKAO [ECONOMIC REFERENCE] in Chinese 27 Mar 85 p 7

[Article by Chen Ming [7115 6900]: "China Plans To Open Eight Domestic and International Air Routes in 1985"]

[Text] The Chinese Civil Aviation General Administration will open seven new domestic air routes and one international air route between China and Singapore. By the end of July, the number of domestic and international air routes will have been increased to 183 and 24 respectively.

On 16 March, the Chinese Civil Aviation General Administration opened the new Shanghai-Lianyungang-Beijing air route. From now on, there will be a scheduled flight every Tuesday and Saturday on the An-24 passenger plane.

As of 22 March, the Chinese Civil Aviation General Administration will have a weekly scheduled flight every Friday on the Trident passenger jet plane from Taiyuan, the provincial capital of Shanxi, to Guangzhou.

On 1 April, the Chinese Civil Aviation General Administration will inaugurate two scheduled flights every Monday and Wednesday on the Shenyang-Dandong-Dalian-Beijing route.

On 15 April, the Chinese Civil Aviation General Administration will inaugurate a scheduled flight on the Beijing-Qinhuangdao-Shijiazhuang-Nanjing-Shanghai route. There will be a flight from Beijing to Shanghai every Monday and a flight from Shanghai to Beijing the next day.

On 16 April, the Civil Aviation General Administration will inaugurate a scheduled flight every Thursday on the Shenyang-Qinhuangdao-Beijing-Shijiazhuang route.

On 1 July, the Civil Aviation General Administration will open two air routes in Heilongjiang Province. One route goes from Harbin to Jiamusi while the other goes from Harbin to Heihe on the Sino-Soviet border. There will be a scheduled flight every Monday, Wednesday and Friday.

On 15 June, the Civil Aviation General Administration will inaugurate a direct flight to Singapore to enable large numbers of overseas Chinese to visit their relatives and friends and to promote the development of the tourist trade.

Director General Shen Tu /3088 0956/ of the Civil Aviation General Administration recently said that the adoption of the open door policy, the policy to invigorate the domestic economy, the continuing expansion of international economic, technical and cultural cooperation and exchange, and the improvement in the people's livelihood have all necessitated the rapid development of civil aviation and that air transportation has assumed increasing importance at a time when speed and efficiency are of the essence. "The air transportation network throughout the nation," he said, "must be further expanded. By the year 2000, there must be scheduled flights between the key cities, new cities, tourist cities and other medium-sized and small cities."

He further pointed out the need to expand the international aviation network so that all the countries having close relations with China and all the regions of political and economic significance will be served by scheduled flights.

9621

CSO: 4006/636

TRANSPORTATION

REPORT ON TWO DALIAN HARBOR PROJECTS

Beijing ZHONGGUO JIAOTONG BAO in Chinese 30 Mar 85 p 2

[Article by Zhang Chengyuan [1728 2052 3293]: "Successful Economic Results in Implementing Investment Contracts; Zhang Chengyuan, Deputy Commander in Chief, Dalian Harbor Construction Command Headquarters, Reports"]

[Text] The Ministry of Communications has chosen Dalian's two harbor projects (expansion of the Xiang Lu Dui port and construction of Heshang Dao coal port) as pilot projects for carrying out investment contracts and opening up bids. Remarkable results were obtained.

The estimated total investment for the Xiang Lu Dui port expansion project was 127.69 million yuan. It was required that the project be completed and put into operation by the end of this year. In August 1983 after we signed a project estimate contract and an investment agreement with the Ministry, we adopted various methods and divided up the project among construction units. We adopted measures to quickly put the investment agreement into effect. For example, we implemented the system of economic responsibility; ensured the soundness of estimates and budgets; relied on the local government to do good relocation work; carried out work in a rational manner and ensured the length of the work period; offered project bonuses in advance; and improved project supervision and inspection, etc.

At the end of last year completed investments amounted to 92.55 million yuan and we economized on 17 million yuan of investments. The proportion of superior goods reached 91.7 percent. The entire project was three months ahead of schedule and was completed and put into operation in October of this year.

The construction of the Heshang Dao coal port project is a key state project. Last year we selected two projects to carry out bidding experiments. Because we made thorough preparations before inviting bidding, we decided on the lowest bid in a realistic manner. Furthermore, we combined central and local authorities to form a committee to appraise bids. They strove to decide on fair and rational bids. In total 14 units came forward to enter bids. The result was that the lowest bids on the two projects saved 100,000 and 2.01 million yuan, respectively.

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CSO: 4006/663

TRANSPORTATION

PRC DRAWS UP AIRLINE SAFETY REGULATIONS

HK160618 Beijing CHINA DAILY in English 16 Jun 85 p 1

[Article by staff reporter Liang Weiya]

[Text] New safety regulations to cover China's airlines have been drawn up to improve standards and bring the increasing number of new companies under control.

The regulations are aimed at preventing under-trained people from setting up passenger and cargo-carrying air companies.

Liu Gongshi, an official of the Civil Aviation Administration of China (CAAC), told CHINA DAILY yesterday that local people in Beijing's suburban county of Changping had a helicopter to fly tourists around the Ming Tomb reservoir. But the flights were stopped for safety reasons.

So far China has four registered independent airlines: Xingjian Aerial Transportation Company, Xiamen Aerial Transportation Company, Ocean Helicopter Company and the Capital Helicopter Company. But more than 30 other local aviation companies have sprung up recently without CAAC approval, Liu said, which could present safety problems.

The regulations, issued by the State Council, demand that all enterprises dealing with air transport or civil aviation be approved and registered by CAAC.

Companies that fly international routes must be examined by CAAC and approved by the State Council; those flying domestic routes must be approved by CAAC, and those flying locally--only within a province, an autonomous region or a major municipality like Beijing, Tianjin and Shanghai--must be approved by the respective government and registered at CAAC, according to the regulations. Applications will be handled within 30 days of receipt by CAAC.

Aviation companies must also insure passenger and cargo transport carriers with the China People's Insurance Company.

CSO: 4020/265

TRANSPORTATION

STATE TO PROVIDE AID FOR RURAL ROAD CONSTRUCTION

OW201021 Beijing XINHUA in English 0753 GMT 20 Jun 85

[Text] Zhengzhou, June 20 (XINHUA)--The government is to provide two billion yuan worth of aid over the next two years to help poor areas build rural roads, a national conference here was told.

The areas are mainly in northeast, northwest and central China, which have poor transport facilities.

The aid will be in the form of grain, cotton and cloth, to compensate the areas for production losses incurred by their road-building programs.

The northeast will get 500 million yuan worth of aid for new roads, which will enable officials to transport out a backlog of corn.

According to statistics from 22 provinces and autonomous regions, the state provided 1.54 billion yuan worth of grain, cotton and cloth for road-building efforts over the past year, the annual meeting of the National Society for Road Engineering was told.

The current policy of encouraging commodity production has exerted increasing pressure on road transport, especially in remote mountainous areas.

According to the meeting, there were 620,000 kilometers of roads in China's rural areas at the end of last year. Most are narrow mud roads, and many are overloaded to the extent of destruction.

Statistics for 1984 show that rural road freight volume was nearly two billion tons and passenger volume more than 2.5 billion. Large amounts of agricultural and sideline produce are waiting to be shipped out.

Since the beginning of last year, a road-building drive has been launched throughout rural China. At present, 12,400 kilometers of new highways are under construction.

In Shaanxi Province, nearly one million peasants turned out earlier this year to build roads in the secluded but resourceful mountain range of Qinling and Bashan.

Southwest China's Yunnan Province mobilized more than 400,000 peasants to help build roads in the slack farming season last winter and spring. The province has already completed 13 new rural roads, totalling 243 kilometers.

In Hunan Province, some four million peasants are now engaged in highway construction. Since spring of this year, they have upgraded 8,700 kilometers of roads.

CSO: 4020/265

TRANSPORTATION

MORE PROVINCIAL RAILWAY LINES PLANNED

OW181123 Beijing XINHUA in English 1110 GMT 18 Jun 85

[Text] Qinhuangdao, June 18 (XINHUA)--Henan Province is building a 150-kilometer local railway to expand coal transport, said a national meeting just ended here.

The province will spend 100 million yuan on the railway from Zhoukou in Henan to Fuyang in Anhui Province, Henan delegates told the local railway association meeting. It will connect with the main north-south Beijing-Guangzhou and Tianjin-Pukou lines.

Work will begin soon on a 190-kilometer railway to ship 10 million tons of coal annually out of Shanxi Province, China's biggest coal producer. The line will run from Yangquan in Shanxi to Shexian County in Hebei Province.

China has 3,800 kilometers of locally-run railways in 10 areas, including Henan, Hebei, Liaoning, Tianjin, Sichuan, Guangdong and Guangxi. Henan has 45 percent, with 15 lines totalling 1,700 kilometers.

Local railways carried 28.6 million tons of freight last year, up 5.4 percent over 1983. Profits were 35 million yuan, up 25 percent.

Most of the country's 52,000 kilometers of railway lines are built and managed by the Ministry of Railways, but local governments are being encouraged to pool funds and build their own to speed up railway construction--a top priority in economic development.

Delegates suggested raising foreign capital to step up local railway construction by bank loans, joint ventures or share issues.

Local railways usually cost half or one-third less than state ones. Investment can be recovered in just five years. Freight charges are 50 percent lower than for road transport.

CSO: 4020/265

TRANSPORTATION

BRIEFS

FLIGHT SCHEDULES AUGMENTED--The Chinese Civil Aviation General Administration put into force a new flight schedule on 16 March to increase its volume of international and domestic passenger traffic. The number of weekly flights has been increased from 671 at this time last year to the present 886, an increase of 215 flights. With the addition of a number of advanced passenger planes such as the Boeing 747, Boeing 737 and airbuses and an increase in the number of scheduled flights, there will be a 27 percent increase in the volume of passenger traffic compared to last year. Civilian planes carried 5.54 million passengers and 150,000 tons of freight and mail last year, netting a profit of 317 million yuan. An increase in the volume of passengers and freight as well as in the amount of profit is expected this year. Following bilateral talks between China and Japan, the decision was made to increase by 100 percent the volume of passenger traffic between the two countries between 4 April and 31 October this year. The Chinese Civil Aviation General Administration will have 25 weekly scheduled flights, an increase of 9 scheduled flights compared to the same period last year. The flight schedule between China and the United States will be increased from 3 weekly Boeing 747 flights to 4 during the winter season. The flight schedule between China and France, from Beijing to Paris via al-Shariqah will be increased from one to two during the winter. The volume of air operation between Chinese cities and Hong Kong will be increased by 31 percent with 64 weekly scheduled flights. Domestically, the Chinese Civil Aviation General Administration will open new routes, increasing the number of scheduled flights and chartered flights as well as the volume of freight. [Text] [Beijing JINGJI CANKAO [ECONOMIC REFERENCE] in Chinese 27 Mar 85 p 17 9621

FLIGHTS TO HONG KONG INCREASING--As of 1 April 1985, the Chinese Civil Aviation General Administration will put large aircraft into service between Chinese cities and Hong Kong and add to the number of scheduled flights so as to increase passenger traffic by 31 percent compared to the same period last year, in response to the rapid development of economic and technical cooperation and the tourist trade. During the peak tourist season in spring, summer and autumn this year, the number of scheduled flights from the six cities of Beijing, Shanghai, Guangzhou, Hangzhou, Kunming and Tianjin to Hong Kong will be increased from 55 last year to 64 this year. The number of flights from Shanghai will be increased by 40 percent to register the highest rate of increase. In addition to the Boeing 707, the DC-9 Super 80, and the Trident passenger planes, the Civil Aviation General Administration will put

the Boeing 747 jumbo jet into service along these routes as of 1 April and the wide-bodied A-310 passenger planes capable of carrying 280 passengers recently purchased from the Airbus Co in Europe as of August. In addition, the Civil Aviation General Administration will inaugurate tourist charter plane operations from Chengdu, Dalian and Xi'an to Hong Kong for the convenience of foreign tourists and compatriots from Hong Kong and Macao who wish to visit China as tourists. At present, chartered flights are available from Nanjing, Fuzhou, Xiamen and Guilin to Hong Kong, including two scheduled flights per week from Nanjing and Fuzhou to Hong Kong. /Text/ /Beijing JINGJI CANKAO /ECONOMIC REFERENCE/ in Chinese 27 Mar 85 p 7/ 9621

MINISTER URGES TRANSPORTATION CONSTRUCTION--At a meeting on national communications work now in progress in Beijing, Communications Minister Qian Yongchang pointed out that, aside from the need to strengthen administrative control, the communication departments at various levels must place major emphasis on the construction of basic communication facilities, that is, the repair and construction of roads, the building of bridges, and flood control as a means to promote the development of the various forms of transportation. According to Qian Yongchang, 1985 is a crucial year marking the transition of the "Sixth 5-Year Plan" to the "Seventh 5-Year Plan." During this year, attention should be directed toward several projects in the construction of basic communication facilities, namely, the construction and commissioning of 33 deep-water berths along the coastal ports, the completion of the facilities urgently needed by the state for the loading and transportation of corn at Ganjingzi in Dalian, the rebuilding of the 3 wharves for the transportation of crude oil at Dalian, Qingdao and Nanjing, the construction of 20,000 km of highways, the rebuilding and widening of 80,000 km of highways, the paving with asphalt and residual oil of the 1,900-km Qinghai-Xizang Highway within the year, the construction of 72 large highway bridges at Han Jiang, Huanghe, Weihe, Yongdinghe, Hongshuihe and Xiaoqinghe, the addition of 11,000 long-distance passenger motor vehicles, the completion of the first phase of the construction work for the dredging of the Si Jiang and the reopening of inland rivers to traffic by overhauling the 10 sluice gates which pose an impediment to navigation. Qian Yongchang expressed the opinion that completion of these projects would help greatly in the further development of communication and transportation during the period of the Seventh 5-Year Plan. /Text/ /Beijing JINGJI CANKAO /ECONOMIC REFERENCE/ in Chinese 28 Mar 85 p 17/ 9621

XIZANG ROAD IMPROVEMENTS--Lhasa, 11 Jun (XINHUA)--Renovation work on the highway from Konggar Airport, the main gateway to Tibet for tourists, to Lhasa was recently completed. The 86 km road linking Konggar, the only public airport in Tibet, and the capital of the Tibet Autonomous Region was widened and asphalted in work that started at the end of 1983. New bridges and tunnels were built. The highway was formerly paved with sand and stone. The dust and bumps made the 5- or 6-hour journey unpleasant and exhausting. The new road has shortened the journey to 1 hour's drive. [Text] [Beijing XINHUA in English 0640 GMT 11 Jun 85 OW]

CSO: 4020/265

16 July 1985

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

GUOJI SHANGBAO VIEWS HUNGARY'S ECONOMIC REFORMS

HK060651 Beijing GUOJI SHANGBAO in Chinese 16 May 85

[Article by Liao Jili [1675 1323 4539[: "New Development of Hungary's Economic Management System"--passages within slantlines in boldface]

[Text] Editor's note: The author of this article is an adviser to the State Restructuring of the Economic System Commission who has recently led a delegation to Hungary to study the situation of the structural reform there. After his return, he wrote this article at the request of our newspaper. [End editor's note]

At present, Hungary's period of economic difficult is over and it has restored and consolidated its foreign economic balance. It has put the question of accelerating the speed of economic development in an important position. In light of this, it is also necessary to have new development in the economic management system. According to Hungarian comrades, the orientation of further development can be outlined in the following three aspects:

- //1. Raise the efficiency of government work//
2. Increase the decisionmaking power of enterprises and create a good environment for enterprises to unfold full and equal competition;
3. Reform state management organs and the enterprise organization system.//

Of course, further reform of the economic management system cannot be realized within a short time. For some reforms, it is necessary to prepare for corresponding conditions, for example, the implementation of the personal income tax system. For other reforms, it is necessary to carry out experiments in order to accumulate experience, for example, the establishment of the specialized banking system. Therefore, reforms have to be carried out step by step and in different stages.

This year, the reform of the economic management system in Hungary chiefly involves the price management system, the wage system, the tax system, the banking system, and the enterprise organization system. In observing these reformative measures, we must on the one hand pay attention to their concrete stipulations, but what is more important is to pay attention to the orientation and the train of thought of the reform and the coordination between various reforms to form a whole.

//The price management system// They continue to gradually relax restrictions on prices, moving from official prices to free prices, so that more prices can reflect the relations between value, supply, and demand and their changes and can meet the demands of the operation of enterprises. At the same time, however, it is also necessary to have a strict supervision and management system. From 1 January 1985, the "Law Prohibiting Improper Economic Activities" has been implemented, which contains explicit stipulations prohibiting various improper prices. All income from improper prices is to be returned to persons who have suffered losses or is to be confiscated for the market intervention fund, and a namelist of the responsible persons of the enterprise which has violated the law is to be made public in order to effectively protect the interests of the consumers and to keep the range of price rises basically within the state plan. Hungary holds that the essential question which affects the macroeconomy and social stability does not lie in the range of price rises but in whether the wages of workers and staff members and the actual income of the residents will be adjusted in accordance with price rises.

//The wage system// They hold that there are limitations in directly linking the increase in wages with a certain economic target. In 1985, they have conducted a relatively big reform in the wage system, that is, the increase in wages is linked only with an enterprise's capability in paying taxes. This is to chiefly solve three problems:

1. To help enterprises which are properly run and which have greater profits obtain a relatively greater income;
2. To link the forms of wages in enterprises with the influence of prices so that enterprises which have difficulty obtaining profits by raising prices can have the same opportunity to increase their income;
3. To create conditions for the gradual transition to the implementation of a personal income tax system. For this purpose, Hungary has implemented three regulation systems.

The first is the "wage level regulation system," that is, an enterprise will pay progressive tax according to the annual wages given to the workers and staff members, no matter whether or not there is any increase over the previous year.

The second is the "wage increase regulation system," that is, paying tax in accordance with the increase of wages. This method was also implemented in the past but the tax rate dropped.

The third is the "central wage regulation system." Enterprises which implement this form do not have to pay tax for income increased within a certain range, but have to pay income progressive tax if the line for tax exemption is exceeded. A new feature in this year's wage system is that under certain conditions, enterprises can select a form which will benefit their operations.

//The tax system// In 1985, Hungary has adopted a new way of levying taxes. This new way reflects greater differences so that properly-run enterprises can retain more funds. For example, taxes on resources have been increased, the profit tax has been reduced, taxes have been increased in accordance with wage increases, and so on. These are conducive to the development of profitable enterprises. After paying taxes for urban and rural development and for profits, the remaining part of the profits and all the depreciation funds of an enterprise will form the benefit fund of the enterprise, which will not be further divided up as the development fund and the bonus fund and but be used by the enterprise all in one package. After the enterprise benefit fund is formed, tax will be levied according to different uses. They include: The wage tax, a new category of tax which is paid at 10 percent of the enterprise's total wage fund; the assets tax, which is paid at 3 percent of the net value of the enterprise's fixed assets and its working fund; the accumulation fund, which is paid at 18 percent of the investment; and the income regulation tax, which is paid by the enterprise to the state in three different forms (see the wage system).

//The banking system// It must be conducive to the rational flow and the more effective utilization of the funds of enterprises. Beginning from this year, the functions of issuing banks and credit banks have been separated in Hungary's state banks. At the same time, the number of banks and their range of business have been increased so that enterprises can have more choice. This has created a better condition for the development of enterprises. This year, enterprises will be encouraged to make more investment in other enterprises. Enterprises can provide short-term commercial loans and advance funds for each other and banks can be paid to collect the debts from debtors.

//The enterprise organization system// The new measures have delegated some power in financial budgeting and the recruiting of enterprise leaders to enterprises. This is conducive to resolving contradictions caused by enterprise managers concurrently taking up "two posts" (that is, "representative of the state" and "representative of the collective of the enterprise"). Enterprises will depend more on the collective in leadership work. According to the newly-revised enterprise law, there are chiefly three forms of leadership in enterprises. One is that responsible departments continue to exercise management. This is practiced in basic facilities and in enterprises specially designated by the Council of Ministers, including those of communications, power stations, coal mines, war industry, and so on. Leaders of these enterprises are appointed by a higher level. Another is leadership by the enterprise committee, which is the chief form. This committee is the policy-making organ of an enterprise. Its authority includes making decisions on the enterprise's planning, income, distribution, recruitment of managers, organization, development, and other aspects. The enterprise committee is composed of representatives of enterprise leaders and representatives elected by the workers and staff members. The third is leadership by the congress of workers and staff members. Enterprises practicing this form of leadership are usually relatively small. The congress of workers and staff members is the policy-making organ of the enterprise. In line with the new forms of enterprise leadership, the material interests system for enterprise leaders has also made

new stipulations. The bonus for leaders is determined according to the new standards and the situation of the operation of the enterprise. These new stipulations have stopped the practice of state administrative organs directly managing enterprises by means of the leaders interests system. The amount of bonus for enterprise leaders is determined by the amount of their work and contribution.

I have briefly introduced above the new development of Hungary's economic management system. Hungary has a comprehensive design and long-term strategy for the reform of its economic management system. We can gain much useful enlightenment from Hungary's experience in reform.

CSO: 4006/677

16 July 1985

TERMINOLOGY

EXPLANATION OF TERMS USED IN PRC PATENT LAW

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 85 p 57

[Article]

[Text] Patentable Processes and Products. Two kinds of inventions are patentable: products and technical processes of production; the former are called patentable products and the latter are called patentable processes. Patentable utility models are always products, never processes. Patentable design refers to the outer design used for industrial products, as specified in the patent documents.

Patent License Fee. The patent owner is under obligation to use himself or permit someone else to use his patent. If he permits someone else to use his patent, he transfers the patent use right. Patent use rights are generally transferred against remuneration. The fee paid by the assignee to the patent owner is called the patent license fee. The amount of the patent license fee is subject to negotiations between the two parties concerned and is specified in the signed patent license contract.

According to the provisions of the patent law, a patent application must be published within 18 months of the date of application. Although no patent right is conferred by the mere publication of a patent application, the applicant is entitled to claim an appropriate fee from any entity or individual that uses the invention in question.

Patent Marking. This refers to the marking of the patented product or its packaging by the patent owner or his assignee during the validity of the patent, whereby he indicates that the product has been granted a Chinese patent. The patent marking signifies that the marked product is receiving patent protection; it is a right of the patent owner or his assignee to affix the patent marking.

Patent Number. The serial number of the patent certificate is the patent number. The patent number may also be shown together with the patent marking on the product or its packing. The patent number facilitates finding the description of any patent being searched for to ascertain the position of the legal rights involved.

Patent Documents. This refers to the various documents which the law requires to be submitted by the applicant or which must be issued by the patent office in the course of patent application or patent examination procedures. The following are the major patent documents: the application for exclusive use of an invention or utility model, the description of the patent and its abstract, and the patent claim; the description, if necessary, to be accompanied by drawings; applications for patent of designs shall be accompanied by drawings or photographs of the designs. The patent certificate, which is issued by the patent office to the applicant after the bureau's decision to grant the patent, the published patent description and the patent gazette are all patent documents that have legal effect.

Patent Agency. This refers to an organ that acts on behalf of an applicant for a patent in patent transactions at the patent office. According to the provisions of the patent law, all foreigners, foreign enterprises, or other foreign organizations that have no regular residence or place of business in China and who intend to transact patent matters in China, must entrust their representation to a patent agency. Chinese entities or individuals who intend to transact patent matters within China may do so on their own, but may also entrust a patent agency to act on their behalf. The State Council shall designate patent agencies authorized to act on behalf of foreign interests. Patent agencies shall in general be staffed by patent lawyers or personnel specially trained to act as agents in patent matters.

Acts of the patent agency on behalf of the party the agency represents have legal effect. An applicant who entrusts a patent agency with his representation in patent matters must draw up a power of attorney in prescribed form.

Public Announcement. Public notification by the patent office in the course of patent application examination or of handling other patent matters of important items, such as its decisions or changes in the rights of applicants or patentees, are called public announcements. According to the provisions of the patent law, the main items that have to be published are: the transfer of the right to apply for a patent and of the patent right; any decision of the patent office of its intention to grant a patent right after substantial examination of the application for patent of an invention; patent applications for utility models and designs found in conformity with the provisions of the patent law on their initial examination; the decision to grant a patent right; termination of a patent right; declaration of invalidity of a patent; decisions of compulsory license to exploit a patent, and final decisions of the patent reexamination board.

Date of Application. This refers to the date on which the patent office receives an application in proper form as prescribed by law. If the application is sent by mail, the date of mailing indicated by the postmark shall be the date of filing. If the submitted documents are incomplete, the patent office will not accept the application, which means that no date of application has been established.

According to the provisions of the patent law, the principle of prior application shall apply, that is, if two or more applicants file application

for patent for an identical invention-creation, the patent right shall be granted to the applicant whose application was filed first. The date of application is therefore the criterion that decides whether an invention-creation has novelty and creativity. If the applicant for a patent enjoys the right of priority, the date of his priority shall be regarded as the date of filing his application.

The Request. This refers to the document in which the applicant for a patent requests the patent office to grant a patent. In the request the applicant must state clearly the name for his invention, utility model or design, the name of the inventor or designer, the name or appellation and the address of the applicant and other relevant items as prescribed by law. The patent office will determine a uniform request form.

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CSO: 4006/523

HONG KONG MEDIA ON CHINA

YAO YILIN, GU MU ON PROBLEMS IN SPECIAL ZONES

HK040131 Hong Kong MING PAO in Chinese 4 Jun 85 p 6

["Special Dispatch from Beijing": "Yao Yilin Points out During Inspection That Shenzhen Construction Cannot Depend on a Long Period of State Blood Transfusions"]

[Excerpt] Capital for the construction of the Shenzhen Special Economic Zone comes mainly from the state and has been maintained by a long period of "blood transfusions" from the state.

According to a report in SHEKOU TONGXUN [SHEKOU NEWSLETTER]: When inspecting the Shekou industrial zone on 25 April, Vice Premier Yao Yilin had a chat with Yuan Geng. Yao Yilin pointed out that the development of the special zone's economy cannot simply depend on a long period of "blood transfusions" from the state; viewing the current situation, the "needle" should be decisively removed.

Yuan Geng said: The "needle" cannot be removed all at once. If it is, the life of the special zones "will be in danger."

Yao Yilin asked: In that case, what do you think is the best thing to do?

Yuan Geng replied: The transfusion can be reduced from 100 cc to 50 cc and then gradually reduced from there, to help the revival of the organizational "functions" of their bodies.

According to another report, State Counsellor Gu Mu recently visited the Shantou Special Economic Zone. He pointed out there that the 4 special economic zones and the 14 open coastal cities cannot all take the same form in opening up to the world; they should form their own characteristics in light of their historical conditions and their present foundation in communications, transport, agriculture, and industry.

Gu Mu stressed that the special economic zones should no longer adopt the form of processing zones, but instead should be turned into comprehensively developed economic special zones. Although construction in these zones is still being probed, it should be realized that China's special economic zones do not follow precisely the same path as special zones and processing zones in other parts of the world. National construction has its socialist road

with its own characteristics, and the special economic zones should also have their own characteristics.

On the guidelines for developing the Shantou Special Economic Zone, Gu Mu said: Shantou Special Economic Zone must stress economic results in its work and need not be compared in investment and growth with Shenzhen and Zhuhai. This is because its conditions are different. Only thus can we make a start on the country's backwardness in economics, science, and technology. Shantou should bring into play its superior features in not being exactly the same as the other special zones. This should include the development of fruit, vegetables, agriculture, stock-rearing, and so on. In this way economic results will very quickly become apparent without spending much money.

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16 July 1985

HONG KONG MEDIA ON CHINA

HONG KONG COMPANY SIGNS AGREEMENT ON 1ST JOINT BANK WITH PRC

HK200433 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 20 Jun 85 p 1

[Article by Olivia Sin]

[Excerpt] Panin Holdings Ltd, a publicly-listed Hong Kong Company, will set up the first joint venture bank in China.

Panin yesterday announced it signed an agreement on Tuesday with three Chinese partners to establish the Xiamen International Bank in the special economic zone in Fujian.

The new bank will have an authorised capital of \$800 million and an initial paid-up capital of \$420 million.

Panin has a 60 percent stake, or \$252 million, through injection of \$72 million in cash and two of its subsidiaries.

The subsidiaries are Panin International Finance Corp, Ltd, a registered deposit-taking company in Hong Kong, and Banco Luso International SARL of Macau.

With combined net assets of \$180 million, the two will become wholly-owned subsidiaries of Xiamen International.

A senior Fujian official had earlier in the month said the first joint venture bank would be set up in Xiamen with "a consortium of overseas Chinese."

He declined to identify the consortium, but said it had interests in Southeast Asia.

Asked if Panin has interests in the region, a spokeswoman for the company only said the group had a "diversified shareholding."

According to Fujian officials, overseas Chinese have played an important role in the development of Xiamen, one of the four special economic zones set up by China to attract foreign funds and technology.

Panin was incorporated in 1980 and went public two years later.

It acts as a holding company for certain interests in the "Panin family of companies" controlled by the family of Mr George M.K. Lee and their associates.

The main activities of the group are investment holding, provision of financial services, banking, insurance and trading.

The spokeswoman said Xiamen International would begin operation before the end of the year.

It will initially conduct commercial and investment banking activities in currencies other than Renminbi.

Panin's partners are the Industrial and Commercial Bank of China, which holds a 15 percent interest, Fujian Investment and Enterprise Corp, 15 percent, and the Construction and Development Corp of Xiamen, 10 percent.

The setting up of the new bank is conditional upon the granting of a bank licence by China and also the approval of Panin's shareholders.

Panin will hold an extraordinary general meeting on July 5.

The spokeswoman said the bank expected to receive its licence in about two months.

Xiamen International will have 10 directors, with each side appointing five.

The chairman will be appointed by the Chinese side while the chairmen of the two subsidiaries, by Panin.

CSO: 4020/264

HONG KONG ECONOMIC TRENDS

HONG KONG TO BE STRONGHOLD FOR TRADING WITH CHINA'S INLAND

Guangzhou GANG AO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] in Chinese No 3, 25 Mar 85 pp 17-19

[Article by Yang Xin [2799 2946]: "Hong Kong Foreign Banks Energetically Developing Business in China"]

[Text] Foreign banks have occupied a position of importance in the Hong Kong international financial center, and the world-renowned foreign banks in particular are placing a daily-intensifying emphasis on the use of Hong Kong for development of banking business in China. To explore the distinctive features of their banking business is considered beneficial to our reform and opening up the door of the financial industry and to our better utilization of foreign capital for servicing China's economic modernization and construction.

I. Utilization of Hong Kong for Laying a Solid Foundation

The utilization of Hong Kong by foreign banks for development of their banking business in China finds manifestation, first and foremost, in establishment or consolidation in Hong Kong of branch offices and in laying a solid business foundation.

From the end of 1969 to the present time, the number of licensed foreign banks in Hong Kong increased from 40 to 110; in the same period of time, the number of representative offices of foreign banks in Hong Kong also jumped from 21 to 110. Of the companies accepting deposits (financial companies) in Hong Kong, more than 200 are affiliated institutions or jointly-run institutions established by foreign banks, foreign commercial banks, or foreign investment corporations, representing over 50 percent of the total number of companies accepting deposits. Since May 1981, when the British authorities in Hong Kong announced another relaxation of requirements for issuance of bank licenses, the financial capital of foreign countries has flowed into Hong Kong through this channel at an accelerated tempo for establishment of more financial institutions of all types and for development of business, and the intensification of Hong Kong's financial ties with the interior of China has become a new trend of the financial market. It was reported that in the last 2 years licenses were issued to 14 foreign banks in Hong Kong, which used Hong Kong as a stronghold for developing business in the neighboring areas, particularly in China's inland areas.

In recent years, Japanese banks have played a most prominent role in establishment of branches in Hong Kong. Of the 14 newly-established branches of foreign banks, 10 are Japanese banks. The First Nippon Kangyo Bank, the world's largest, surpassing Citibank, N.A (known in the inland areas as the First National City Bank) and the Bank of America in assets last year, has recently established a branch in Hong Kong for the key purpose of enhancing its business in China's market.

American banks have also placed a specific emphasis on the use of Hong Kong as a stronghold for doing business with China. Besides making an energetic adjustment and consolidation of their branches in Hong Kong, they have also established new branches in accordance with their business needs in China. Citibank, in addition to its China Department established a long time ago, sent out a larger number of its business banking department personnel early this year to take charge of the work of ferreting out business opportunities in South China's special economic zones. As early as 2 years ago, the American Chase Manhattan Bank had moved its General Manager's Office of the China Business Department from New York to Hong Kong, in order to strengthen ties between its Hong Kong office and the Chinese banking institutions in Hong Kong as well as relations between the Chase Bank clients trading with China and the inland areas of China. While streamlining its Hong Kong operations, the Hong Kong branch of the Bank of America focused its efforts on development of harmonious trade between Hong Kong and China's inland areas and on China-related investments and loans.

The Charter Bank and the Shanghai-Hongkong Banking Corporation, the two earliest British banks which had established branches in Hong Kong, will certainly not abandon their special conditions of convenience. Also bringing capital to Hong Kong in recent years were the French State Agricultural Credit Bank, one of the three largest banks in France, and the Italian International Bank, the largest bank in Italy, and other banks.

It is by purchasing the registered banks in Hong Kong or by entering into joint ventures with other banks in Hong Kong that the foreign banks have evaded the restrictions on establishment of branch banks and built up their business in China. Estimates indicate that of the more than 30 registered banks in Hong Kong, over 50 percent are owned by shareholding foreign banks. The Zhong-Zhi-Xing Financial Corporation established in 1980 is a joint venture consisting of the Bank of China, the First National Bank of Chicago, and the Industrial Bank of Japan. Its primary purpose is to arrange consortium loans for China.

II. Zeroing In on Opportunities, Exploring and Developing Business

The foreign banks in Hong Kong have valued Hong Kong so highly because they are well aware of the important relationship between utilization of Hong Kong and development of business in China. The pattern of their business in China can be summed up as follows: providing trade with accommodations; indirect investments (such as loans by banking consortia, loans for businessmen investing in China), direct investments; and "software services."

A. Trade Accommodations

The trade accommodations of foreign banks in Hong Kong possess two distinctive features: first, the magnitude of accommodations is huge; second, there is a trend of simplifying the channels of accommodation.

Besides providing general commodity trade with conventional credits and accommodations service, the Hong Kong foreign banks possessing solid and abundant capital have brought their superiority into full play, by focusing on special accommodations services for mass commodity trade arranged and planned in Hong Kong. This is because a mass commodity trade loan involves a larger amount of funds than an ordinary bill-of-exchange loan, and because it requires the participation of experts in a special and penetrating study of commodities. By doing so, the banks may get high remuneration for high-quality service and make big profits out of mass commodity trade.

A foreign bank which in 1983 began accelerating its loans to China's inland trade achieved a 6-fold increase in business volume in December of that year, as compared with January. Later, the bank concluded with China a commodity loan for metal products in the amount of 130 million yuan. The Oriental Bank of France has recently established a new commodity trade accommodations department, which orients its business to the principal goal of servicing exchange-of-commodity trade or compensatory trade, between China and other countries (or regions) through Hong Kong, commodity trade between China's inland areas and Hong Kong, or trade between China's inland areas and other countries (regions) without going through Hong Kong. This foreign bank, specializing in arranging accommodations for mass commodity trade, has established similar special institutions in London, Paris, Amsterdam, Geneva, and other cities.

The accommodations of foreign banks for China's foreign trade cover such commodities as cotton, petroleum, grains, and mineral products, which are of vast quantities, and which consequently involve huge accommodations.

Since implementation in the Chinese economy of the open-door policy, the Hong Kong international trade center has occupied a position of greater importance, which has brought about a tremendous increase in bank drafts for trade accommodations. Nevertheless, after the Korean War of 1952, the foreign banks established in Hong Kong could not set up direct proxy banking relations with Bank of China's domestic branches, and they had to go through 13 Chinese banking agencies in Hong Kong for endorsement of letters of credit or for implementation of bank business. This tedious channel of trade accommodations was extremely inconsistent with the new situation of trade developments. As a result of the mutual efforts of many Hong Kong foreign banks and the Bank of China, an agreement on proxy banks was officially signed in December last year, which stipulated that the Hanover Bank and the First National Bank of Chicago, the Industrial Bank and the Sanwa Bank of Japan, the Bai Li Da [4101 0448 6671] Bank of France, the Royal Bank of Canada, the International Commercial Trust of the Middle East, and a Italian bank may establish direct proxy bank relations with Bank of China. When delivering letters of credit or

trade accommodation drafts, these banks may send them to Bank of China domestic branches that are listed in the agreement. There are many other foreign banks in Hong Kong that intend to become Bank of China proxy banks.

B. Indirect Investment and Direct Investment

Direct investment and indirect investment of the Hong Kong foreign banks in China not only carry adequate confidence and immense magnitude of investment. They also possess the characteristics of contemporary capital export by international banking in the integration of commodity export, capital export, and technology export, and in intensifying export of capital and technology.

The indirect investment of immense magnitude derives largely from banking consortia. The economic development and technological reform of old enterprises, particularly the large-scale priority construction projects of the state, now going on in many areas of China, are in need of huge foreign capital and advanced technology. In response to this need, many foreign banks in Hong Kong have seized the opportunity by making enthusiastic investments. Since last year, the total amount of loans China received from consortia of foreign banks in Hong Kong (or of banks composed of Chinese and foreign capital) has been impressive. Among the relatively huge loans are: a \$600 million loan arranged by a banking consortium headed by Credit Lyonnais of France for the prospecting and exploiting project of the Pingshuo coal mine in Shanxi Province; a \$64 million loan arranged by Leith International for a comprehensive project of seawater wharves and commercial-residential buildings in Zhuhai City; a \$76.6 million loan arranged by the French banks for the Guangzhou South China Sea Petroleum Center; a HK\$160 million loan arranged by the Shanghai-Hongkong Banking Corp and other banks for the Canton International Science and Technology Trade Fair and Exchange Center; a \$30 million loan raised by the Guo An [0948 1344] Bank of the United States for a Zhuhai beer brewery and a \$25 million loan arranged by the same bank for a Zhuhai beer bottling plant.

Recently, when China and Hong Kong were making preparations for the joint-venture construction of a nuclear power plant at Daya Wan in Shenzhen, the British banks approved a huge export loan to a British exporting firm supplying equipment for the plant, and many major French banks headed by Credit Lyonnais of France also responded enthusiastically with the organizing of a consortium of export loan banks to assist the French Fa Ma Tong [3127 7456 6639] Corp in exporting to China technological equipment for the plant.

The investment in China of the Hong Kong Banque Nationale de Paris is a reflection of the peculiarities of the contemporary export of international financial capital. The bank not only provides accommodations for France's export of technology but also takes an active part in cooperative production in China. France possesses the advance technology for manufacturing of oil-drilling platforms, and so the bank brought this superiority into full play and seized the opportunity by providing a French corporation with a loan in 1983 to assist in export of technology to China for the construction of an offshore oil-drilling platform in Huangpu, Guangzhou. In addition, the bank also participated in cooperative production projects with China, which included: a contract signed with the Guangzhou Foods Industry Co, under which

the bank supplied equipment, technology, engineering and technical services for a brewery with a 50,000-ton annual output capacity and a wheat-brewing plant with an 8,000-ton annual output capacity, at a total value of over 111.8 million French francs for the entire project. The two contracting parties signed in July last year another contract for additional equipment at a total value of 10.3 million French francs. In March last year, the bank signed with the Guangzhou Building Construction Dept a consultant service contract, which provided a limestone mine in Guangdong Province with exploiting designs and surveying service. In 1983, the bank signed a contract with Guangzhou Shipbuilding Corp for cooperative development and establishment in Guangzhou of a company to take charge of construction, maintenance, service and repair of oil-drilling platforms.

C. "Software Service"

If trade accommodations and investments of foreign banks can be compared to a "hardware service," it is then permissible to say that trade and investment consultative and informative service provided by foreign banks is a "software service." To the banks themselves this type of service plays a role that cannot be ignored in lobbying for customers, promoting trade, and enhancing investment.

In Hong Kong, foreign banks are not only large in number, but they also possess the distinctive feature of being extensive and universal in areas of registration, owning rich and solid assets as well. They have established branches in many countries. Had their agencies and companies accepting deposits been also included, the foreign banks would then have had branches scattered in a vast majority of the countries of the five continents. Their broad and extensive relations constitute a well-developed information network. Moreover, as a result of the painstaking work of doing business under difficult circumstances, they have accumulated rich experience in banking operations and techniques. For this reason, the foreign banks, when doing business with China, are capable of making full use of their own superiority, of giving full play to their abilities, and making new achievements on a continuing basis.

The Hong Kong branch of the Chase Manhattan Bank of the United States has set up a "consultant service for China trade," which mainly provides customers with materials and data on trade with China, including channels and methods and major strategies of trading with China. The 500 largest transnational corporations in North America have also established ties with the bank and accepted its consulting services. Of the 500 corporations, 15 are long-term customers using the bank's consulting services for trading with China, and among them some are giant transnational corporations that enjoy the bank's assistance and have discovered the importance of China's market and are gradually marching into the East. When formulating its internal strategies, the bank puts out periodic publications containing the latest materials and data on China's trade, including investment opportunities and legal system changes, in order to fully motivate its branches in the various localities to explore and develop business in China and to meet the needs of major clients throughout the world. Meanwhile, the bank is currently charting a program of "educational" work to make the "educated" branch employees realize the

importance of training with China. Singled out first for "education" are branch employees of the bank in the United States, Canada, Japan, West Germany, and Britain, where the customers have adopted a more positive attitude toward trading with China.

Looking into the future of the Hong Kong foreign banks doing business in China, one sees that there will inevitably be growth in step with an intensification of trade and investment activities. Therefore, an issue of practical significance is the ways and means of utilizing Hong Kong to strengthen relations of cooperation on the basis of equality and mutual benefit, through utilization of international division of labor in a positive way, focusing attention on comparative strengths, keeping international trade channels open, improving the economic results of utilizing foreign capital, and accelerating China's modernization.

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