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# China Report

POLITICAL, SOCIOLOGICAL AND MILITARY AFFAIRS

PRC STATE COUNCIL BULLETIN,

No. 17, 10 August 1984

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10 January 1985

## CHINA REPORT

### POLITICAL, SOCIOLOGICAL AND MILITARY AFFAIRS

#### PRC STATE COUNCIL BULLETIN, No. 17, 10 AUGUST 1984

Beijing PRC STATE COUNCIL BULLETIN in Chinese No. 17, 10 Aug 1984

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EXPAND ECONOMIC EXCHANGES, PROMOTE COMMON PROSPERITY--ADDRESS BY PREMIER ZHAO ZIYANG TO THE ROYAL INSTITUTE ON INTERNATIONAL RELATIONS OF BELGIUM on 5 JUNE 1984

Beijing STATE COUNCIL BULLETIN in Chinese No 17, 10 Aug 84 pp 565-569

[Text] Mr Chairman,

Ladies and Gentlemen:

I am very pleased to have the opportunity to meet with you today. I would like to thank you, Mr Chairman, and all of you for your warm welcome. Brussels is the capital of the Kingdom of Belgium and is the headquarters of the EEC. China has friendly relations and is engaged in fruitful cooperation with the Kingdom of Belgium, the EEC, and various West European countries. Here, I wish to pay my respects to friends from different countries and circles who have made efforts and contributions toward promoting friendly cooperation between China and West European countries.

Safeguarding peace and promoting economic prosperity are two important issues of universal concern to people of all countries in the world today. The two issues are closely related. A peaceful international environment is an indispensable condition for countries seeking development. Expanding international economic and technological exchanges and promoting economic prosperity in various countries will give a great impetus toward safeguarding world peace and stability and strengthening friendship among people of different countries. It is with the wish of strengthening friendly cooperation, expanding economic exchanges, and promoting world peace that I have come to visit Western Europe.

Today, I am bringing you this clear message: China is ready to expand further its economic and technological exchanges with Western Europe in order to promote our common prosperity.

As everyone knows, China is a big and populous country with rich resources, but it is also one that is economically underdeveloped and developing. The Chinese people are now working for the modernization of industry, agriculture, national defense and science and technology, and building socialism with Chinese characteristics in their endeavor to make the country prosperous and the people affluent and happy as early as possible. Of course, this cannot be accomplished overnight, but will require decades of hard work. We will mainly rely on our

our efforts. At the same time, we need our friends in various countries to support us and cooperate with us. Invigorating the economy and opening to the outside world are two basic guidelines of our modernization program. They supplement each other and help each other forward.

Opening to the outside world and expanding economic and technological exchanges with other countries are objective requirements of our modernization program. They are inexorable trends of economic development, and are an important experience summed up by our country in the practice of construction. The policy of opening to the outside world was adopted only 5 years ago, but during this period, the volume of foreign trade has doubled, more than \$12 billion of foreign funds have been absorbed, and the number of enterprises and projects with direct foreign investments have reached 2,000. The results are notable. The policy of opening to the outside world conforms with the fundamental interests of the people of our country and has their wholehearted endorsement and support. It is our long-term basic national policy for making the people rich and the country prosperous.

In order to carry out this national policy, the Chinese Government has decided recently that while operating the existing 4 special economic zones even better, 14 more coastal cities and Hainan Island will be opened up. Here certain special policies for the special economic zones will be introduced. These places will be given greater authority. Foreign businessmen are encouraged to establish enterprises with their own exclusive investments, or engage in joint ventures and cooperative production in China. Preferential treatment will be given to enterprises using Chinese and foreign investments or exclusively foreign investments, and part of China's domestic market will be opened to their advanced technological products. On the issue of opening to the outside world, our guiding ideology is to further "relax" rather than to "tighten," to continue to move forward rather than to stop here and now. China's already opened door will open still wider. It will never close again. As China's modernization program unfolds itself, the ties between the Chinese market and the international market will become closer, and China's economic and technological exchanges with other countries will develop in depth and breadth.

China has always thought highly of the important role played by Europe in the world. We know that Europe has a splendid culture and has made important contributions to the civilization of mankind. Europe is the birthplace of the industrial revolution and houses the world's important financial centers and flourishing trade markets. Europe has retained its own special character and vitality despite the fact that the world's economy and technology have undergone enormous developments and changes. In history, exchanges between our two sides played a useful role in promoting economic development and social progress. Today, expanding the friendly relations and cooperation between China and West European countries will surely be a boon to the peoples of both sides. Since the founding of New China, China's friendly relations with West European countries have stood the test of time. We will not forget that West European countries established and maintained diplomatic relations with us, and developed economic exchanges that benefited both sides, during the difficult days of the 1950's and 1960's when China was subject to blockade and political pressure from outside. This was an expression of goodwill to the Chinese people. It was also a valuable act of the West European countries in deciding their policies themselves.

There are no conflicts of fundamental interests between China and Western Europe, nor are there major obstacles to the development of Sino-West European relations. In the changeable world situation of today, safeguarding world peace and stability is in our common interests. In meeting the challenge of the new technological revolution in the world, expanding our economic and technological exchanges is an important factor for promoting common prosperity. As far as China is concerned, strengthening Sino-West European relations and giving an important place to expanding our economic and technological cooperation in particular is by no means a measure of expediency, but what we have been required to do by the world reality. Therein lie our common interests.

What are the chances of China strengthening economic and technological cooperation with Western Europe? Our opinion is that there are great potentialities and bright prospects. In a sense, China's development means the development of economic cooperation between China and other countries in the world. You must know that China's economy has already embarked on a healthy development thanks to the economic readjustment in the past few years. Although the world economy was in recession, the average annual growth rate of China's gross social product (GSP) from 1981 to 1983 reached 8 percent. In 1983, its GSP increased 10 percent and its total imports and exports 11.4 percent over 1982. This momentum can be expected to be kept up. With the progress of economic construction and the expanding of our people's purchasing power, the market demand of the 1 billion Chinese people will steadily grow, and the base of China's economic and technological exchanges with foreign countries will certainly become more consolidated. We are now working out the Seventh 5-Year Plan (1986-1990). Key projects will be undertaken with emphasis on energy, transport and communication items, on the one hand, and the transformation of a large number of existing enterprises, on the other. We will begin construction of the mammoth three gorges project, a number of large nuclear plants, numerous medium and small power stations of the conventional kind; speed up the excavation of terrestrial oil and the exploitation of offshore oil; transform and expand existing mining areas, develop medium-sized coalmines, and build large open mines; transform existing railroads and ports, and build heavy-haul railroad trunk lines. We will also make use of our rich water resources and mineral reserves to speed up the exploitation of nonferrous metals. We seek to transform traditional industries with their hundreds of thousands of enterprises as well as to develop new industries, such as electronic technology. We want not only to meet the needs of economic development in the near future, but also to lay the foundation for economic rejuvenation in the long run. Thus, the scale of construction and transformation will be unprecedented, and the scope for cooperation with other countries in such areas as funds, technology, equipment, and personnel training will also be extensive. In Europe, which has abundant funds and advanced technology, there are many countries, each having its own advantages and specialties. In respect of their cooperation with China, all West European countries, big or small, all West European corporations regardless of their size, and every friend of China, old or new, can give full play to their strong points. With its rich resources and great market, China has strong points of its own and can make

a contribution to Western Europe's prosperity, too. I also wish to point out emphatically that China and Western Europe are not competitors but good trade partners, given their respective economic structure.

In the past year, gratifying progress has been made in Sino-West European economic and trade relations. Two-way trade between China and Western Europe increased 20.7 percent and China's imports from Western Europe 37.5 percent last year as compared with 1982. This is quite remarkable considering that it was achieved when world trade was shrinking. This is the fruit of our joint efforts. We have also noted that Western Europe does not account for a large proportion of China's foreign trade and that Sino-West European trade is still below the level it should have reached. We hope to see Western Europe accounting for a larger proportion in China's economic and trade relations with other countries. In order to raise the level of cooperation to a higher level, it is necessary for the two sides to further mutual understanding and overcome certain factors unfavorable to economic cooperation.

China and Western Europe have different economic systems. It takes time to gradually acquire a deeper understanding of the other party on such matters as economic needs, technological capability, laws and regulations, and modes of cooperation. I am glad to see increased contacts between our governments and peoples in the past few years. Some of our provinces and cities have established friendly relations with more and more of their counterparts in West European countries. Exchanges in various fields are developing in depth and breadth. I believe that, provided we enhance mutual understanding and accommodate each other, we can overcome obstacles on the road ahead. Of course, as Sino-West European economic and technological cooperation does not go back a long way, certain ups and downs and disharmony in their cooperation will be difficult and this requires that we uphold the principle of mutual benefit and mutual accommodation and have the future in mind. As far as the Chinese Government is concerned, we will earnestly sum up our experience, constantly improve our laws and regulations concerning China's external economic relations, and provide patent protection. We will also overcome bureaucracy and improve efficiency through the reform of our economic structure. We have signed investment protection accords and accords on avoiding double taxation with a number of West European countries, and negotiations with some other countries is underway. These will contribute to the smooth development of Sino-West European economic relations.

Here, I wish to point out that China's policy of opening to the outside world applies to the whole world. There is intense competition on world markets, and hence competition for access to the Chinese market. West European businessmen are welcome to enter the Chinese market. We hope they will enhance their competitiveness in price, quality, service and, particularly, terms for technology transfer. I notice that West European countries have been using various means to promote the development of bilateral economic and trade relations in the last 2 years. Some countries have opened up the possibility of cooperation by offering preferential loans or mixed loans; some have promoted the development of cooperation through mutually beneficial technology trade; some have opened the way to trade

through scientific and technological cooperation and by offering personnel training; and some have boosted direct investment in China by encouraging cooperative production and cooperative exploitation. These methods are desirable and are welcome. West European governments and businessmen are experienced in international trade and finance. I believe you will create more forms of mutually beneficial cooperation, and strive for more chances of success.

To keep up the momentum of Sino-West European trade on the basis of equality and mutual benefit, we hope West European countries will create favorable conditions for Chinese goods to enter West European markets so as to improve China's ability to pay for imports from Western Europe. We appreciate the attitude of active cooperation shown by the EEC and many West European countries in this respect, and hope that we will both continue with our efforts to constantly raise our respective trade levels.

We notice that West European countries have taken a sensible stand on the question of North-South relations. China is a developing country, and Sino-West European economic cooperation comes under the category of cooperation between developing and developed countries. It is our hope that West European countries will offer us favorable terms for trade and economic and technological cooperation, which will be beneficial to both sides. Expanded economic exchanges between us can certainly promote common prosperity, open up new areas for North-South cooperation, and provide useful experience.

To sum up, it is my hope that China and Western Europe can strengthen cooperation and establish closer and more long-term and stable economic relations. This kind of relationship is not only in keeping with the common interests of the Chinese and West European peoples, but also will make an important contribution to world peace and prosperity.

Ladies and gentlemen:

The fact that an independent China, which keeps the initiative in its own hands, and Europe, which holds its destiny in its own hands, are strengthening cooperation in various fields, is of great and far-reaching significance. The good political relations between us have provided favorable conditions for developing mutually beneficial economic relations. In return, the steadily growing economic cooperation is bound to further enrich and consolidate our political situation. The world political situation and the new technological revolution have put political and economic challenges before the peoples of all countries in the world. Let us join hands and rise to these challenges, and strive for the preservation of world peace and common economic prosperity.

Thank you.

STATE COUNCIL CIRCULAR ON APPROVAL, CIRCULATION OF COMMERCE MINISTRY REPORT  
ON CERTAIN QUESTIONS CONCERNING RESTRUCTURING PRESENT URBAN COMMERCIAL SYSTEM

Beijing STATE COUNCIL BULLETIN in Chinese No 17, 10 Aug 84 pp 573-574

[State Council Circular on the approval and circulation of Commerce Ministry report on certain questions concerning restructuring present urban commercial system (14 July 1984)]

(Guo-fa [0948 4099] (1984) No 92)

[Excerpt] The "Report on Certain Questions Concerning Restructuring the Present Urban Commercial System" by the Ministry of Commerce has been approved by the State Council and is now circulated to you. It is requested that you earnestly arrange to implement it in accordance with your local conditions.

The contradictions between our nation's swiftly developing commodity production and the unsuited commercial system are becoming increasingly prominent. We should carry out a basic reform. At the same time as we are intensively reforming the rural commodity circulation system, we must adopt a positive attitude and, in a guided and step-by-step way, reform the urban commercial circulation system. The various aspects of reform put forward by the Ministry of Commerce in its report are all important. People's government at all levels must earnestly strengthen leadership and study the matter well. They must organize the relevant departments to coordinate closely and actively support these commercial reforms. We must be thorough in doing a good job in political ideological work and must bring about a change in ideological style to guarantee the smooth implementation of the various reforms. It is necessary to earnestly sum up experiences and if any problems arise in implementation, to bring them to the notice of the Ministry of Commerce in a timely way.

The reform of commerce is extremely complicated. It is closely related with industrial and agricultural production and intimately linked with the people's lives. In the course of reform we must remain soberminded and combine vitalizing the microeconomy with strengthening control over the macroeconomy. We must combine enthusiasm for reform with a scientific approach. We must be determined in carrying out reform, bravely explore, adhere to seeking truth from facts, and suit measures to local conditions. As the

situation differs with the locality, the reforms must proceed from the actual situation in the locality. Some aspects of the work can be done before others. The same method should not be applied in all cases and we should not rush headlong into mass action. We must pay attention to linking up well the major aspects, guarantee the normal operation of commodity circulation and arrange market supply well. It is necessary to encourage civilized business and observe business ethics. This is the key to the success or failure of the reform of commerce. We must utilize practical and effective measures in order to prevent fraud and the shifting of responsibility, to protect the interests of the consumers and to ensure that the reform of commerce develops healthily.

COMMERCE MINISTRY REPORT ON CERTAIN QUESTIONS CONCERNING RESTRUCTURING  
PRESENT URBAN COMMERCIAL SYSTEM

Beijing STATE COUNCIL BULLETIN in Chinese No 17, 10 Aug 84 pp 574-579

[Report by Ministry of Commerce on certain questions concerning restructuring  
the present urban commercial system (23 June 1984)]

[Excerpt] Since the Third Plenum of the 11th CPC Central Committee, reform of the urban commercial circulation system has been carried out in order to bring about a system with diverse economic forms, varied management methods and more channels of circulation but with few levels of management. This has been done in accordance with the principle of having the planned economy in the leading position and regulation by market mechanism as a supplement, and the policy of vitalizing the domestic economy. The number of industrial goods subject to planned management has been reduced and the range of regulation by market mechanisms has been expanded. Diversified purchase and sales forms have been implemented and the long-standing method of exclusive marketing in the commercial field has been changed. Collective and individual commerce has been developed, and the monopoly operations of state-owned commerce have been broken. Division of labor in commodity production has been implemented and barriers between urban and rural areas have been broken down. This has changed the situation where circulation of industrial products between urban and rural areas was impeded. Quite wide-ranging experiments in management responsibility systems have been carried out within enterprises and experimental reforms of the wholesale system have been carried out using open forms and fewer links. The direction of these reforms is correct and definite results have been achieved. However, because the old restrictions on us have not yet been completely smashed, inquiry into the new situation and new conditions has been insufficient and there has been insufficient unanimity in ideological understanding, the reforms have not effected a great breakthrough. At present, the commercial system is greatly unsuited to the new situation of great development of the commodity economy, and thus we must carry out basic reforms. The aims of the reforms are: the promotion of commodity production; the vitalizing of commodity circulation; the improvement of economic results; the raising of service quality, and making the people's lives more convenient. The directions of the reforms are: the separation of government administration and enterprise management; the establishment of a commodity circulation system with diversified economic and management patterns and forms, many channels,

and which has state-owned enterprises playing the leading role; the implementation of a wholesale commercial system which is open, has many channels and few links; the establishment of an enterprise management method which combines responsibilities, rights and profit and which has a high level of economic results and service quality; and the formation of a circulation network where there are no obstacles between urban and rural areas, there is exchange between regions and where criss-cross links extend in all directions. Thus we will be able to move along a road of Chinese-style socialist commerce.

In accordance with the demands made for commercial reform in the "Report on Government Work" which Premier Zhao Ziyang delivered at the Second session of the Sixth NPC, we herewith report the following ideas on restructuring the present urban commercial system.

#### I. Separate Government Administration and Enterprise Management, Expand the Decisionmaking Power of Enterprises and Strengthen Administration

The separation of government administration and enterprise management is the orientation of the reform of the economic management system. We must hand down commercial management authority to the enterprises and change the situation where government administration and enterprise management are not separated. The Ministry of Commerce and commercial departments and bureaus at all levels must transfer the administration of wholesale enterprises of daily-use industrial goods which are directly under their jurisdiction down to various cities. They must form an enterprise management system and, in accordance with the demands of bringing into play the role of key cities, arrange commodity circulation. It is necessary to expand the authority of enterprises in terms of operations, planning, financial matters, pricing, personnel matters, wages, and rewards and penalties in order to fully arouse their enthusiasm. It is also necessary to correspondingly adjust commercial and administrative organs, and to strengthen and expand their administrative functions and utilization of administrative and economic measures. These measures include commercial policies, management laws and regulations, planned distribution, planned intervention, statistical and accounting supervision, examination of results, price management, subsidies in accordance with policies, regulation of funds, information and so on. This will strengthen the management, supervision and regulation of commercial activities and guide the socialist, unified market within the country.

The range of commodities subject to planning by departments must be appropriately reduced. The present 39 categories of industrial goods (including manufactured goods which are not daily-use products) must be reduced to 26 categories (listed in appendix). The targets for purchase, allocation and transfer of commodities subject to planning must gradually be handed down from the commercial administrative departments to city wholesale corporations for implementation. Commodities outside the state plans or not subject to state planning can be handled through purchase and sales contracts by the wholesale corporations or through free purchase and sales.

## II. Reform the Three-Tier Wholesale System for Manufactured Goods for Daily Use and Merge Wholesale Stations With Wholesale Corporations

We must reform the three-tier wholesale system and change the methods of commodity allocation and pricing. The urban wholesale network should be arranged in accordance with the needs of expanded operations, and become more specialized. However, enterprises of the same trade in the same city are not to set up state-managed commercial wholesale corporations on the basis of administrative levels. The wholesale corporations should be economic entities operating independently and having equal status in their economic and business relations. The current method of setting prices (? in a reverse way at each level) [fen cengci dao kou 0433 1461 2945 0227 2099] should be replaced by the method of using the wholesale list price as a basis and setting prices according to wholesale quantities or through negotiations.

Wholesale stations should be handed down to the cities and merged with the wholesale corporations of the cities to form a single wholesale corporation. As for the transfer of first-tier wholesale stations for daily-use manufactured goods which have been set up by the Ministry of Commerce in Shanghai, Tianjin and Guangzhou, we should at present adopt a transitional form of joint management where there is joint leadership and the city plays the major role. The second-tier stations for manufactured goods, subordinate to the provinces, should be merged with the city wholesale corporations, and become enterprises under city jurisdiction. As for those second-tier stations on administrative borders, or not situated in cities, it is requested that people's governments at the provincial level resolve the adjustment of their subordinate relationships. After the enterprises have been handed down, profit plans will be correspondingly transferred. In order to support commercial education and the development of science and technology, we must make a centralized effort to build some commercial installations. That proportion of profits which was formerly centrally utilized by the commercial administrative departments will still be handed over, according to the current methods, to the commercial administrative departments for their control and use.

The urban daily-use manufactured goods wholesale corporations and catering corporations will be independently operated and managed organizations. We must reform their relationship of economic subordination to the city commercial departments and cause the commercial departments to better exercise their administrative leadership and management functions. The after-tax profits of those enterprises which have a direct relationship with financial, taxation and banking departments, will all, except for that part to be handed over to the departments, be left under the control of the enterprises or corporations. We must expand the management autonomy of enterprises in terms of qualified personnel and appropriately reduce the power of corporations. Urban state-owned commercial wholesale business will be managed by wholesale corporations in a unified way. The state-owned retail enterprises can, in accordance with the situation, be separately managed by city or district retail corporations or by the head office.

As for commodities in reserve to be specially allocated by the central authorities, the central financial administration will bear the interest costs. The interest on commodity reserves to be specially allocated by the province will be the responsibility of the provincial financial administration. In regard to seasonal reserves of commodities, it is permissible, through industry-commerce consultations and within the average factory prices, to appropriately lower prices in the off-season and raise prices in the peak periods.

After the subordinate relationships of the enterprises have been adjusted, the methods of handling the financial matters will be separately set down by the Ministry of Finance and the Ministry of Commerce.

### III. Establish Trade Centers in Cities and Gradually Form an Open Wholesale System With Many Channels and Few Intermediate Links

In all cities we must gradually establish trade centers, which may be economic combinations or independent bodies, for daily-use manufactured goods, and implement diversified economic forms. It is possible to set up comprehensive trade centers and it is also possible to set up comprehensive and specialized trade centers. The trade centers in key ports can, within the limits of policy, carry on certain export business. Leadership of the comprehensive trade centers will be the administrative responsibility of the city commercial departments, while the administration of the specialized trade centers will be the responsibility of city wholesale corporations. It is also possible that they be turned into an organic whole.

The trade centers will be wholesale commodity exchange markets and will be managed in an open way. Commercial and industrial enterprises, enterprises of the whole people, collective and individual enterprises, local and outside enterprises, and commodities which are outside the state plan or not subject to state planning can all enter the trade centers, freely making purchases and sales. We must break down departmental and regional restrictions as well as the dividing lines between areas and trades. It is necessary to fully bring into play the role of key cities, develop more circulation channels, reduce the number of links in operation, open up markets and invigorate management. Commodity transaction prices can be set by consultation or according to wholesale amounts, on the basis of the wholesale list price, and without differentiation between purchasers. In order to fully bring into play the role of the price lever, we must correctly utilize various types of quality, standard, design, variety and seasonal price differentials.

The commercial administrative departments will be able to carry out leadership and management of the diversified forms of wholesale commerce through the trade centers. The state-owned commercial wholesale corporations will be the mainstay of the trade centers as well as their backup force. Apart from managing planned allocation of commodities, they must in accordance with the demands of increasing specialization, making management more flexible, expanding purchases and sales, curbing prices and stabilizing the market, make positive efforts to organize and participate in trade center

activities. Thus they will bring into play the guiding role of state-owned commerce. The trade centers can operate by themselves or in combination, act as purchasing agents or sales agents as well as storage, transport and processing agents. They can combine large wholesale business with small-scale purchases and sales, and combine their own business with business on behalf of others.

Following the establishment of trade centers, it will be necessary to appropriately develop storage and transport centers as well as service installations and information networks.

#### IV. Transfer Small State-Owned Retail Stores and Catering and Service Trade Units to Collectives or Lease Them to Individuals for Operation

A socialist market, under the condition of state-owned commerce playing the guiding role, must have rational deployment and coordinated development of diversified commercial economic forms. At the same time as actively developing collective and individual commerce, we must further free the small-scale state-owned commercial enterprises in order to arouse the enthusiasm of the workers, expand services, vitalize management and make the people's lives more convenient. Some enterprises can be changed into state-owned, collectively operated enterprises which pay taxes according to regulations and assume responsibility for their own profits and losses. Some enterprises can be directly transferred to collective ownership. Some enterprises, especially those small stores mainly offering labor services, such as catering, service and repairing businesses, can be leased to others, including individuals for operation.

The standard for small-scale retail enterprises is: Using natural independent accounting operations as a unit, those enterprises in the three large cities of Beijing, Tianjin and Shanghai which make an annual profit of less than 200,000 yuan, those in the provincial capitals and Chongqing City which make an annual profit of less than 150,000 yuan, and those in other cities which make an annual profit of less than 80,000 yuan are considered to be small-scale retail enterprises. Stores for overseas Chinese, Friendship stores, stores for oilfield workers, supply corporations for foreign steamboats, and self-service supermarkets will not be freed at present.

1. Carry out management of state-owned, collectively operated enterprises which pay taxes according to regulations and assume responsibility for their own profits and losses, in accordance with the state's policy and methods of handling collective enterprises. The enterprise's original property and funds will remain state-owned while newly added property and funds will be collectively owned. As for the fixed assets of the state utilized by the enterprises, depreciation funds will be extracted according to regulations and half will be handed over to the state. Maintenance and renewal of fixed assets will be the responsibility of the enterprise. As for the liquid assets of the state utilized by the enterprises, utilization fees should in principle be paid in accordance with bank interest rates. If there are difficulties in making payments, the interest payments can be waived for a

certain period. The state is to implement an eight-step progressive tax system for these enterprises. Those enterprises with quite large amounts remaining after taxation can pay fixed contract fees. The specifics of implementation will be determined by the people's government of the province, autonomous region or directly administered municipality.

It is necessary to gradually implement rational wholesale-retail price differentials for urban grain stores and to select several cities for experimental implementation of collective management of the stores. The experimental units, apart from arranging grain and foodstuffs supply, will be allowed to expand operations to include nonstaple foodstuffs. Foodstuffs and nonstaple foodstuffs which use grain and oil and which are processed and sold by them can be sold at retail prices, as in the catering trades.

2. As for those enterprises which are handed down to collective ownership, the state's fixed assets will be valued at current prices and along with the liquid assets allocated by the state, will be transferred to the collective with compensation being paid on an installment basis. It is necessary to clearly stipulate the repayment period. When the repayments are all made, the assets will be owned by the collective. For those who have difficulties at present, it is possible to make different arrangements and appropriately extend the repayment period. The state will implement an eight-step progressive tax system for these enterprises. The enterprises can admit shareholders.

3. In leasing small stores to individual operators we should utilize the method of public tender. As for fixed assets of the state which are utilized, the state can charge rental fees to the individual operators. The maintenance of the assets will be the responsibility of the unit which let the tender. The standard for rental of premises can be set on the basis of depreciation funds and in accordance with differences between areas. The individual operators must, apart from paying rental, also pay for retirement plan insurance. Income remaining after taxes are paid will be left under the control of the individual operators. The wages, bonuses and welfare of the workers will be decided by the operator. The prices of bathhouse businesses and boiled-water businesses have not been adjusted to a rational level, and actual losses will be incurred due to our policy in this regard. Until the prices are adjusted, the individual operators will be subsidized by the city or county financial departments, with the amount of the subsidy being approved by the relevant departments. The units which let out the tenders and the individual operators must sign leasing contracts, allowing a set period of several years without change. Implementation should be strictly in accordance with the contract.

The above-mentioned enterprises, after completing their payments to the state, must implement accumulation fund and public welfare fund systems. Specific methods will be set down for this by the people's governments of the provinces, autonomous regions and directly administered municipalities. With the precondition of protecting the interests of the consumers and raising service quality, allocations to workers should be linked with the

results of enterprise operation. If the enterprise has a high income, allocations to workers should be large, if income is low, allocations should be small. Those who work hard will get more and those who do not work hard will get less. There should be no upper limit nor lower limit in this regard. Specific wage forms and methods of reward and penalty can be decided by the enterprises themselves. They can have base wages with bonuses, a combination of fixed wages and floating wages, or entirely floating wages where the wage is determined on the basis of workpoints. In hairdressing and bathhouse businesses which are small-profit trades that depend on labor, it is possible to practice the system of deducting wages from profits, where wages are extracted from before-tax profits.

The workers in these enterprises are at present state workers. Their status will not change. If enterprises need to recruit personnel, all can select the best people for the jobs and can advertise for workers. They can implement the labor contract system where people are able to come and go. We should no longer use the fixed labor system. No unit may violate state regulations when assigning personnel to jobs. Retirement insurance funds should for the present be arranged in an overall way by city or county commercial departments.

We must support the new urban collective and individual commerce as well as the catering, service and repair trades. Large collective enterprises which were originally administered by relevant departments must be genuinely administered according to collective enterprise methods. Peasants who enter the cities to operate service points by themselves or jointly must be actively supported by relevant departments.

Following the increase in collective enterprises, it will be necessary to gradually establish trade associations, the large cities setting them up on a city and district basis, and medium and small cities establishing them on a city and county basis. No unit is allowed to transfer the labor, financial or material resources of collective enterprises. After taxes based on the eight-step progressive tax system have been levied on catering, service and repair enterprises, that portion of taxes paid which exceeds the present rate of 15 percent will be returned by the financial departments to the responsible commercial departments. This amount will be used for the building of trade networks, the reform of technology and the support of key areas.

#### V. State-Owned Retail Commerce and Catering and Service Trades Should in a Planned and Step-by-Step Way Implement Management Contract Responsibility Systems

Large and medium retail, commercial enterprises as well as catering and service trade units must, on the basis of the second step of the reform to substitute tax payment for profit delivery, substitute systems of contracted responsibility within the enterprises in a planned and step-by-step way. This will change the enterprises' internal management method of eating from "the big pot." These systems can be implemented first in

enterprises which have reorganized their examination and acceptance standards and those enterprises which have a fairly good base. These enterprises can earnestly sum up their experiences and gradually popularize them. In assessing those enterprises which have implemented contract responsibility systems in management, we must put protecting the interests of consumers and raising service quality in first place, and not just look at the amount of profits and the sales figures. It is necessary to link these figures up with the results in serving society and assess things overall. Bonuses should be calculated rationally with the industrious being rewarded and the lazy penalized, the excellent rewarded and the inferior penalized. With the precondition of implementing state policies, we should arrange things so that the state gets the largest share, the enterprise a medium share and the individual a small share.

Commercial enterprises and industrial enterprises are to implement, at the same rate, the second step of the reform to substitute tax payment for profit delivery. The after-tax profits of enterprises should be used to set up development funds, adjustment funds, reserve funds, reward funds and worker's welfare funds. The reward funds must use the method of profit-bonus ratio in calculating rewards. That is, calculating a ratio on the basis of the amount of profits and the amount of bonuses drawn out in 1983. The rewards will be drawn from the profits remaining after tax. Wages in the hair-dressing and bathhouse businesses will be drawn out prior to taxation.

The contracts between shops and their sections are an important link in the system of contracted responsibilities within enterprises. The shops should carry out financial distribution to the sections in accordance with economic results and determine bonuses and penalties on the basis of service quality. The economic results of some commodities are not completely dependent on the labor expended. Thus, the shops should adjust things in accordance with the situation and should appraise and decide the economic contract targets for each of the various sections. In calculating bonuses within various sections, the method of assessment using points, with points being of equal value, should be used.

The various sections should implement, in regard to its employees, a 100-point assessment system which has service results as the core. This will mainly assess their implementation of policy, work attendance, efforts made and service attitude. In general, we should not allocate economic targets to individuals, but should promote the raising of service quality and improvement of service attitude.

Wholesale enterprises, storage and transport enterprises and those industrial enterprises run by commercial concerns must, in the light of their own characteristics, implement diverse forms of responsibility systems on an experimental basis.

Enterprises should implement manager responsibility systems. Within the personnel establishment approved by the responsible departments, the enterprises can themselves determine the internal organization and personnel

allocation in accordance with management characteristics and actual needs. The responsible people in offices and sections will be appointed and dismissed by the manager. The assistant managers will be appointed by the responsible department on the basis of names submitted by the manager. The managers will be empowered to issue rewards and impose penalties, including promotions, bonuses, punishments and dismissal. The number of workers promoted in any one year must be kept within 3 percent of the number of workers. Additional wages should be recorded as costs. In order to gradually change the situation where for a long period workers' salaries have been on the low side, enterprises can use some of their reward funds to carry out their own wage reforms in accordance with the stipulations contained in the State Council Document Guo-fa (1984) No 55 (published in the 1984, issue No 8 of the STATE COUNCIL BULLETIN).

In order to encourage the leaders of the enterprise to do well in management, the responsible persons in shops, offices and sections, apart from participating in unified assessment of rewards and penalties, can be given fixed subsidies from the shop's reward funds. Those with good results can be given a little more, while those who have not managed things well will not be given a subsidy. The manager's subsidy will be assessed by the higher level responsible department based on whether the enterprise is large or small and whether it is operating well or poorly. The subsidies of the responsible persons in offices and sections will be assessed by the manager. The subsidies of managers will be taken in appropriate ratios from the reward funds of all shops by the responsible departments and will be utilized in a unified way.

#### VI. It Is Necessary To Implement Correctly Pricing Policies and Strictly Prohibit the Shifting of Burdens Onto Purchasers

Retail commerce and catering and service enterprises have a very close relationship with the lives of the people. Regardless of whether enterprises are operated by the state, collectives or individuals, all must strictly implement the state pricing policies. It is strictly forbidden to violate the policies or to raise prices in a disguised way by cheating on weight or lowering the quality of goods in relation to the amount charged. Violators are to be severely punished. All retail prices and fee charges which have been set by the various levels of people's government and responsible pricing departments must be strictly implemented. As to those commodities for which the government has allowed floating prices, price-fixing after consultation and negotiated prices, prices can be freely fixed in accordance with the stipulated principles of planned pricing. Catering enterprises must have their highest gross profit rate fixed by local pricing departments or commercial departments and then the enterprise itself will have flexible control within the stipulated limits. In the situation where the number of controlled commodities will be gradually reduced and prices will be gradually relaxed and vitalized, there will be increases and decreases in prices due to policy readjustments. This is a requirement for vitalizing the economy and promoting the development of production. It is necessary to do well in the work of fully explaining this to the masses. It must not be confused with the commercial reforms.

Commercial reform is an exceedingly arduous and complicated task. We must make a full appraisal of the effects of it on force of habits and the possible problems which may arise in the long term. We must gradually strengthen leadership, be daring in reform and brave in blazing new trails. In the light of the characteristics of commerce we must do well in ideological and political work, do well in education in serving the people, education in commercial morality and education in the correct approach to reform. The work of reform must proceed from reality. It can proceed at different rates in different places and experiments can be carried out at selected places with different groups.

If the above report is found to be appropriate, please approve and transmit to the various regions and departments for implementation.

Appendix--List of the Planned Commodities Controlled by the Ministry of Commerce (A total of 26 categories)

Edible sugar, brand-name wines, galvanized wire, iron nails, gasoline, coal gas, diesel oil, lubricating oil, chemical fertilizer, agricultural chemicals, brand-name bicycles, brand-name sewing machines, and scrap iron and steel.

(The above 13 categories of commodities will continue to be subject to control by allocation from above)

Cotton cloth, polyester-cotton cloth, medium and long chemical fiber cloth, woolen fabric, iron pots, rice bowls, matches, laundry soap, rubber shoes, ordinary light bulbs, brand-name televisions, lump sulphur, and plastic film for agricultural use.

(The above 13 categories of commodities will be subject to dovetail-report planning [xianjie he bian bao jihua 6902 2234 0735 4882 1032 6060 0439] from below.)

STATE COUNCIL CIRCULAR ON APPROVAL, CIRCULATION OF REPORT BY STATE COMMISSION FOR RESTRUCTURING ECONOMIC SYSTEM, MINISTRY OF COMMERCE, MINISTRY OF AGRICULTURE, ANIMAL HUSBANDRY AND FISHERY ON FURTHER PROMOTING CIRCULATION OF COMMODITIES IN RURAL AREAS

Beijing STATE COUNCIL BULLETIN in Chinese No 17, 10 Aug 84 pp 581-852

[State Council circular on approval and circulation of the report by the State Commission for Restructuring the Economic System, Ministry of Commerce, and Ministry of Agriculture, Animal Husbandry and Fishery on further promoting the circulation of commodities in rural area (19 July 1984)]

(Guo-fa (1984) No 96)

[Text] The State Council has approved a report prepared by the State Commission for Restructuring the Economic System, the Ministry of Commerce, and the Ministry of Agriculture, Animal Husbandry and Fishery on "Further Promoting the Circulation of Commodities in the Rural Areas." This report is hereby transmitted to you. It is requested that action be taken accordingly.

In recent years, some reforms have been carried out on the system of commodity circulation in the rural areas, and definite results have been achieved. However, our rural commercial system on the whole does not suit the situation where commodity production is growing rapidly and needs to be reformed once and for all. We must, on the basis of reforms carried out at the preceding stage, further emancipate our minds, and conscientiously explore new avenues and new forms for vitalizing circulation. Under the principle of ensuring the leading role of the planned economy supplemented by regulation by the market mechanism, it is necessary to actively develop multichannel operations and encourage the peasants to enter the field of circulation. Supply and marketing cooperatives should allow the peasants to own their shares and should boldly make breakthroughs in the scope of operation and service, system of labor distribution, and so on. They should be turned into dynamic collective commercial enterprises that can play a bigger role in speeding up rural economic development and promoting the flow of commodities between town and country.

Commodity circulation, which covers large areas of the countryside, is a strong policy task. Governments at all levels must earnestly strengthen their leadership over production and circulation of commodities. Departments concerned under the State Council must make the necessary revisions to their old policies and rules, in accordance with the guidelines and relevant regulations stipulated in the report, and actively support reform of the commodity circulation system in the rural areas. Departments concerned in all localities must also reexamine their old rules and regulations, and abolish, or revise, measures where necessary. In accordance with the requirement of relaxing the policies and vitalizing the economy, and in light of the actual local situation, they should work out specific measures to implement the new rules.

REPORT BY STATE COMMISSION FOR RESTRUCTURING ECONOMIC SYSTEM, MINISTRY OF COMMERCE, MINISTRY OF AGRICULTURE, ANIMAL HUSBANDRY AND FISHERY ON FURTHER PROMOTING CIRCULATION OF COMMODITIES IN RURAL AREAS

Beijing STATE COUNCIL BULLETIN in Chinese No 17, 19 Aug 84 pp 582-587

[Report by the State Commission for Restructuring the Economic System, Ministry of Commerce, and Ministry of Agriculture, Animal Husbandry and Fishery on further promoting the circulation of commodities in the rural area (30 June 1984)]

[Text] Since the Third Plenum of the 11th CPC Central Committee, profound changes have taken place in China's rural areas as the rural economy changes from self-sufficient and semi-self-sufficient production to commodity production on a large scale. In order to keep in step with the new situation, some reforms have been carried out in the system of commodity circulation in the rural areas. For example, the policy for the purchase of agricultural and sideline products has been readjusted to reduce the varieties of goods purchased by the state under unified or fixed purchase plans. Multichannel circulation and collective and individual commercial undertakings have been encouraged in a bid to do away with monopoly trade by state-run commerce and supply and marketing cooperatives. Multifunctional and multilevel joint operations have been developed to improve economic ties between the state and the peasants. The nature of supply and marketing cooperatives as collective commercial undertakings has been restored, as a result of which their characteristics of mass participation, democratic management and flexible operation have all been strengthened. We have achieved definite results and accumulated some experience in these and in other initial reforms. However, due to the force of habit and the restriction of old conventions, many problems of a concrete nature have yet to be solved. In order to thoroughly restructure the system of commodity circulation in the rural areas, we must boldly make breakthroughs on key issues and try as quickly as possible to change the situation where circulation grows out of keeping with production. We must liberate ourselves from the past practice of excessive and rigid control which took "fewer" as the point of departure and gave prominence to "unified management," and quickly shift to the practice of proceeding from "diversity" and "flexible operation" in order to vitalize the circulation of commodities in the rural areas. In accordance with the demands set forth

by Comrade Zhao Ziyang in his "Report on the Work of the Government" delivered at the Second Session of the Sixth NPC in regard of the reform of the circulation system, a report on suggestions for further improving the work of commodity circulation in the rural areas is hereby given:

#### I. Development of a Multichannel System of Commodity Circulation

Following the rational readjustment of agricultural distribution, the gradual increase in the degree of specialization, the continuous growth of commodity production, and the steady expansion of commodity exchange, state-operated commercial units and supply and marketing cooperatives can no longer handle the circulation of commodities in the rural areas on their own. A multichannel commodity circulation system, made up of all forms of economic undertakings sponsored by state, collective, or independent economic units, should be promoted. Peasants should be encouraged to participate in commodity trade in the sphere of commodity circulation. Peasants' commercial activities should not be curbed, but should be guided to become an important supplement to state-operated commercial units and supply and marketing cooperatives.

State-operated commercial units and supply and marketing cooperatives will continue to undertake the procurement and marketing of commodities produced under state plans. All localities must make sure that the state's procurement and marketing plans are fulfilled. Production units and peasants may dispose of and trade their products after having fulfilled the quotas set by the state or their obligations stipulated in contracts. State-operated commercial units and supply and marketing cooperatives should readjust supply and demand of goods, and coordinate all forms of trading activities in the course of providing their regular procurement and marketing services. State-operated commercial enterprises, supply and marketing cooperatives, collective commercial units sponsored by townships or towns, enterprises jointly sponsored by agricultural units (including animal husbandry, fishery, and forestry units) and industrial units, and independent business units, should compete with each other on an equal footing, within the scope of state laws and policies. Regardless of which department, administrative region, or level they belong to, their operation must not be interfered with by any administrative department.

The setting up of commercial outlets for the circulation of commodities in the rural areas must be comprehensively planned in conjunction with the development of small cities and towns. Rational arrangements should be made to facilitate their coordinated growth. Policies should be appropriately relaxed so that those peasants who can take care of their own food rations can open their shops in towns to provide commercial, repair, catering and other services the people need. Independent traders and peasants should particularly be encouraged to trade in agricultural goods, sideline products, local and special products, and industrial goods for daily use in remote and mountainous areas where there are few commercial outlets.

## II. Revision of the Policy for the Procurement and Marketing of Agricultural and Sideline Products

The variety of goods the state purchases under its unified plan, or through commercial bureaus, should continue to be reduced. The number of agricultural and sideline products of the first and second categories controlled by departments under the Ministry of Commerce shall be reduced from 21 to 12. The types of goods to be purchased by the state under its unified plan are still these three, namely, food grain (including only rice, wheat and corn), oil-bearing crops (including only peanut, rapeseed and cottonseed), and cotton (including only standard and short cotton fibers). The goods the state purchases through commercial bureaus will be reduced from 18 to 9, namely, pigs, jute and sisal hemp, ramie, tea (for border regions), cowhide (including only cowhide of cattle killed by state-operated slaughterhouses), wool, mao bamboo, bamboo poles for construction use, and vegetables (including only those sold in large and medium cities and major industrial and mining areas). Nine types of goods, including goatskins, fleeces, cashmere, beef, mutton, eggs, apple, citrus fruits and tung oil, will be open to free marketing.

The relaxation of policies regarding the management of medicinal materials and forest products. Twenty-four types of medicinal materials, instead of the former 30, will be purchased through commercial bureaus. The purchase of these medicinal materials will be controlled under two categories: First, those which are wild and expensive, such as musk, licorice root, eucommia bark and official magnolia bark, will all be purchased by departments in charge of medicinal materials, to preserve their resources. Second, those medicinal materials for which production is localized and the scope of trade extensive, such as the rhizome of Chinese goldthread, chianangelica, ligusticum vallichii, dried rhizome of rehmannia, large-headed atractylode rhizome, root of herbaceous peony, poris cocos, dwarf lilyturf ruber, membranous milk vetch root, fritillaria bulb, honeysuckle, chrysanthemum, bidentate anchranthe root, yuan hu [0337 5170], root of balloonflower, forsythia, (?taro meal [yu rou 5341 51312, pseudo-ginseng, ginseng (including wild ginseng), and bezoar, will be procured according to plan, but any above-quota output can be traded through various channels. All other medicinal materials can be traded freely. Small timber, and bamboo or wood products, can be traded freely through various channels on the open market. Part of the timber market should also be opened to the peasants to regulate their surpluses or shortages.

At present, all kinds of fresh water fish can be traded freely through various channels on the open market. Prices are stable, and in some cases reduced. Control over the purchase of eight types of ocean fish will also be gradually lifted. State-operated aquatic product departments may set up trade warehouses and aquatic product markets in major ports and aquatic product distributing centers for direct and free trading between the producer and the seller. They may also control the price of fish by regulating supply. As regards fish for the three municipalities of Beijing, Tianjin and Shanghai, for military and special needs, and for export, state-operated aquatic product departments may make purchases from fishermen with fishery products through consultation.

The State Council will determine the controlled varieties of agricultural and sideline products, and if any province, autonomous region, or municipality under the central government wants a readjustment, it should submit a request to the State Council for approval. Production units must fulfill all the unified and fixed purchasing quotas set by the state. These quotas, once set, will remain unchanged for several years, and procurement and marketing contracts will be signed between purchasing departments and production units. The policy of giving awards for the sales of goods purchased by the state under unified or fixed purchase plan should continue to be implemented, and specific methods may be appropriately readjusted. No more rewards will be given for the sales of goods not purchased by the state under unified or fixed purchase plan. Procurements of agricultural and sideline products by foreign trade departments should also be improved in light of existing problems.

### III. Improvement of Price Control Measures

Under the principle of ensuring the leading role of the planned economy supplemented by regulation by the market mechanism, the pricing policy and price control jurisdiction in regard to agricultural and sideline products should be readjusted. The varieties of agricultural and sideline products under state price control must be brought in line with the varieties for the classified management of products purchased by the state. State-set prices must be paid for all agricultural and sideline products purchased by the state under the unified or fixed purchase plan. After the state's purchasing quotas have been met, all extra products, and products not included in the state's purchasing plan may be traded at negotiated prices, which will be determined according to supply and demand. Prices should be allowed to fluctuate in line with market conditions. To vitalize the economy, the price of products produced according to state plans will be set rationally by departments according to regional, qualitative and seasonal differences. Prices of such commodities as food grain, edible oils and pork, which are sold with government subsidies, should be readjusted rationally so that government subsidies can be reduced. Fixed beef and mutton quotas for people of Hui nationality residing in large and medium cities will still be supplied at market prices, and any loss of profit shall be made up by state subsidies.

Industrial goods for daily use from the state's wholesale departments will be sold at state-set prices, and those goods purchased independently may be priced by the enterprises producing them. To be flexible in controlling prices, the price of those highly optional commodities will be set according to design and variety. The price of chemical fertilizer, agricultural chemicals, diesel oil and other major means of agricultural and commercial materials, subject to planned distribution, will be sold at prices set by the state. Goods not included in the state's purchasing plan can be sold by enterprises at prices based on cost, including charges, and a small profit.

As for commodities that are unsalable, overstocked, and not in demand, the basic-level supply and marketing cooperatives may sell them at reduced prices according to relevant regulations. Supply and marketing cooperatives

may charge fees when acting as agents, and the fees are to be determined through consultation with the buyers. They may also buy production and livelihood materials on behalf of the peasants, with charges calculated on the basis of actual cost plus reasonable handling fees.

#### IV. Reform of the Wholesale System for Agricultural and Sideline Products

The wholesale system for agricultural and sideline products, which consists of unified purchase and supply of goods according to administrative divisions and levels, should be reformed, and irrational intermediate links in operations eliminated. The basic link in the business dealing with agricultural and sideline products is the county, where wholesale corporations may be established according to different fields of operation. Provinces and prefectures should not have a hand in those transactions that can be concluded directly between the producer and the seller. Regarding live and easily perishable commodities, it is necessary to promote direct joint operations between the producer and the seller (including joint projects to build production, storage, processing and transportation facilities), and to gradually form a fixed producer-seller relationship.

In big and medium cities and in trading areas, trade centers and wholesale markets for agricultural and sideline products should be established, step by step, to do business in an open way. Trade centers for agricultural and sideline products should mainly provide market information and organize the trading of futures. They may be comprehensive or specialized. They may be set up separately from wholesale corporations and trade warehouses with their own systems; or they may join with wholesale corporations and trade warehouses, setting up several subordinate departments for handling specialized wholesale trades. Wholesale exchange markets should mainly handle live and easily perishable commodities and merchandise on hand, and transactions are to be completed on the same day as the goods appear on the market. Commodities produced by local as well as outside commercial, industrial, and agricultural enterprises, whether owned by the whole people, collectives, or individuals, can be traded in the trade centers and wholesale markets. Land needed for the construction of trade centers and wholesale exchange markets for agricultural and sideline products should be included in urban construction plans.

Within the same city, overlapping wholesale organs set up according to administrative levels should be merged resolutely, and should, in principle, be placed under the leadership of the city. The wholesaling of those commodities subject to planned distribution and allocation is to be conducted according to present policies. In some counties, due to limitations in communication conditions, it is not always possible to transport products there directly. In such cases, provincial and prefectural authorities may set up transfer and storage stations along vital communication lines to provide storage and transfer services for county and basic-level units. But they do not constitute a management level.

The setting up of reserve funds for agricultural and sideline products. Since there are ups and downs in the production of agricultural and sideline products, and the conditions of their production and market fluctuate quickly, certain reserves are necessary. After the county level becomes the major link in the buying and selling of agricultural and sideline products, counties may find it difficult to shoulder the entire reserve task. Thus, reserve funds should be systematically established for certain staple agricultural and sideline products. Specific methods for different products shall be determined by the Ministry of Finance, the Ministry of Commerce, the Ministry of Agriculture, Animal Husbandry and Fishery, and the People's Bank of China.

#### V. Accelerate the Restructuring of Supply and Marketing Cooperatives

Success or failure in reforming the system of commodity circulation in the rural areas depends, to a considerable extent, on whether a breakthrough can be made in restructuring the system of supply and marketing cooperatives. Supply and marketing cooperatives should make breakthroughs in such respects as letting peasants buy shares, the scope of operations and service, the system of labor, distribution according to work, and price control. The kernel of the matter is to change them from being run by the government to being run by the people. For this purpose, it is necessary to carry out the following reforms in accordance with the nature of collective ownership:

1. Boldly encourage the peasants to buy shares in them and increase the proportions of funds coming from the peasants so that the supply and marketing cooperatives are closely linked with their economic interests. "Guaranteed dividends and bonuses" should be paid to those peasants who have bought shares. Dividends shall be paid at 1-year bank deposit interest rates prior to tax payment, and bonuses shall be drawn from after-tax profits.
2. Make positive efforts to expand their operations and service, combine purchasing with marketing, carry out comprehensive operations, and provide better services before, during, and after production. Within limits allowed by state decrees and policies, supply and marketing cooperatives can buy and sell freely without the restriction of division of labor based on commodities and trades.
3. Reform the labor and personnel system. In regard to cadres, election and recruitment systems should be instituted so that they can work at higher or lower levels. In regard to staff and workers, a labor contract system should be introduced so that they can be recruited or dismissed. As for specialists and technical personnel, a system which combines allocation by the state, training by enterprises, and open recruitment should be adopted.
4. Improve the system of internal distribution, promote various forms of the economic responsibility system, and set no ceiling and no lower limits for bonuses. After paying tax as required, supply and marketing cooperatives can draw a fixed percentage from the labor bonus funds of staff and workers.

Supply and marketing cooperatives should make it their objective to support rural commodity production. In coordination with departments concerned, they should do well in providing market information, supplying materials, giving technological guidance, providing capital funds, and selling products, with a view to establishing a service system for commodity production through systematic efforts. Supply and marketing cooperatives, which are independent collective commercial enterprises, may establish bilateral, or multilateral associations with other economic organizations, in conditions of equality and mutual benefit. In doing so, however, they still belong to the original collectives, and their personnel, property and materials should not be indiscriminately transferred to their associated organizations. The state should give support to supply and marketing cooperatives on matters of taxation, credit and funds. Specific methods shall be worked out by departments concerned.

#### VI. Make Positive Efforts To Develop Processing Industries for Agricultural and Sideline Products

China's processing industries for agricultural and sideline products constitute an extremely weak link. It is, therefore, necessary to further develop food- and fodder-processing industries. The development of commodity production in the rural areas will provide more and more funds, manpower and raw materials for the development of these industries. The potentials are great. The development of processing industries for agricultural and sideline products will meet the needs of the masses for a higher standard of living and change China's food structure. At the same time, it will open more outlets for agricultural and sideline products, thus contributing to the solution of the problems faced by the masses in selling and buying products. It is, therefore, necessary to develop such industries with great efforts.

In developing processing industries for agricultural and sideline products, it is necessary to promote diversified operations under the prerequisite of unified planning and rational distribution. Various provinces, autonomous regions and municipalities directly under the central government should carry out all-round research on such matters as raw materials, resources, direction for production of products, sales markets and economic returns, and map out feasible plans for the development of factories run by the whole people, collectives and individuals. In this connection, it is necessary to bring into play the initiative of all sides, and to promote processing industries at different levels and associations of all types. In the main, the state should do meticulous processing to make high-grade products, while collectives and individuals should do crude processing to turn out popular low-priced products of medium or low grade. Moreover, every locality should take advantage of its natural resources and indigenous manufacturing skills to develop production of its famous native products. "Let a hundred flowers blossom" as far as variety goes so as to meet the needs of different customers.

The state should formulate an economic policy to support the development of processing industries in rural areas. Materials needed by these industries, including auxiliary and packaging materials, should be met mainly by

regulating market supplies and, when necessary, the state should render support. As for capital funds, industries may ask for bank loans, in addition to getting money from their own resources. The banks should give them preferential treatment in the criteria for approving such loans and in the interest rate. Newly established fodder industries should enjoy income tax exemption for 3 years. Certain new food industries should enjoy income tax exemption for a year. If an enterprise still has difficulty in paying tax after the end of the exempted period, it may report its difficulty to the authorities concerned according to regulations. With the authorities' approval, the amount of tax to be paid may be reduced for a given period.

#### VII. Actively Develop Communications and Transportation as Well as Various Facilities for Commercial Operations

As commodity production and circulation continuously develop and lateral economic ties gradually expand in the rural areas, the problem of communications, transport and commercial facilities growing out of keeping with the situation becomes more acute. From now on, every strength should be brought into play to actively develop communications and transport in the rural areas, and to speed up the construction of commercial facilities there. While planning commodity production, every localities should make plans for the construction of processing, storage, and transportation facilities. This is essential for doing a good job of commodity circulation in the rural areas.

Efforts should be made to use existing means of transportation reasonably, and organize associations on a city and county basis so as to put an end to the irrational phenomenon of "having trucks but no goods to transport" and "having goods but no trucks to transport them." State-operated communications and transport enterprises should improve operations and management, provide better service, and work hard to shoulder the task of providing transport for rural commodities. At the same time, it is necessary to actively develop collective and individual transportation undertakings. Departments concerned should provide them with assistance on such matters as purchasing transport means and fuel. In remote and mountainous areas, attention should be given to utilizing and developing various indigenous transportation facilities, including "horse caravans."

Big and medium capital construction projects for storing the state's commodity reserves should be included in the state plan, so that unified arrangements can be made. In the meantime, peasants should be encouraged to raise funds to build processing and storage facilities. All localities should speed up construction of grain, cotton and fruit warehouses under the state plan, so that these facilities may be completed and put to use as early as possible. During the period of the Seventh 5-Year Plan, more efforts should be made to build commercial infrastructure to make up for the present shortage.

If the above report is not found to be inappropriate in any way, please approve and transmit it to various regions and departments for implementation.

CSO: 4005/222

END