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# China Report

ECONOMIC AFFAIRS

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23 APRIL 1986

## CHINA REPORT

### ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

AFP VIEWS UPCOMING NPC PLENARY SESSION

HK230832 Hong Kong AFP in English 0805 GMT 23 Mar 86

[By Pierre-Antoine Donnet]

[Text] Beijing, March 23 (AFP)--The National People's Congress (NPC) on Tuesday opens a plenary session at which several key ministries will likely change hands in favor of younger leaders, Western diplomats here said.

The Chinese legislature will also adopt the country's Seventh Five-Year Plan (1986-1990) which marks out communications, transport and energy as its priority sectors and puts the accent on modernizing the present industrial infrastructure rather than launching major new projects.

The foreign, culture, and perhaps defense ministers are high up on the list for the reshuffle which is expected to be ratified by the 3,000-odd NPC delegates who will have come to Beijing from all over China, the diplomats said.

Foreign Minister Wu Xueqian, 65, is tipped for promotion to deputy premier, probably replacing Yao Yilin, who is four years his senior. Mr Wu would in turn be replaced by his deputy Qian Qichen, they said.

Someone more "fire-handed" is likely to take over from 70-year-old Culture Minister Zhu Muzhi, in order to deal with the country's prevailing state of "ideological vacuum," the diplomats added.

The gathering could well be the occasion for the retirement of Defense Minister Zhang Aiping, 78, which has been on the cards for a long time, despite the fact that reorganization work in the forces has yet to be completed, diplomats said.

Several other younger and more recently-appointed ministers could also be eased out of office. But diplomats stressed that this would be as a result of their mediocre performance, not for political reasons. The majority of government leaders were now behind top leader Deng Xiaoping's economic reforms.

The last major ministerial reshuffle came in June 1985, affecting nine key ministries which bulk one-fifth of the government.

Diplomats said Tuesday's NPC session would not yet see Prime Minister Zhao Ziyang take over from aging President Li Xiannian, being replaced himself by Deputy Li Peng. Such a scenario is not set to come about, they added, until a national Communist Party congress next year, when party chief Hu Yaobang would also be replaced by Hu Qili, one of a new generation of leaders.

The party's Central Committee and the aging Politburo were both given generous infusions of new blood at a party conference last year.

Prudence and realism will be the keynotes of the five-year plan drawn up to combat the twin ogres of economic overheating and ballooning foreign trade deficit. The blueprint has been revealed in outline over the past few months.

The planners, concentrating on modernizing existing enterprises, have reined in China's nuclear electricity generation program in favor of thermal power plants, Western experts said. They said China aimed over the five-year period more to gradually build up its economic structures than to achieve a "technological leap".

The NPC is virtually certain to adopt the plan--it is almost unheard of for the body to reject the major decisions of the Communist Party.

The Chinese press has said the NPC session will also adopt a new civil legal code to cement the law-drafting work which is being done, as well as the 1986 budget and laws on compulsory education and the working of enterprises set up with foreign capital in China.

The session is to last about 10 days with a gathering of the Chinese People's Political Consultative Conference preceding it by tradition on Sunday. This body which groups all the tiny non-communist parties which are officially sanctioned, has virtually no decision-making power and can merely put forward suggestions.

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CSO: 4020/272

NATIONAL POLICY AND ISSUES

NPC SESSION DISCUSSES CIVIL CODE DRAFT

Code to Aid Development

OW040224 Beijing XINHUA in English 0152 GMT 4 Apr 86

[Text] Beijing, April 4 (XINHUA)--The draft civil code being discussed at the current National People's Congress session will, if approved, speed up the development of the country's socialist commodity economy, a legal expert said here today.

Li Jingxi, professor of law at Xiamen University, Fujian Province, who is attending the NPC session, said at the panel discussions today that the immediate significance of the code's general principles is that they will help readjust the relations between citizens and state-owned and collective enterprises and institutions.

Along with the development of the country's commodity economy as a whole, there has been a growing number of households engaged in industrial and commercial undertakings, specialized rural households contracting for various lines of business and partnerships of individuals.

In addition, he added, the continuing reform of the economic structure is also invigorating the state-owned and collective enterprises, enabling them to move toward becoming independent manufacturers and managers of the socialist commodity economy, who are responsible for their own profits and losses.

As the economic relations between them are conducted in the form of contracts, the growing number of civil disputes involving property and personal relations requires legislation to readjust them, the professor said. About 600 to 700 million economic contracts are now signed a year.

Previously, he recalled, disputes were resolved through administrative measures and ideological education. When mediation failed, some disputes developed into criminal offenses, he said.

Li, who has been engaged in civil code research for more than half a century, said that the explicit stipulation of civil liabilities as provided for in the general principles will aid social stability and unity.

23 April 1986

China's developing socialist planned commodity economy may give rise to some unhealthy practices, as the capitalist commodity economy does. But the formulation of the civil code will help check and avoid such malpractices.

Many companies were established in China in the last two years, Professor Li said. But some were paper companies which seriously disturbed the socialist economic order by resorting to frauds. However, there was no relevant law with which to tackle them. Some cases of fraud had to be dealt with in accordance with the criminal code.

The draft general principles of the civil code provide explicit terms on the qualifications, conditions and business scope of institutions, enterprises and social groups which are described as legal persons. In this way, he said, the socialist commodity production, market order and a smooth progress of the economic reforms will be guaranteed.

#### Legal Expert Supports Code Draft

OW040254 Beijing XINHUA in English 0240 GMT 4 Apr 86

[Text] Beijing, April 4 (XINHUA)--China's draft civil code's general principles reflect changes that have taken place in China since the introduction of the open policy and economic reforms in 1979, legal expert Jiang Ping told XINHUA today.

The draft is being presented to the ongoing session of the National People's Congress (NPC) for approval.

"We draw on foreign experience when drafting the code, which has distinct characteristics of socialist China," noted Jiang, 55, who took part in the discussion, study and revision of the draft.

Jiang, vice-president of the China University of Political Science and Law in Beijing, said the draft specifies exactly who enjoys which civil rights, how to acquire them and how to protect them.

Before drafting the code's general principles, he recalled, the Legislative Affairs Commission of the NPC Standing Committee and the Supreme People's Court studied the civil codes of France, Federal Germany, Japan, the Soviet Union and East European countries.

"We also referred to relevant stipulations in the laws of Britain, the United States and other Western countries, especially those concerning the commodity economy," said Jiang, who studied law in the Soviet Union in the 1950's.

"I think both socialist and capitalist civil codes have the generality, that is, they all reflect the relations in the commodity economy," he said.

According to Jiang, these relations are characterized by the exchange at equal values. The status and rights of all people involved ought to be equal, and the property right of the state, collective and individual should be protected by law. "That's why our draft provides that civil acts should proceed on the principle of voluntary participation, impartiality, honesty and credibility," he explained.

As China practices a plan-guided commodity economy, the draft states: "Civil acts must not damage the public interests, disrupt the state economic plans or interfere in the social or economic order."

The general principles of the civil code fully reflect the new situations, which have emerged since China launched its economic reforms and the open policy in 1979. For example, the code affirms the legal status of individual business people and rural people contracting for farming or other lines of business from collectives.

"With the progress of the economic reforms," Jiang said, "individual laborers are cooperating with one another in many ways, such as forming partnerships." Under the draft code, partners should agree to specify the amount of each partner's investment, the distribution of profits, liquidation of debts and terms for the cancellation of the partnership.

The draft provides that China-based Sino-foreign joint ventures, cooperative businesses and foreign-owned enterprises will become legal persons after registering with the relevant authorities. "This will provide the legal basis for their operation and obligations and guarantee their rights," Jiang said.

The draft also affirms the legal status of three forms of joint operation between enterprises and between enterprises and institutions.

Economic exchanges between Chinese and foreign businesses are on the increase, he noted. The draft contains 10 articles which apply to civil relations involving foreign businesses.

He added: "The draft only lists general principles concerning common issues involving civil acts. Details will be specified in separate laws. I'm sure Chinese authorities will quicken the pace of legislation."

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NATIONAL POLICY AND ISSUES

U.S. PUBLISHER REVEALS DETAILS OF MEETING WITH DENG

HK040815 Hong Kong HONG KONG STANDARD in English 4 Apr 86 p 2

[By Yau Shing-mu]

[Excerpt] Overseas concern over the controversial multi-billion dollar Yangtze Gorge dam has been brought to the attention of Chinese leader Deng Xiaoping.

In reply, Mr Deng told the president of Chung Newspapers Ltd of the United States, Mr Fu Chao-chu, that the construction of the dam will not begin until the silt deposit problem is solved and inhabitants affected by the dam are resettled.

Mr Fu, who arrived here yesterday after his visit to China, said he visited the Yangtze Gorge to gather first-hand information about the construction plan and to study possible consequences. "This is a matter of consequence. It will affect the resettlement of one or two million people there. Many historical relics and tourist spots will be destroyed by the construction," he said. "A lot of American Chinese are concerned about the plan. News reports and commentaries there have given wide coverage on the issue," Mr Fu said.

Mr Deng said the project would not be given the green light until reports show it feasible without adverse effects. The construction project is not listed in the Seventh Five-Year Plan (1986-90), but it has stirred up heated debates during current sessions of the National People's Congress and the Chinese People's Political Consultative Conference.

A group of specialists appointed by the conference, including outspoken economist Qian Jiaju, has conducted on-the-spot investigations and concluded that the project should be delayed till the current five-year plan is over. Two Hong Kong deputies to the conference, Mr Xu Si-ming and Mr Chak Nuen-fei, have urged that the findings of the group be made public.

On the other hand, the newly set-up Three Gorges Engineering Corporation, which is believed to be backed by the Ministry of Water Conservancy and Power, supports the project fully.

The dam, to be constructed in a small town called Sandouping, will rise at least 165 meters and stretch 2.5 kilometers across the picturesque Yangtze Gorge. Expected to generate 13 million kilowatts of electricity, the Three Gorges dam will eventually be the world's largest source of hydroelectric power.

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## NATIONAL POLICY AND ISSUES

### ECONOMIST SUPPORTS REFORM OF PRICE STRUCTURE

HK040903 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in English 4 Apr 86 p 1

[By Olivia Sin, in Beijing]

[Text] China should not allow its determination to reform its unreasonable pricing structure to be shaken by the social discontent generated by price increases, said a noted Chinese economist, Professor Qian Jiaju. He said China is facing a dilemma: satisfy peoples' demands for steady prices or go ahead with price reform.

According to Prof Qian, price reform is key to the success of China's wide-ranging economic reform which seeks to increase economic efficiency by turning state enterprises into independent units responsible for their profits and losses. Nevertheless, he said he agrees with the Chinese leaders' decision to slow down the price reform this year following the dramatic price increases last year. "Everybody knows our pricing structure is unreasonable and does not reflect the actual value of commodities nor the supply-demand situation," he said in a paper delivered during a discussion meeting of the Chinese People's Political Consultative Committee (CPPCC) last week.

Prof Qian, a member of CPPCC's standing committee, said: "High quality goods are sold cheap and substandard items are sold for good prices." He said this ridiculous pricing structure has failed to reflect the economic efficiency of state-owned enterprises.

Prof Qian said Chinese officials would not have to worry about price fluctuations resulting from the price reform if they maintain tight control over the supply of banknotes and goods. Excessive growth in banknotes and inadequate supplies of goods will lead to price increases and inflation, he said. "But prices will not shoot up if we have abundant supply of commodities and a steady growth of money supply," he said.

Before China launched its economic reform, prices of food and other industrial materials had remained almost unchanged for years. For instance, vegetables were sold for the equivalent of 72 Hong Kong cents per catty. The extremely low prices had discouraged peasants and factories to increase

production and improve quality. But liberalizing the pricing system last year had resulted in price rises and social discontent.

According to the head of the State Administration of Commodity Prices, Mr Cheng Zhiping, the price of sideline food items, such as meat and eggs, recorded an average increase of 23 percent last year. Vegetable prices rose by 34.5 percent and those of marine food products went up by 37.4 percent.

The price increases appeared to have offset some of the wage increases and affected people's spending power. According to Mr Cheng, the average income of peasants rose by 11.8 percent last year and that of urban dwellers by 23.8 percent. He also noted that price increases in the cities were much bigger than those in the rural areas.

He apparently down-played the effect of price increases on living standards in a paper delivered at a closed-door meeting of the National People's Congress held last week. He said the retail price index rose by an average 8.8 percent last year, which should be more than compensated by the wage adjustment.

But Prof Qian said the 8.8 percent increase in the index was not a true indicator of the price differential since the index took into account the prices of consumer items like television sets and refrigerators whose prices were slashed last year.

Mr Cheng said in his paper China is still experimenting with the price reform and mistakes are unavoidable. He admitted the State Administration of Commodity Prices had underestimated the problems related to price reform and not done enough ground work nor taken remedial measures to minimize the problems. He said the country will use economic levers, administrative means and laws to tighten up control over commodity prices.

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NATIONAL POLICY AND ISSUES

MA HONG ON IDEOLOGICAL WORK IN PLANNED COMMODITY ECONOMY

Shanghai JIEFANG RIBAO in Chinese 15 Jan 86 p 4

[Article by Ma Hong [7456 3163]: "Ideological and Political Work in a Planned Commodity Economy Environment"; first paragraph is source supplied introduction]

[Text] Editors note: A major issue now facing us is how to conduct ideological and political work in the environment of a planned commodity economy. In this article Comrade Ma Hong makes a detailed analysis of the changes brought about in all areas by the development of a socialist commodity economy and suggests three areas in which we should strengthen ideological and political work. These views are worth reading by interested comrades.

Our country is now facing a new era of major developments in the socialist economy. The countryside is progressing from self-reliance and partial self-reliance toward a commodity economy; the cities are transforming their production economy into a commodity economy. Under these conditions, the tasks that we carry out in the construction of socialist material culture and socialist spiritual culture are all closely united to the development of the commodity economy.

During these several years of practice, we have deeply felt that the developments in the socialist commodity economy have not only elicited major changes in the operating mechanisms in our national economy, the change from the old to new operating mechanisms in our economy brought about frequent contradictions and clashes in our economic life, which have been manifested in disharmony; the exchange of old ideological concepts for new ones also caused various contradictions and eruptions in the people's thought, even bringing about a certain amount of chaos. Resolving the former is an important task facing the reforms to the economic system; resolving the latter is an important issue facing ideological and political work. Only through the proper resolution of issues in these two areas will we be able to guarantee that the commodity economy will follow a socialist, planned direction of healthy development.

In the environment of a socialist, planned commodity economy our ideological and political work impinges upon many issues. This discussion emphasizes three areas.

1. Sincerely carry out analyses, make accurate evaluations and pointedly carry out ideological and political work concerning the changes in ideological concepts engendered by the development of the socialist planned commodity economy as well as the conflicts and clashes generated in people's thoughts by the replacement of old concepts with new ones.

Our socialist commodity economy was developed on the foundation of a self-reliant and semi-self-reliant economy and a production economy. The establishment of the responsibility system linking village household contracts to planned production, the development of the specialized households, and the changes in the state's system and tactics of overall management of the rural economy enabled the township and town enterprises to establish independent commodity producers and managers; there were great developments in the village social division of labor, and the law of value has played an increasingly greater role in the development of the rural economy. The urban industrial and commercial enterprises as well as the other enterprises gradually became relatively independent economic entities, with a certain amount of administrative and managerial autonomy and corresponding economic benefits, they moreover followed the profound developments of the reforms and gradually moved towards autonomous management and responsibility for profits or losses. The broad scope of the urban economy uses a commodity and currency form with market adjustments, and these, together with the increased competition between enterprises, have caused the gradual strengthening of the role of the law of value in the urban economy. These changes in economic life have brought about increasingly greater attacks on some traditional concepts which were formed under the natural economy and the production economy. The new concepts of value, the marketplace, competition, time, efficiency, profit, human talent and information, all of which are suited to the socialist commodity economy, gradually became established and strengthened in the people's thought. The formation and establishment of these new concepts played an enormous role in the liberation of the people's thought, in the transformation of the people's spiritual condition, in the stimulation of the people's sharp will to progress and in the opening up of their creativity; they also played a great role in the development of our production forces. We must have adequate understanding of the positive factors brought by these new concepts. Our socialist commodity economy, whether urban or rural, is not in a developed stage at this time. Overcoming the traditional concepts formed during the long period under the natural economy and the production economy and the establishment of concepts which are suited to the development of the socialist commodity economy still are major tasks in our ideological and political work.

What still cannot be ignored is that the socialist commodity economy still is a planned commodity economy based on public ownership of the means of production, but the laws which control its activities still include the general laws of commodity economics, which include the law of value. Consequently, the negative factors of blindness and spontaneity found in a commodity economy still exist. Socialism's public ownership system, planning and the limited scope of commodities provide the potential of controlling the negative factors of blindness and spontaneity. In order to turn this potential into reality it is necessary to have a scientifically planned foundation, the capability of powerful overall indirect controls, complete and flexible

adjustment mechanisms, high caliber management personnel, and so on. All of this is difficult to complete in a short period, so that the negative factors of blindness and spontaneity in the commodity economy still can repeatedly emerge in the process of economic changes, creating problems and even spreading unchecked. Joined together with this are the concepts of the rejection of state planning, the one-sided pursuit of enterprise profits, the disregard of state interests and even the erosion of the foundation of the state, an attitude of "all out in the interest of money," bringing harm to the people's interests, resorting to deception and damaging the consumers' interests. These also could spread unchecked. In recent years, the party and society have manifested unhealthy tendencies, many of which are related to this. The above mentioned concepts are incompatible with socialist concepts and permitting them to develop will lead socialism down the wrong path. Consequently, a major task is the application of correct socialist economic concepts and the application of communist ideals to overcome incorrect concepts.

It is necessary to have a correct understanding of a socialist commodity economy; it is necessary to clearly distinguish the basic differences between a socialist commodity economy and a capitalist commodity economy; and it is necessary to clearly distinguish the differences between a commodity economy under a socialist system and a commodity economy under a capitalist social system. In order to correctly understand the relationships of the benefits and harm of developing a socialist planned commodity economy it first is necessary to see that the complete development of a commodity economy is an inescapable stage in socialist economic development. In the present historical stage the complete development of a planned commodity economy is a mandatory path to follow in accomplishing the construction of socialism and communism. All the same, we cannot overlook those corrupt practices, because they after all have the general harsh characteristics of a commodity economy, so we ought to undergo a strengthening of ideological and political work and strive to promote the benefits and eliminate the harm. Some comrades suggest that on the one hand we must affirm the positive role of a planned commodity economy in quickening the economy and enlivening ideology, and on the other hand we must clearly point out its spontaneity and blindness as well as the danger of the principle of commodity exchanges invading political life. This means opposition to the idealization of a planned commodity economy and overlooking its very real corrupt practices; yet we cannot take its corrupt practices too seriously in the belief that they are the "source of all evil." In our ideological and political work we must oppose tendencies toward spontaneity, and perfunctoriness. We ought to sum up the successes of our party's traditional experiences and strengthen our foresight, alertness, sense of principle and and strengthen our exemplary behavior. These are the new challenges we have encountered in this period of developing a planned socialist commodity economy. In being confronted by these challenges each party cadre must strengthen his spiritual preparedness and self awareness for party nature training. These views are excellent and quite inspirational.

2. Because of changes in the ownership structure and the distribution system, we must be specially alert to any resultant contradictions and conflicts in the people's ideology regarding social financial holdings and the concept of

distribution, and correctly handle the economic benefit relations between the various economic elements, between the various interest groups, and between personnel of all types.

In undergoing 7 years of changes in the economic system, the ownership system of our country has experienced major changes: (1) the single structure of public ownership changed into a public ownership system with a variety of ownership structures, including a small number of non-socialist ownership factors; (2) the grade-rank system of the form of ownership has already changed and begun to form a long-term structure of the co-existence of a variety of economic forms of a mainly public ownership system; (3) many developments have taken place in the collective and whole people types of public ownership, in the whole people ownership system there are enterprise ownership and individual ownership elements, and in the collective ownership system there is the element of individual ownership; (4) within the collective and whole people ownership systems great changes have already taken place, the rural collectives already have the separation of ownership rights and managerial rights, while the whole people ownership system is already making a suitable separation; (5) the production of new ownership forms--the joining of different ownership systems, as well as joint Chinese-foreign integrated economics.

In conjunction with the changes in the ownership structure, the distribution system also is now carrying out changes. In terms of all of society, distribution according to labor is the core of the distribution system, however, some elements unrelated to distribution according to labor have already appeared. In terms of economic elements of all types, the distribution system has produced obvious discrepancies. In the change from the workpoint system to the system of allocation calculated according to production there was better representation of distribution according to labor, but with the development of the individual economy, there was a gradually growing tendency toward elements unrelated to distribution according to labor and discrepancies in the level of well-being appeared. The whole people ownership system enterprises have carried out a wage system in which the enterprises and the staff and workers participate in the profit distribution with the income of the staff and workers tied to the good or bad operation of the enterprise. These new forms of distribution according to labor are beneficial in stimulating enterprise and worker enthusiasm, but they have exacerbated the contradiction between the enterprises and the state and have increased the contradictions between stores and between enterprises. The development of the individual economy complements the economic inadequacies of the socialist ownership system and it has enlivened marketplace circulation, but the excessively high income of a few people has created a form of social inequity and aroused dissatisfaction among the people. The promotion of contracts and leasing and the occurrence of private individuals hiring workers has promoted economic development, but it also has brought about excessive differences in the distribution of the contractors and lessors and that of the staff and workers and the distribution of the private enterprise owners and that of the staff and workers. The state organ cadres carried out a structured wage system which helped to strengthen the organ work responsibility system, but it also caused some contradictions among the cadres and the enterprise staff and workers.

The above mentioned reforms suit the needs for the development of our country's multi-level production force structure and for the development of the commodity economy, they have greatly strengthened the people's concept of material benefits and smashed the long dominant status of the egalitarianism of eating from the common pot. This unquestionably is a historical step forward. However, precisely because of the smashing of egalitarianism, there cannot help but be some discrepancies in the people's distribution and actual livelihood, moreover, following the progressive development of the commodity economy, these discrepancies for a certain period of time will continually widen. According to the principle of distribution according to labor, if the distribution maintains a certain level of discrepancy the people can accept it, but if the discrepancy is too great society will exhibit the unequal distribution and this will definitely cause various contradictions in the people's thoughts and views, it could even make them puzzled about and suspicious of the trends in the development of socialism. What especially cannot be overlooked is that economic benefits will accrue to enterprises and individuals, and if strong regulations and restrictions are not carried out this could possibly lead to the onesided pursuit of enterprise and individual benefits and consequently create contradictions and conflicts over economic benefits among the various ownership elements, among the various interest groups and among people of all types, thus bringing about social unrest.

The distribution issue is an extremely sensitive one which involves the personal concerns of the whole people, and with the addition of the element of prices of goods it becomes even more complex. The correct resolution of this issue depends on changes to the economic system, and at the same time also depends on ideological and political work. This ought to be given our special attention at this time.

3. Accelerate implementation of changes to the system of state power organs, truly achieve a separation of political and enterprise responsibilities, discontinue further direct connections between the institutions of state power and state benefits in order to thoroughly exercise the function of the institutions of state power in managing the socialist commodity economy and prevent the commodity economy principle of exchange of equal values from making incursions into the political life of the party and the state.

With the development of the socialist commodity economy the enterprises became relatively independent commodity producers and managers with their own independent economic benefits. We must ensure that in their production and management activities the enterprises always follow the socialist path forward in the commodity economy, bring about the unity of micro and macro goals, realize the unity of enterprise interests and social interests, and make enterprise activities agree with the needs of the state for macro overall balance. The state must then formulate models of action for the enterprises and moreover must use various economic, legal and political tactics to effectively exercise management and supervision of the enterprises. To achieve this, the state management organs must strictly implement a separation of state and enterprise responsibilities, all of the country's party and political organs then cannot be directly involved in conducting production and management activities, and also cannot use their authority in scheming for

economic benefits on behalf of their own units or for any individuals. Otherwise, the leadership, management and supervision of the enterprise economic activities would become empty words.

However, what is not easily avoided is that for all levels of state organs which manage enterprises, quite a few are now directly managing their own marketing and supply companies along with other companies and they scheme to economically benefit their own units, and as for the other management organs, such as the administrative departments of taxation, pricing and the administration of industry and commerce they also have regulations permitting them to acquire a portion of the fines levied in the investigation of illegal cases, and this becomes a part of the income of the staff and workers of these units. They also can take advantage of their authority to take cuts and accept bribes. It can be said without exaggeration that the incursion of the commodity economy principle of equal value of exchange into the political life of the party and state organs of authority already is a grim fact. If we continue to ignore it, and do not thoroughly correct this evil trend, carrying out a basic change for the better in party style and social practices will be very difficult, and there will be no way to thoroughly control some of the corrupt practices now evident in our state organs of authority.

Our party and state organs are faced with the following situation: the same leading cadre on the one hand are both communist party members and politicians; and on the other hand, are also enterprise administrators as well as officials having direct economic interests in the fortunes of those very enterprise. In their numerous economic activities, sometimes they act in departmental, local or enterprise interests and sometimes they act in their own interests, which throws the commodity economy general principle of exchange of equal values right into political life. The saying "the superior makes policy, while subordinates oppose policy," reflects this very situation. Of course, it is necessary to make a concrete analysis of the saying that "the subordinates oppose policy." Except for shortcomings in a very few policies the majority belong to actions which harm state interests and limit state supervision. Therefore, in the environment of a socialist commodity economy, the struggle between supervision and opposition to supervision is a long-term one. This actually is the struggle between a socialist planned commodity economy and a capitalist free economy.

In order to smoothly carry out construction of socialist material culture and spiritual culture, at the same time that we are strengthening ideological and political work we must accelerate the pace of reforming the state organs of authority, strengthening the legal system and strengthening the structure of supervision. We must institute highly concentrated leadership in some organs of economic management, such as taxation, auditing and statistics; formulate and promulgate "public servant laws" to provide the workers and personnel of state organs with rules to follow. At the same time, the economic organizations such as the supply and marketing companies under the state administrative organs should be made into independent enterprises so that the state administrative organs cannot have any further relations of direct economic benefit with such companies; the concerned departments should carry out their responsibilities without thought of reward and we should eliminate the system of dividing up the fines levied in the investigation of illegal

cases; we should strictly prohibit taking cuts and accepting bribes, and criminals should be severely punished. In short, we must undertake reforms and rectifications to enable our government to truly become one which is honest in performing official duties, and then our leadership and management of the socialist commodity economy will be even more powerful.

In developing the socialist commodity economy, we must, on the one hand, strengthen ideological and political work, which means to guarantee the construction of socialist material culture and also promote the construction of socialist spiritual culture; and on the other hand, we must hasten the reforms in the system of state political organs to truly attain a separation of the government and the enterprises in order to fully develop the role of the state organs of power in leading, managing and supervising the socialist commodity economy. In working along these two lines, we definitely will be able to bring about the healthy development of the socialist commodity economy and build a socialist modern nation having Chinese characteristics with a public ownership system, a sharing of the wealth, equal development of both cultures.

11582

CSO: 4005/490

## ECONOMIC PLANNING

### OPENING OF CENTRAL CHINA PORTS TO WORLD TRADE URGED

Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 5, 3 Feb 86 p 10

[Article by Zhang Siping [1728 1835 1627], deputy director, Hubei Provincial Economic Research Institute: "Central China Economy Gears For World Markets"]

[Text] The three provinces and one city (Henan, Hubei and Hunan provinces and Wuhan City) that make up the central China region are located in China's hinterland where the strategy for economic and social development has to be geared not only to the whole country but to world markets as well, and economic and technical ties with world markets have to be strengthened. It is necessary both to actively import foreign capital and technology and to strive to open international markets.

Ever since China instituted a policy of opening to the outside world, this region has strengthened its economic ties with all the countries of the world. Take Wuhan, for example. Since the opening of this port, there have been 23 different joint Chinese and foreign ventures and joint operations using approximately \$150 million of foreign capital. During 1985, exports by the city's foreign trade system brought in \$51 million in foreign exchange. The central China region is a newcomer as compared with coastal cities and has to enter into further direct dialogue with world markets.

#### Opening of Three Main Routes and Reliance On Three Major Ports

In terms of objective conditions, the central China region neighbors coastal provinces and cities. Numerous major communications and transportation routes connect it directly with coastal ports. Consequently, we believe that the strategy for economic and social development of the central China region must make full use of three transportation trunklines that connect with three major coastal ports. These points and lines may be used to bind the central China economy with world markets.

The northern route. Use of the Longhai Railroad and reliance on the port at Lianyungang to connect with the Central Plains hinterland. Lianyungang is a superb foreign trade port for China that is bound closely to the northern part of the central China region's vast hinterland via the Longhai Railroad (or an as yet to be built highspeed highway.) Externally, it looks out across the sea toward Japan and Korea, which are fairly nearby. Importation of

foreign trade goods from the northern part of the central China region can be shifted from Qingdao and Shanghai to Lianyungang. A saving of between 5 and 8 yuan per ton could be realized on railroad transportation fees eastward from Zhengzhou alone.

In the realm of strategic measures, first of all joint development and construction of the port could be entered into with Lianyungang, with joint investment in construction and the establishment of dedicated piers to do a good job of building basic facilities. Major efforts could be devoted to the development of transportation endeavors to connect the central China region with Lianyungang. Next, consideration could be given to the establishment of a "special zone" at Lianyungang, and the establishment of a "window to the outside world" to attract foreign capital, for the importation of technology, and for obtaining timely information on world markets.

The eastern route. Use of the ChangJiang and reliance on the group of foreign trade ports in the lower reaches of the ChangJiang to connect with the middle reaches of the ChangJiang. In recent years, a series of foreign trade ports and wharves have been built or are in the process of being built along the Changjiang. A group of foreign trade ports have begun to form at Nantong, Zhangjiagang, Nanjing and Shanghai, and today there are 69 anchorages for 10,000 ton and above class ships. It is estimated by by 2000, there will be 300. Until such time as some port cities in the middle reaches of the Changjiang are opened to the outside world, the central China region can use the "golden waterway" that is the Changjiang and rely on a group of foreign trade ports in the lower reaches of the Changjiang to bring to bear the strength of the central China economy to open markets overseas, to import foreign capital and technology, and make use of the Changjiang to link the entire central China region with the world economy.

The southern route. Reliance on Guangzhou ports to link the southern parts of the central China region. Guangzhou is a window on the outside world for the Hunan region, and Hunan is a vast economic hinterland for the port of Guangzhou. Doubletracking of the southern section of the Beijing-Guangzhou Railroad will greatly increase transportation capacity and will create favorable conditions for strengthening the economic ties of both regions.

Generally speaking, Lianyungang is the main gateway that links the Henan region with the world; the Wuhan area mostly uses a number of ports in the lower reaches of the Changjiang; and Hunan uses the Guangzhou port. At the same time, they can be mutually supporting and complementary. For example, by using the Beijing-Guangzhou Railroad, Guangzhou can be integrated with the entire central China region. By using a combination of railroad branch lines and highways along the Changjiang, ports in the lower reaches of the Changjiang can serve the entire central China area. In this way, a basic network may be formed that links the central China region with the world economy.

#### Establishment of a "Central China Development Zone"

If the central China region relies solely on transit through coastal ports, it will be restricted by the ports' transit capacity and the railroads' hauling

capacity. The number of links will also increase. This will be bad for the export of large volume primary products and fresh or live produce. It will also make for difficulties in obtaining market information in inland China about distant international markets. Thus, while making fullest use of coastal ports, it is necessary gradually to open some cities in central China that have the requisite conditions. For example, consideration should be given to opening cities along the Changjiang as the first step in opening to the outside world to develop a "central China development zone."

Conditions are extremely favorable for opening cities along the Changjiang to the outside world. The Changjiang is an inland river that opens to the sea. In its middle and lower reaches its channel is substantially in condition for travel to the sea. During the intermediate and high water stages, 3,000 to 5,000 ton seagoing ships can travel directly to the ocean. By selecting ships that can sail on the river or the ocean, and with some dredging of the channel, year round sailings to Japan, Hong Kong and Macao, and to Southeast Asia will be possible. In a certain sense, cities along the middle reaches of the Changjiang possess the major capabilities and advantages of coastal port cities. Furthermore, historically some cities in the middle reaches of the Changjiang (such as Wuhan) have been trading ports for foreign trade. In recent years, some cities have revived their customhouses and expanded economic and technical changes with the outside world, and they have also continued to set up shipping companies for both river and ocean shipping.

In the middle reaches of the Changjiang, it is 973 kilometers from Nanjinguan at Yichang to Hukou in Jiangxi. The large and medium size cities lining the shore along the way such as Yichang, Shashi, Yueyang, Wuhan, Ezhou, Huangshi and Jiujiang are the most economically developed area in the central China region, and it has been listed by the state as one of the seven major economically developed areas in the whole country. These cities have a vast hinterland and are fairly strong in economic radiation and economic attraction. For example, Yichang is renowned as the country's largest hydroelectric power city; Shashi is renowned for its light and textile industries; Yueyang is an economic center for the Dongtinghu region of Hubei; Wuhan is the largest metropolitan area in inland China; and Huangshi is a major raw and processed materials industrial base. Opening of the cities along the middle reaches of the Changjiang to the outside world would give impetus to the economic development of the central China region and would have a major effect on the economy of the entire Changjiang basin.

9432

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ECONOMIC PLANNING

SHANGHAI MAYOR SPEAKS ON RETOOLING ENTERPRISES

OW040140 Beijing XINHUA in English 0124 GMT 4 Apr 86

[Text] Beijing, April 4 (XINHUA)--Shanghai plans to invest 12.8 billion yuan in retooling its existing enterprises in the five years to come, Mayor Jiang Zemin said here today.

Though the figure is 45 percent more than the previous five-year period, it is far from enough, the mayor of China's biggest industrial city added.

Shanghai should use foreign funds and import technology "boldly", said the mayor who is here attending the current session of the National People's Congress. With 8,000 factories, Shanghai must transform its traditional industries with new technology, upgrade products, develop new industries and expand the service trades, he said. As the most important economic center in China, the revenues of Shanghai make up one-sixth of those of the whole country and its exports account for one-eighth.

In the next five years, Shanghai's development will focus on technology-intensive industries and sophisticated products, while the industries with high consumption of raw materials and discharging large quantities of pollutants are scheduled to be phased out.

Wang Zukang, an official of the Shanghai Planning Commission, said that the city has selected 150 key enterprises among its 8,000 or so and intends to equip them with advanced technology. Though the key enterprises account for only 1.8 percent of the total number, they yield more than 30 percent of the city's output value.

He was sure that updating those enterprises will help promote the technical advance of the whole of Shanghai's industry and improve the economic returns of the entire city.

In the next five years, Shanghai will concentrate its efforts on streamlining its industries in the following four categories:

--Consumer goods industry, including food, drinks, export-oriented high-grade garments, color televisions, refrigerators, washing machines, air-conditioners, cameras and cosmetics;

--Machine-building industry, including thermal power-generating units, nuclear power-generating units, cars, heavy-duty trucks, new machine tools, ships, and meters and instruments;

--Raw materials industry, including expansion of the Baoshan Steel Works and other steel plants, cement, light building materials, fine chemicals and high-grade dyes;

--New industries, including micro-electronics, optical fiber telecommunications, lasers, bioengineering, marine engineering and robots.

Though the new industries only make up four or five percent of the whole of Shanghai's industry at present, they will rise rapidly as they represent the thrust of industrial development of Shanghai as well as of the whole country, Wang Zukang added.

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CSO: 4020/272

ECONOMIC MANAGEMENT

DEVELOPMENT OF LATERAL ECONOMIC COOPERATION DISCUSSED

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 25 Jan 86 p 3

[Article by Sun Shuyi [1327 2885 5030]: "Lateral Economic Combinations in Vigorous Development"]

[Text] In July 1980, the State Council promulgated "Certain Regulations Concerning the Promotion of Economic Integration." Guided by this policy, extensive lateral economic integration of enterprises has appeared in various forms, of various contents and at various levels in the spirit of learning from the strong points of one another, breaking down the regional blockades and departmental barriers, and strengthening the economic and technical relations. This lateral economic integration is developing rapidly to meet the requirements of production and circulation and on the basis of the enterprises' greater decisionmaking power. Now, the content of this integration has developed from those mainly concerning cooperation in material supplies at the initial stage to cooperation regarding products, funds, technology, skilled personnel, production, materials, and marketing through different channels, in different forms and at different levels in both the economic and the technological fields; from temporary cooperation in single projects to long-term and steady cooperation; from cooperation between enterprises on specific projects to the formation of various syndicates and groups of enterprises in cooperation. They are innovations in China's economic life and their advantages are shown in the fairly rational development of resources, use of funds, and deployment of productive forces, and in good economic results, conformity to social needs and promising prospects of long-range development. Their development will certainly lead to new changes in the organizational affiliations of enterprises, the structure of the ownership systems, and the systems of planning, banking and circulation.

Lateral economic and technical integration has developed vigorously and made new progress in recent years. In 1983, the cooperative projects throughout the country totaled 8,550; their number was increased to 17,000 in 1984 and exceeded 35,000 in 1985. The projects already undertaken were 6 billion yuan in value, an increase of 2 billion yuan over the previous year. In 1985, 10 billion yuan worth of materials were used in the cooperative program and nearly 50,000 persons were involved in the personnel exchange. The benefits from lateral economic integration were also remarkable. For example, Jiangsu

imported 12 million tons of coal through the cooperative program last year. Based on the calculation that 40,000 tons of coal can generate 100 million yuan of industrial output value, then its industrial output value was increased by 30 billion yuan, and the taxes and profits, calculated at 20 percent, would be increased by 6 billion yuan.

In the course of developing lateral integration, the parties concerned all stressed the importance of seeking truth from facts and firmly adhered to the policy of choosing whatever is the best on the basis of voluntary participation, equality and mutual benefits; and without changing the systems of ownership, and the organizational affiliations of the enterprises, or the channels of their tax payments, combinations of various economic entities were organized with a view to promoting production development and technical progress and improving the economic results.

The content and forms of lateral integration are multifarious. Usually a single combination also means a combination of different content and forms.

As for the content, there is integration of specialization and cooperation in production; integration of funds; integration of technology; integration of labor; integration of processing enterprises with the suppliers of fuel and raw materials; integration of different production techniques (such as electroplating, forging, heat-treatment, and equipment repairs); integration of different modes of transportation (such as railway, highway and waterway); and integration of marketing and the supply of complete sets of equipment--totalling eight different kinds of integration.

As for their forms, integration may be that of enterprises in the same region and the same trade; enterprises of different regions, different departments and different trades; urban and rural enterprises; enterprises of different organizational affiliations; enterprises of different ownership systems; industrial, commercial and foreign trade enterprises; industrial enterprises, scientific research units, universities and vocational colleges; and military industry enterprises and civilian industry enterprises--also a total of eight different types.

Economic integration can be of either a loose or a closely-knit form.

Lateral economic integration has made new breakthroughs both in breadth and in depth on the basis of increasing the enterprises' vitality and bringing into full play the role of the key cities. The present economic integration has the following characteristics of development:

They have developed through various channels from the integration of enterprises organized within their own trade and their own region with mainly administrative methods by the administrative departments, to integration of enterprises at different levels and of different forms and standings formed across departmental, trade, regional and urban-rural boundaries, and with economic means chosen by the enterprises; from purely single-project cooperation in production to integration of industry, agriculture, commercial, science and technology, education, and particularly the pooling of funds, technology, skilled personnel and materials; from cooperation in production

and supportive projects in the form of a "coordinated process" for a single line of products to the formation of a cooperative network of various enterprises and groups in production and technology and the formation of areas of cooperation in production and technology; from integration for the exchange of products, the farming out of spare parts and accessories and the expansion of productive capacity of enterprises for their main products to the extensive integration of the higher structures of software development centering on management and technology.

Thus we can see that this lateral integration has become an important channel and the main organizational form for increasing the enterprises' vitality, developing planned commodity economy, bringing into play the radiative role of key cities, promoting technical progress, and stimulating the economy. It also signifies the vitality and stamina of China's economy. As we can anticipate, the vigorous development of lateral integration will play an increasingly important role in China's national economic development.

9411

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FINANCE AND BANKING

USE OF CENTRAL BANK TO CONTROL ECONOMY DISCUSSED

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 2, 4 Feb 86 pp 4-6

[Article by Liu Hongru [0491 7703 0320]: "Strengthen, Improve Macroeconomic Control, Strive To Stimulate Finance"]

[Text] We are now entering the first year--1986--of the Seventh 5-Year Plan in an excellent situation of vigorous and harmonious national economic development. Reviewing our experiences in 1985, we can see that this excellent situation has not come easy; but looking forward to 1986, we see a bright future, although this does not mean exactly plain sailing. The task for us in macroeconomic control and in the stimulation of finance will be more complex and arduous, and greater efforts on our part will be required.

I. To rectify certain anomalies in our economic life from the loss of control and to preserve the harmonious, sustained and steady development of the national economy, the CPC Central Committee and the State Council adopted a series of important measures in 1985 to strengthen the macroeconomic control through macrocontrol over finance. The workers on the financial front have done a great deal of work and achieved great successes. Finance has been brought under control and the national economy is now developing in harmony, as shown in the following: Compared with 1984, the issuance of currency was greatly reduced despite the large increases in industrial and agricultural output and in commodity sales, and the savings deposits of the urban and rural residents have greatly increased. To promote normal economic development, priority was guaranteed in the supply of funds and granting of loans for the procurement of agricultural and sideline products and for the production and procurement of easily marketable consumer goods and foreign trade commodities. However, strict control was exercised according to plans over the loans for fixed asset investment and the rural enterprises. The practice of granting loans indiscriminately over and above the plan has been changed. The increase in consumption funds was also brought under control. Because of the reforms in pricing and wages in 1985, it was necessary to increase the cash payments for wages and other remuneration. In April, however, the State Council began to enforce some emergency control measures, and the margin of increase in these cash payments by the banks was reduced every month. Then the tightening of money supply in July induced both capital construction investment and industrial growth to slow down and to return gradually to the path of normal development.

Of course, we must also be aware of certain noteworthy problems in the economic and financial developments. The main problem is that, since the excessive scale of fixed asset investment has not been truly brought under control, the state's foreign exchange is now dwindling and the shortage of funds is keenly felt. To expand the scope of their investment in fixed assets, some areas and departments have resorted to many methods--such as indiscriminate fund raising and establishment of financial institutions--which are detrimental to the banks' credit funds. Thus funds were diverted from the banks resulting in drastic reductions in the enterprise deposits and capital construction deposits. Now, the enterprises are in need of bank loans to expand their production and business operations on the one hand, and the banks' sources of credit funds are diminishing on the other. The contradiction between the supply of and the demand for credit funds is intensifying. At the same time, the stagnation of the enterprises' circulation funds and their slow turnover, which is now quite common, have further aggravated the shortage of credit funds. The central bank's mechanism of regulation is inadequate in the system of control over the banks. The People's Bank has the means to control the general scope of loans, but it cannot do much to stimulate the finance and to arouse the enthusiasm of various specialized banks and the localities in the circulation of funds for mutual accommodation. Some banks do not conduct in-depth investigations before granting loans. Since they are not well informed, their forecast is inaccurate; without a sound operating system, their examination cannot be thorough and their responsibility is not clearly defined. Therefore, their loans yield poor economic results. All these problems should be taken seriously and efforts should be made for their solution in 1986.

II. The situation of funds will be even more serious in 1986 than in 1985. To continue the development of production and to maintain the fixed asset investment at the previous year's level, huge funds are required from the banks. However, the bank deposits will not be much increased, and may even be decreased in some banks. The foreign currency reserve is also diminishing, and cannot be indefinitely relied on as a means of maintaining our economic growth. Currency issuance too should be strictly controlled instead of being increased. What will be the source of funds for supporting production and construction? This is the crucial question now confronting us. To support economic development, our policy should be oriented to society for extensive fund-raising and the promotion of fund circulation in order to make better use of the money and to tap the financial resources. If we say that in 1984, we were only concerned with the invigoration of the economy but did not adequately exercise our control and that in 1985, we were only concerned with the strengthening of macroeconomic control but were not sufficiently attentive to the stimulation of finance, then in 1986, we must strengthen and improve the macroeconomic control and strive to stimulate the finance. To strengthen the macroeconomic control, we must first control the scale of fixed asset investment of not only the state-owned units but also of the society as a whole. Second, we must control the increase in consumption funds and improve the living conditions gradually, but not hastily. For the effective control of accumulation and consumption we must strictly control the volumes of loans and money supply, and there cannot be the least relaxation in this respect. At the same time, if we want to stimulate the finance, we must focus our work

on the improvement of economic results, raise funds more extensively, promote their circulation more flexibly, and use the funds more fruitfully so that we may have more funds, more flexible circulation, quicker turnover and better economic results.

To meet these requirements, we must reform the banking system vigorously in 1986, mainly by setting up a more flexible and effective banking regulation system, and combine macroeconomic control with microeconomic stimulation in an organic way. In macroeconomic regulation, the main way is to ensure equilibrium between the total social supply and the total social demand and then to stabilize the currency and keep the international payments balanced in order to realize and preserve a comprehensive balance of finance, credit, foreign exchange and materials, and to promote the sustained, steady and harmonious development of the national economy. In microeconomic regulation, the main way is to allocate the funds rationally and use them effectively so as to promote their lateral flow, and to ensure normal production and circulation with the optimal economic results.

Based on our experiences in 1985, if we want to combine macroeconomic and microeconomic regulations closely, and to combine macroeconomic and microeconomic results in an organic way, we must also combine scope regulation with structural regulation. The so-called scope regulation refers to the general scope of money supply and loans, or what we usually call tightening or easing the money supply. The special characteristic of this type of regulation is to balance the total supply and total demand and to stabilize the currency through money supply. Only thus can the enterprises rationally anticipate their business results and decide on their production and investment accordingly; can the people correctly decide on their consumption and conservation; and can various reform measures be carried out smoothly with the expected result. The so-called structural regulation refers to the use of financial policies, credit funds, interest rates and other economic levers to regulate the economic structure including the major proportionate relationships, the production structure, the enterprise line-up, the technology structure, the product mix, the consumption pattern and the employment structure. Experience has shown that structural regulation is a condition for the success of macroeconomic control. There must be ups and downs as well as easiness and tightness before the economy can be stimulated and the macroeconomic scope control accomplished. If every unit wants to go up and not down and no one wants to be "cut," then the whole country will have to conform to some "arbitrary uniformity"; otherwise the scope control will not be effective. If we want to strengthen macroeconomic control and to stimulate the microeconomy, scope regulation provides the key so that, in dealing with different regions, trades, enterprises and products, we can use financial policies and measures selectively in supporting those whose social economic results are good, and restricting those whose social economic results are poor. Those who should be invigorated must be strongly supported, while those who should be controlled must be strictly controlled. There must be both rapid and slow growth, upgrading and downgrading and flexibility and strictness before the entire economy can be stimulated and its steady development may continue.

III. How to make good use of financial regulation is a fairly complex question. At present, we should properly handle the following relationships.

1. The monetary relationship between the central bank on the one hand and the specialized banks and other financial institutions on the other. The CPC Central Committee and the State Council have already designated the People's Bank of China as the central bank to provide business leadership and management over the specialized banks and other financial institutions. The central bank cannot directly handle the deposits of and loans for the enterprises and individuals. However, it can regulate and control the monetary transactions through the specialized banks and other financial institutions. In light of realities, China is not yet able to exercise indirect control entirely through interest rates and the open market; it can only combine direct with indirect control. Considering the fact that China's financial market is not quite developed and its interest rate as an economic lever is not quite flexible, it must control the size of loans in addition to the issuance of currency. This method of control has the advantages of simplicity and early effects, although there is the problem that it may also dampen the enthusiasm of the banks in increasing both their deposits and loans. It must determine the maximum amount of loans on the basis of the predicted economic growth, although the banks may have some leeway in readjusting it. The specialized banks can increase their loans provided they can also increase their deposits and recover their loans. Another requirement is to draw a demarcation line between plans and funds. In the past, after approving the credit plans of the specialized banks, the People's Bank had to guarantee the supply of funds to the specialized banks whenever their loans exceeded their deposits, and no room was left for regulation by the People's Bank. At the same time, should there be any change in the economic conditions during the year, the People's Bank still could do nothing in the way of regulation. In fact, it had to underwrite the specialized banks' shortage of funds. This practise of "eating from the same pot" must be ended. Plans and funds must be treated as separate issues, and the central bank's approval of plans should not be taken as its obligation to supply funds. By this means, we can induce the specialized banks to face the society and to attract more deposits to meet credit plan requirements. In other words, if they are short of funds, they must generate more deposits or recover their loans. If their funds are still insufficient, they can negotiate with other banks for short-term loans. Of course, they may also borrow from the central bank. The central bank should also decide on the size and duration of its loans to the specialized banks on the basis of economic development or market changes. By this means, it will be able to control the money supply to the whole society flexibly and effectively.

2. The relationship between the central bank and the local banks. At present, many localities are raising funds through various channels to finance their own capital construction projects and leaving certain "hard deficits" (in their working capital, for example) to be taken care of by the central bank. Macrocontrol over finance under such circumstances can hardly be effective. Therefore, the central bank must not only exercise its departmental control over the specialized banks, but also control the maximum size of loans for different regions besides carefully analyzing the local trends and taking the necessary measures promptly. The purpose of

macroeconomic control by the bank is to create the necessary conditions for the harmonious development of the economy which is its basic goal. Therefore, its attention should be focussed on fund raising and different measures should be taken to increase its deposits and to recover its loans in order that the required funds for economic development could be guaranteed.

3. The relationship between the banks and the enterprises. With their loans under the control of the central bank, the specialized banks will no longer be able to supply whatever the enterprises want. According to the "supply system" custom formed over many years, the banks seemed to be obligated to grant loans for whatever construction or technical transformation projects decided on by a department in charge, and to supply the working capital of the enterprises. Thus all projects, regardless of their economic results, were financed by bank loans resulting in fund stagnation and serious waste, and some loans had to be written off as bad debts. At the same time, the localities, departments and enterprises were only concerned with their fixed asset investment and gave little thought to the use of working capital or the source of funds. Many enterprises rarely used their after-tax profits, retained as production development funds, to replenish their working capital, and some enterprises had basically no working capital of their own. This is a serious hindrance to the banks' control over the scope of loans, and to the enterprises' independent operations and improvement in management. This situation must be changed in the future, and the projects decided on by the departments in charge and the bank loans should be treated as different issues. The practice of "eating from the same pot" in the use of working capital must be ended, and the banks should decide on the granting of loans or the size of loans to be granted. At the same time, the banks should adopt the principle of differentiating among borrowers and giving priority to those with good performance. It can also set differential interest rates to reward the good and to restrict the poor as a means of encouraging the enterprises to speed up the turnover and to make better use of their funds.

4. The relationship between direct and indirect finance. China's economic reform is oriented to indirect finance, with bank deposits and loans playing the main role and direct finance in a subsidiary role. However, direct finance in the forms of commercial credit, bonds, stock certificates and so forth are indispensable. A planned commodity economy requires a lateral flow of funds to wherever they can serve the economic interests of the society. That is why the present system of vertical distribution of funds must be changed. Through various forms of financial capital and money market, the banks can flexibly and effectively raise and circulate funds among themselves. At the same time, macroeconomic regulations should be supplemented by the money market. When the banks tighten their control over the size of loans, the money market can serve as a cushion to prevent the application of the emergency brake which would suddenly disrupt the economy and bring losses. The present requirement is to provide active guidance and control to prevent huge credit funds from being used to expand the scale of capital construction. We should open the money market in a planned way and under leadership, and banks should be used as the principal means to prevent it from getting out of control.

5. The relationship between the various branches of specialized banks. At present, the specialized banks at various levels are "eating from the same pot" in the supply of funds. When the banks at some lower levels are short of funds, they will get them from the higher level, and have no responsibility for the results of their loans. If this practice is not changed, the bank will not be able to play its full role of regulation, and the funds cannot be used to any better advantage. In the reform, banks should be run as enterprises. The main objective of the present reform is to arouse the enthusiasm of banks at various levels to increase their deposits, recover their loans or to make better use of their loans. In the future, the management of all specialized banks should gradually change to the form of enterprises, and the system of examining and approving the applications of loans as well as the responsibility system should be further improved. At the same time, in accordance with the proposed requirements of the Seventh 5-Year Plan, the banks' business decisionmaking power should be affirmed, and the governments at all levels should supervise and support the banks of various localities in the conscientious implementation of the state's financial policies, and protect their legitimate interests from infringement.

6. The relationship between reform and personnel. The reform of the financial system has become an important component of the reform of the entire economic system, and banks have become an important means of fund-raising and economic regulation in the national economy. The quality of banking also has a bearing on the overall economic situation. An outstanding problem now is that we do not have enough bank cadres, and the ones we do have are not quite competent since they know little about modern banking or management in a commodity economy. In 1986, we must treat the training of these cadres as an important aspect of the financial system reform. At the same time, we must step up ideological-political work, including the study of Marxist theories and the education in ideals and disciplines, among the cadres, strengthen their dedication to work and their sense of responsibility, and encourage them to implement the party's general and specific policies in the reform and to make every effort to complete the financial tasks set for 1986.

9411

CSO: 4006/818

CENTRAL BANK'S ENHANCED POSITION EXAMINED

Shanghai SHIJIE JINGJI DAOBAO [WORLD ECONOMIC HERALD] in Chinese 20 Jan 86 p 5

[Article by Zhang Zhichao [1728 1807 6389]: "Spectacular Policy Changes Concerning the Central Bank's Position"]

[Text] Since February last year, spectacular changes have occurred in the organization, personnel and policy orientation of the People's Bank of China which serves as China's central bank. As observed by civilians from an academic point of view, this is an unusual year for the central bank.

An Obvious Rise of the Central Bank's Position

Some personnel changes occurred in the central bank early last year. Ordinary people were puzzled by the hasty appointment of its new president. To people who are familiar with China's economic operations, however, the significance of this change was immediately grasped. Within the framework of China's political economy, the rise of a bank president in ranks is an effective way to strengthen the central bank's position without disturbing the original balance of relationships. This action has put an end to the former nominal authority of the central bank and strengthened its control over the specialized banks without, however, downgrading these specialized banks or disturbing the vertical organizational relations within their systems. This reflects the feasibility of using the existing administrative apparatus to better advantage when important decisions have been made at the high echelons on the economic front.

Shift of Policy Goals to Control over Currency Issuance

After its reorganization early last year, the central bank immediately asserted its authority in a drastic tightening of the issuance of currency throughout the country. Its swift and vigorous action inspired alarm among people in various quarters.

According to conventional rules, the goals of monetary policies in most countries are economic growth, price stability, and a balanced domestic and foreign currencies. These final goals can only be attained through certain intermediate goals. This line of reasoning did not seem to be clear to China's central bank in the past. This tightening of money supply, however,

has given an important signal: The central bank is now clearly aware that the policy goal is to control the issuance of currency; its method is to tighten its control over bank credits as an important step; and the means used is a combination of administrative and economic methods.

In all fairness, this shift in the central bank's policy has caught people by surprise. From the standpoint of the overall economic situation, however, this measure is only normal and should be no cause for criticism. Defects in certain details are unavoidable; but they are not hard to correct. As we can see, the shift in the central bank's policy has produced practical results, and there is no reason to predict that it will reverse its policy by abandoning the control over money supply. Therefore, the tight money market may tend to last for a long time.

#### Streamlining the Price of Money

While making no concession whatsoever in tightening the issuance of currency, the central bank was quite attentive to the question of money price last year. This shows that while strengthening the macroeconomic control, it has not relaxed its efforts in the monetary reform. The combination of control and decontrol signifies a change of the former policy under which only decontrol was stressed. This should be a big step forward.

Money price, like commodity price, is where the key to the monetary reform lies. Within only 6 months last year, the central bank twice raised the deposit interest rates in an unprecedented move throughout the country. This shows the central bank's intention to stabilize the money supply even at the price of an unsteady interest rate. This is one of the features of the central bank's operations. Another feature is shown by the basically upward readjustment of the interest rates. Although this is a natural result of a tight money supply, it nevertheless shows the central bank's determination to change the negative interest rate, which had long existed in China, into a positive interest rate. The fact that the central bank has decided to accept the "positive interest rate" concept should be a blessing to China's economy.

The central bank has also taken some significant action in the matter of exchange rates. The rate of \$1:2.8 RMB set early last year remained almost unchanged for half a year. In September, the RMB began its sharp drop down to the rate of \$1:3.2 RMB. In view of the central bank's courage in readjusting the exchange rate flexibly, further changes can be expected within this year.

Incidentally, it should be pointed that, the central bank's intention now, as revealed by its policy trend of control and change, is for the monetary reform to play a supportive role in the entire economic reform.

#### Existing Hidden Problems

On the whole, the central bank did give superior performance last year. Its policy changes have basically produced the expected results and its role have been quite positive. Its great might was keenly felt by the economic units at all levels throughout the country last year. Its economic activities are now on a regular pattern, but it also has some latent problems which deserve our

attention. Its four major problems are as follows: 1) The relationship between banking and finance has not been streamlined. 2) Banking legislation has long been overdue, and the central bank lacks a legal basis and protection. 3) The monetary policy somehow lacks diversification. 4) The banking relations with foreign countries are seriously inadequate.

Any of these four unsolved problems may be fatal to the central bank. Therefore, while viewing its performance with approbation, people in academic circles still dare not to be optimistic over its future.

With its position materially strengthened, the central bank has drastically tightened its control over banking. The abruptness of its action is only a normal phenomenon and should be no cause for criticism. Despite its deep concern with the monetary reform and its achievements in this respect, it still has its hidden problems and cannot afford to relax its efforts.

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CSO: 4006/836

FINANCE AND BANKING

STATE COUNCIL REGULATIONS ON 1986 STATE TREASURY BONDS

Beijing CAIZHENG [FINANCE] in Chinese No 2, 8 Feb 86 p 21

[Introductory comment on and text of Circular of the State Council: "Regulations Governing 1986 State Treasury Bonds of the PRC" promulgated by the State Council"; date not given]

[Text] This publication has learned that the State Council issued a circular notice on the promulgation of the "Regulations Governing 1986 State Treasury Bonds of the PRC." The circular says that the total amount of the 1986 state treasury bonds remains fixed at 6 billion yuan, of which the units are to take up 2 billion and the general urban and rural public are to take up 4 billion yuan.

The circular points out that buying the treasury bonds in support of the nation's construction is the bounden duty of every unit and of the masses at all levels. The purchasing task allotted to the various units must be fulfilled on time. The purchasing task allotted to the masses must base on effective ideological preparation and must be allocated in proper proportions to the income levels of the urban and rural population, ensuring fulfillment of the task. In cases of true hardship, allotments may be reduced or even completely set aside, depending on the particular circumstances.

The circular demands that the people's governments at all levels earnestly strengthen their guidance regarding the issuance of the treasury bonds, widely propagate the significance of the continued issuance of treasury bonds and arouse the patriotic spirit of the masses. The finance departments at all levels shall set up particular organs to handle the treasury bonds and shall provide the necessary special personnel. Banks at all levels shall incorporate the task of issuing treasury bonds into their normal professional tasks and conscientiously carry out this work. The propaganda departments at all levels shall work in close coordination and strengthen propaganda and reporting work.

The following is the full text of the "Regulations Governing 1986 State Treasury Bonds of the PRC."

## Regulations Governing 1986 State Treasury Bonds of the PRC

Article 1: For the purpose of appropriately concentrating the financial strength from all quarters and carry out our socialist modernizations, it has been decided to issue the 1986 state treasury bonds of the PRC.

Article 2: The bond issue is particularly directed toward the following: state-run enterprises, collective enterprises, departments and local governments in administrative charge of enterprises, government organs, corporate bodies, military units, industrial units, individual industrial and commercial households, and the urban and rural population.

Article 3: Rational methods shall be adopted for the distribution of the treasury bonds. Units shall be allotted tasks according to a certain proportion of their extra-budgetary funds or the retained profits after taxes of collective enterprises. In the case of the urban and rural population, the purchasing task shall in general be allotted according to a fixed proportion of their incomes. The purchasing tasks allotted by the state must be fulfilled on time by all units and individuals.

Article 4: The total amount of the bond issue shall be determined by the State Council, and bond issue shall start on 1 January of this year. Bonds must be paid up before 30 June in the case of units, and before 30 September in the case of individuals.

Article 5: Interest rates for the treasury bonds shall be 6 percent per annum for bonds bought by units and 10 percent for bonds bought by individuals.

Treasury bond interest computation. For all bonds computation of interest shall start on 1 July, and there shall be no interest on advance payments.

Interest on bonds shall be paid in one amount together with the repayment of the principal; interest shall not be compounded.

Article 6: The unit of computation for the treasury bonds shall be RMB. In case units or individuals buy bonds for 1,000 yuan or more, they shall be issued treasury bond receipts slips, which may be made out to the buyer's name and the loss of which may be reported in order to obtain replacement. Individuals who buy bonds for less than 1,000 yuan are to be issued treasury bond certificates. The treasury bonds shall be issued in denominations of 5, 10, 50 and 100 yuan.

Article 7: The treasury bonds shall be redeemed after 5 years; principal and interest shall be repaid in one payment in the 6th year after issue.

Article 8: Issue and repayment of principal and interest of the treasury bonds shall be handled by the People's Bank of China, the Chinese Industrial and Commercial Bank, the Chinese Agricultural Bank, the Bank of China and their subordinate organizations.

Article 9: Funds raised through the issue of the treasury bonds shall be unifiedly taken care of and utilized by the State Council as needed for the development of the national economy and for the overall economic equilibrium.

Article 10: Treasury bonds may serve as collateral for bank loans. Bonds bought by individuals may be discounted by banks; specific regulations shall be drawn up by the People's Bank of China.

Article 11: Persons who counterfeit treasury bonds or sabotage the trustworthiness of the treasury bonds shall be punished in accordance with the law.

Article 12: The Ministry of Finance is charged with the interpretation of the present regulations.

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## FINANCE AND BANKING

### CHINA'S POLICY ON RMB EXCHANGE RATE DISCUSSED

Shanghai SHIJIE JINGJI DAOBAO [WORLD ECONOMIC HERALD] in Chinese 24 Feb 86 p 5

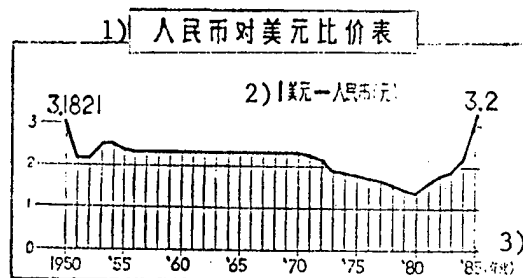
[Article by Wu Nianlu [0702 1819 6727], edited by Zhang Yining [1728 0001 1337] and Lin Guobao [2657 0948 1405]: "Formulation of Policy on RMB's Exchange Rate Discussed"]

[Text] The RMB [renminbi] exchange rate is an important component of China's foreign exchange structure and of its price structure. Such an exchange rate, either rational or irrational, has important effects on China's national economy and particularly on the development of its economic and financial relations with foreign countries. China's prices are not linked with the world market's prices, and RMB cannot be freely exchanged. That is why China's commodity prices are unrelated to international prices. This lack of relationship naturally brings about various contradictions and many handicaps to our economic and technical contacts with foreign countries which have become increasingly frequent. To remove these handicaps, we may either follow Hungary's example in reforming the structure of domestic prices so that they will approach the world market prices and in permitting the free exchange of Chinese currency, or readjust the exchange rate together with financial subsidies. The former calls for a study of the price policy. The question of the possibility for the commodity prices in such a large country as China--which has a planned economy and in which the foreign trade does not amount to much in its national economy--to fit in the world market and for its currency to be freely exchanged deserves serious consideration. We prefer the second method in which the importance of the exchange rate and the other financial measures are stressed. At the same time, we must understand that the means of revenues, credit and taxation must be coordinated before the exchange rate can function as a lever in our economic relations with foreign countries.

In reforming the RMB exchange rate system, two crucial tasks must be accomplished: first, research on setting the level of exchange rate, and second, determination of the form of regular readjustment.

In setting the level of exchange rate, we must first bear in mind the fact that because of its low labor productivity and its backwardness in science, technology, and management, China must make use of all available foreign resources, including labor, financial and material resources. Then what are the principles governing the setting of the exchange rate level? And at what

level should it be determined. Theoretically the RMB exchange rate should reflect its ratio to the amount of international value, or the proportion of commodity and labor it embodies to the amount of socially necessary time in the world market. Thus it must truthfully reflect the changes in the domestic and foreign markets as well as the price levels, or the purchasing power, in foreign countries. In my opinion, this price level also applies to trade, nontrade and labor prices. The department concerned should calculate various receipts and payments in foreign exchange and figure out the price parity between domestic and foreign commodities and labor by adding different weights, and do everything possible to arrive at a fairly realistic comprehensive price parity. After working out the projection models, it should select several large cities at home and abroad, such as Beijing, Shanghai, Tianjin, Guangzhou, Xian, Wuhan, New York, Tokyo, London, Hong Kong, and Paris, and periodically feed the data of price changes into a computer to produce two curves. The first curve should indicate the RMB's purchasing power. The rise in domestic prices should indicate RMB's devaluation, and the rise in foreign prices similarly should indicate the devaluation of foreign currencies. Then by comparing the changes in these two curves periodically, a fairly appropriate exchange rate for the RMB can be worked out. This is the basic criterion for determining the exchange rate level.



Key:

- 1) Table showing RMB-\$ exchange rates
- 2) \$1 - RMB (Yuan)
- 3) Year

The form in which RMB is regularly readjusted is not the same as the way to readjust the exchange rate level. If we readjust RMB's exchange rate on a regular basis, it may give certain units the opportunity to buy foreign exchange in advance and delay the settlement of their accounts, and may even lead to the erroneous conclusion that RMB's exchange rate can only go down after each readjustment. At the same time, our currency cannot be tied to that of a single foreign country. In determining the overall price parity, we should add more weight to the currencies of those countries with whom China has closer trade relations, and these weights should not remain fixed and unchanged for a long time. They must be readjusted from time to time according to the situation of trade development on both sides, the standing of each foreign currency on the international money market, and the requirements

of our political and economic policies toward foreign countries. The general principle behind the readjustment, as I believe, may be as follows: The level of exchange rate should be first determined. (The determination should be made with prudence and on a scientific and rational basis. The interval between readjustments, either upward or downward, should not be too short, and should preferably be on a one-time basis.) Then in response to the changes in the major currencies of the Western countries, RMB's exchange rate should be maintained slightly above the middle level mainly for the following reasons: (1) the advantage of RMB's stability and prestige among the international currencies; (2) the advantage in reducing the risks of drastic falls in the exchange rate in the event of international emergencies; and (3) the advantage to price accounting in imports and exports.

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## FINANCE AND BANKING

### ROLE OF SHANGHAI REGIONAL BANKS IN MACROECONOMIC CONTROL

Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese No 1,  
3 Jan 86 pp 14-17

[Article by Jin Dajian [6855 1129 1696]: "On How Shanghai's Local Banks Will Carry Out the Central Bank's Concept of Macroeconomic Control and Regulatory Functions"]

[Text] Strengthening macroeconomic control is an important precondition for the promotion of a sustained, stable and well coordinated development of the national economy and for an assured smooth progress in the reform of our economic system. Following changes in the distribution channels of the national income, the scope of business operations of the banks gradually widened, the capital that was accumulated and distributed by the banks increased with each passing day and the role of banks as hubs of all financial activity and as chief accounting offices for all capital in the society became more and more evident and grew in importance. At the same time, they gradually developed direct short-term lending activities. This systematic change decisively elevated the position of banks within the entire national economy. How can we, under these circumstances, strengthen macroeconomic control? In my opinion it is necessary to reinforce the macroeconomic control and regulatory functions of the local branches of the central bank, so as to turn them into assistants of the municipal government in effecting local economic regulation. In concrete terms, this would involve the following three aspects:

1. Adjustment of the relations between the central bank and the specialized banks and strengthening of the macroeconomic control function of the local branches of the central bank. At present all the specialized banks have set up their own systems, with powerful management and control systems and all showing great strength in the way of their vertical guidance. In the management of capital funds, with the vertical movement of capital within the systems of the various banks, it is still the head offices which are actually the ultimate lenders. The dependence of the various branch offices and agencies of the specialized banks on their head offices is by far greater than their dependence on the central bank, and the local branch of the central bank is frequently in a position which is not at all essential, a situation which amounts to an intermediary obstruction to financial macrocontrol. For instance: with the 1984 year-end loan balance the base figure for last years

increase in loans, all specialized banks, in order to inflate the base figure of their borrowing from the People's Bank, rushed to grant loans in December of the year before last. The increase in loans during that 1 month was almost equal to the total loan increases during the other 11 months, while the local branch of the People's Bank could only idly watch what was going on, without definite responsibility and authority and also without any effective means of intervening and exercising control. If this situation is allowed to continue, it is bound to adversely affect the core position of the central bank. Reforms must be directed toward strengthening the macrocontrol function of the local branch of the central bank, to bring the credit policies, credit plans and the entire business operations of the specialized bank branches into the overall orbit of unified planning by the local branch of the central bank, to have the macrocontrol of finances by the central bank changed from the limited restraints exercised over the main offices of the four specialized banks into one of direct guidance of the lower provincial and municipal level people's banks, thereby raising itself to a more powerful position.

2. The municipal people's bank must make plans for the overall financial balance and effectively employ the method of "stripping and slicing the [reserve] fund." Such "stripping and slicing" will not only provide Shanghai with a portion of reserve funds and increase the financial sources for the local economic construction, but, more importantly, will establish the necessary conditions to enable the breakup of vertical controls and the business monopoly exercised by the four specialized banks, as it will also enable a comprehensive rearrangement for all of Shanghai's construction funds, their flexible management, and the development of horizontal short-term [overnight] fund lending activities between the various bank branches in Shanghai. However, as the twin result of the "fund stripping and splicing," the municipal people's bank must assume the duty of balancing revenues and expenditures of local credit activities while an insufficiency of funds will remain the general trend in Shanghai for a long time to come. In this situation where it will be difficult for Shanghai to achieve by itself a balance of funds, it will be necessary to increase the capacity of the municipal people's bank to handle all monetary and [reserve] fund operations, by effecting a relative concentration of all local [reserve] funds. At the same time, it will be necessary to reform the method of unrestrained supply of funds to basic level banks and to enterprises, to have the responsibility for achieving a balance of loan receipts and disbursements divided up among the basic level banks, thereby guaranteeing sufficient capital during the Seventh 5-Year Plan for key construction projects and for engineering projects of the municipal government, and have the limited funds that are available directed toward items which require little investment, which will yield large output and which will show excellent economic results. All this requires that the municipal people's bank strengthen plan management and flexible regulation.

3. Stimulating and opening up Shanghai's financial market. In the wake of developing our commodity economy, it has become an objective necessity to utilize diverse forms and instruments of credit to gradually create and invigorate the financial market. As its positive effect, it will accelerate the accumulation, concentration and turnover of capital funds, broaden the scope of capital circulation, guide the distribution and flow of capital, and, furthermore, by trading in securities and bonds, it will also promote the

interchange of long-term and short-term funds, which all will put an end to the current situation of a high degree of concentration of bank credits, the lack of diversity in the forms and instruments of credit and the weakness of the macrocontrol. To stimulate and open up Shanghai's financial market it is not only necessary to grant self-determination for relatively independent business operations to all the currently extant regional offices and to the county bank branches of the specialized banks, enabling them to enter the financial market and participate in the supply of funds, but it will also be necessary to gradually increase the non-bank financial institutions and the urban credit cooperatives, allowing overseas-Chinese banks and foreign banks as well as the banks belonging to Hong Kong Chinese consortia to open banks in Shanghai, and allowing specialized banks of provincial and municipal rank from outside of Shanghai to establish agencies in Shanghai, to join the financial market in their capacity of traders. This would result in a financial system of great diversity and many levels. At the same time, we must make every effort to develop a diversity of credit forms and channels of credit accommodation, in which bank credits will be the principal component, using flexible and diverse instruments of credit, widely opening up all sources of capital funds. However, in whatever way we may stimulate the financial market, we must never abandon the path of the state's macroeconomic control. This demands that the central bank equip itself with a feedback system of greater sensitivity, be apt to take countermeasures with faster responsiveness, and possess more means of control and regulation. It is necessary to appropriately delineate the jurisdictions of the central and of the local people's banks for policy decisions at various levels. On the premise that a unified financial policy as well as all financial laws and regulations are guaranteed of implementation, the local branches of the central bank must be allowed to have appropriate authority to set up financial organizations, to have the right to adjust interest rates, the right of overall management of the regional [reserve] funds and the right of administrative control of finances, enabling it to make flexible adjustments according to the changing supply and demand conditions in the financial market, to safeguard the legitimate financial trade and proper financial order, and to make effective adjustments at the intermediate level in order to achieve the overall effect of a macroeconomic control of the entire country.

How are we to strengthen the Shanghai branch of the People's Bank in its exercise of central bank functions? In my opinion it is necessary to carry out the following reform measures:

First, have the municipal people's bank answerable to only a single line of authority. The head office of the People's Bank, reconciles the credit plans drawn up by the main offices of all specialized banks and determines one overall plan, which will be transmitted down directly to the municipal branch of the People's bank, without being further split up into different "lanes and alleys." The credit funds in Shanghai are unifiedly planned and balanced, unifiedly adjusted and distributed by the municipal people's bank. The main offices of the specialized banks can no more directly siphon off funds from their branch banks, and the branch banks can also no more, along their own lines, draw funds from higher up. They may be allowed fund movements with their respective head offices in such a way that interest will be charged as between correspondent banks, to preserve for them one channel of short-term

[reserve] fund lending but the total amount of such short-term fund loans must also be incorporated into the plan of the municipal people's bank, which will thus maintain control over the volume of such funds. At the same time, the municipal people's bank will check and verify with its head office: Following increases in the amount of currency issued throughout the country, Shanghai's [reserve] funds must be increased at an appropriate rate; when settlement is made of profits at Shanghai banks, an appropriate amount is to be left locally to replenish the funds at the disposal of the banks and increase their monetary strength; according to the proper growth rate of Shanghai's economy, a determination must be made annually of the supplementary amounts to be borrowed from the head office; the municipal people's bank shall collect together and turn in the reserve deposit funds for all the banks of the city, then also receive back from the head office a portion to provide a source for relending [discounting] to the specialized banks, to ensure a balance in Shanghai's credit receipts and disbursements and to increase the reserve funds which will be needed to the extent that the responsibility and authority of the local people's bank for macrocontrol is expanded.

Second, strict control of lending to the specialized banks and other financial institutions. Viewed from the standpoint of actual conditions in Shanghai, controls must be strengthened in two respects: One, controls must be instituted as to the upper ceiling of the total amount of loans by the various branches of the specialized banks with the help of administrative means, to control the overall scope of all lending. Two, relending [rediscounting] must be controlled, that is, through the control of loans to the specialized banks, the credit funds at their disposal is to be controlled, the capacity of their credit expansion is limited and finally the objective of controlling the overall scope of lending will be arrived at. The control of relending [rediscounting] by the various branch banks is to be effected mainly through the local people's bank by controlling whether to loan at all, whether to loan more or less, at higher or lower interest rates and for longer or shorter periods of time.

Third, establishing a reserve fund market among the banking trade of this city. The short-term reserve fund lending among the banking trade serves to temporarily reallocate surpluses and shortages of [reserve] funds within the banking trade, it enables distribution and use of funds with high efficiency and is a most effective and important method of fund operations. The formation of a market short-term funds will help do away with the current vertical and horizontal limitations in the banking trade and will enable the vertical flow of funds. It can adjust the direction of funds and the irrational state of fund distribution, solve the difficulties brought about by variations in fund operations caused by seasonal factors in production or business operations of different industries and trades, hence can accelerate fund turnover and raise results from fund uses. At the same time, the short-term lending activities of the banking trade will provide the central bank with important means for macroeconomic regulation; it is a supplementary regulation after the strict control of rediscounting. If the basic level banks require supplementary funds beyond the rediscount plan, this problem may be solved by short-term borrowing from the short-term funds market, and the central bank may also use the funds at its disposal to participate in the market and engage in fund operations to ensure the rational and necessary

supply of capital. Furthermore, according to the capital supply and demand situation as reflected in the deposit-loan balances of the specialized banks, the central bank decides the interest rates for short-term funds in the banking trade. This is actually the basic interest rate in the money market. On this basis, adding a certain proportion for expenses, the basic loan interest rate for all specialized banks can be arrived at, and by subtracting a certain rate of expenses, their interest rate for deposits can also be arrived at. The various banks can, furthermore, according to the longer or shorter time limits of deposits and loans, and the extent of risks involved in the different loans, set various different interest rates. This shows, that the central bank can control the entire level of interest rates through raising or lowering the short-term fund interest rates. Furthermore, the conditions of supply and demand in the short-term funds market of the banking trade reflects like a barometer the variations in the amount of currency in circulation, which would then enable the central bank to institute prompt regulatory measures. Since the short-term fund lending among the banks is a trading activity limited to within the banking trade, it has little impact on other socioeconomic activities. Furthermore, the "slicing and splitting" of funds objectively demands strengthening horizontal short-term fund activities. If, therefore, this city will only effect a unification and commercialization of the basic level organizations (district-run and county bank agencies) of the presently extant banks, short-term funds lending operations among the banking trade could be started within a short time. This type of trading can for the time being only be carried out among the financial enterprises of this city, but as soon as the fund relations will have been smoothly adjusted, it may be gradually extended to the entire Shanghai economic zone and even to the entire country.

Fourth, developing the business of rediscounting of negotiable instruments and secured rediscounting by the local branches of the central bank. Setting certain limits for rediscounting and secured rediscounting can have a direct effect on the loan capacity of the centralized banks. Shanghai should gradually reduce the scope of credits to all branches of the specialized banks and substitute for it the business of rediscounting and secured rediscounting. According to the principle of "first focus on the key points, then expand to the general," the large and medium-sized key enterprises, those major enterprises that manufacture export commodities or famous-brand products of high quality urgently needed in the market should be encouraged to issue shares, bonds and to use commercial paper. By selectively rediscounting bills and discounting against security to enterprises, the municipal people's bank can guide the branches of the specialized banks in supporting the above-mentioned enterprises by granting them preferential loans. At times of a tight money market, the local central banks may, depending on the conditions of exports and the supply-demand situation on the domestic market, reduce the scope of rediscounting bills and discounting against security, or change the terms for such transactions, in order to ensure the development of enterprises with preferential production and good reputation, and not to adversely affect economic growth. When the money market is easy, the above-mentioned enterprises will still be able to obtain large amounts of capital funds, while backward and unprofitable enterprises will find themselves as before in a tight position. This will, therefore, guarantee the effective disposition of resources and the effective use of capital funds.

Fifth, enhance the ability of the local people's bank to regulate interest rates, have interest rates truly become the lever for the regulation of capital flow and for the control of capital requirements. The mechanism of interest rates is an important means of the central bank in its macroeconomic regulation. The level of interest rates greatly affects the economic benefits of lenders and borrowers. When loan capital exceeds demand, the central bank can lower interest rates and thereby stimulate demand and hold back supplies. In the opposite case, when demand for loan capital is larger than supplies, the central bank may raise interest rates and thereby increase supplies and reduce demand. However, because finance is currently overcentralized and managed too rigidly, because all authority to determine interest rates is centralized in the hands of the Bank of China head office, because once interest rates have been fixed they will not be changed over long periods of time and show no flexibility at all, the mechanism of interest rates as regulating capital demand and supply cannot function as it should, and this actually deprives the central bank of a major means of setting monetary policies. How are we to use the lever of interest rates to improve macroeconomic control, to ensure a relative stability in the general level of commodity prices and to stimulate economic growth? In my opinion we must allow the people's bank of this city to undertake the following reforms, on the premise of always implementing the interest policy decreed by its head office and preserving a relative stability in the general level of interest rates:

(1) Controlling the upper and lower limits of deposit and loan interest rates of the specialized banks. It is necessary to strictly control and carefully regulate the deposit and loan interest rates of the specialized banks. However, to meet the needs of the developing commodity economy, it is on the other hand also necessary to strengthen the regulation of short-term lending activities of the specialized banks. According to the principles of apportioning a certain amount of capital for independent business operations with responsibility for profits and losses and mutual short-term lending activities, they must be allowed, within the "large cage" of the interest rate control exercised by the central bank, to freely and independently carry out short-term funds lending activities and exercise their own ability to promote economic development. The way to solve the problem is: The central bank must only determine the upper ceiling for deposit interest rates and the lowest limit for loan interest rates charged by the specialized banks. The specialized banks may then have their interest rates freely fluctuate within these limits and charge differential rates of interest as actual circumstances demand. Because current interest rates are too low, they are the major reason for the excessive demand for loans on credit. As the overall demand for capital funds rises steeply, far above the overall supply of capital, it is necessary to appropriately raise the lower limit of loan interest rates to bring the supply and demand for credit loans to a more or less balanced state. This would be a countermeasure that could be chosen.

(2) An elastic regulation of deposit and loan interest rates between the municipal people's bank and the specialized banks. Because of the different deposit formation at the various specialized banks, there is great disparity in their deposit costs. Because some specialized banks have attracted

deposits at low cost, they can get stable and high profits by merely depositing in the People's Bank. Some specialized banks, because of the upside-down state of their deposit and loan interest rates, incur more losses the more deposits they take in. This is not only detrimental to their eagerness to attract deposits, but also detrimental to normal, rational competition between banks, and adversely affects the accurate assessment of business results of the various banks. The municipal people's bank should therefore institute differential interest rates according to the different "deposit formation," that is, set different interest rates for deposits derived from enterprises and for savings deposits, to put an end to the irrational upside-down situation in deposit and loan interest rates.

(3) Appropriate relaxation of control over interest rates that result from market regulation of capital, allowing regulation of capital supply through the workings of the law of value within the scope of market regulation outside the state plan. Interest rates for private loans, for temporary short-term lateral call loans, and for joint loans of financial consortia should be allowed to be set freely by negotiation. Discount rates should also be allowed to fluctuate in proper relation to the level of bank interest rates. No rigid rules should be set for share dividends or bond interests. All these interest rates should follow market quotations, they should flexibly regulate supply and demand in the money market and spur on enterprises to seek capital in the financial market. This is the only way to invigorate and open up the financial market of Shanghai.

Sixth, perfecting the structural setup of the regional central bank and developing its research functions.

(1) Establishing an efficient macroeconomic statistics, information and research structure within the regional central bank and strengthen its macroeconomic projecting. We must build up the bank's own information network, while the bank itself should compile various economic statistical reports and tables. Using the bank's recording, computing and analyzing of the currency turnover, comprehensive research and projecting must be carried out as regards economic growth, foreign exchange receipts and disbursements, capital constructions, consumption funds, commodity prices, market changes, commodity inventories, and credit and currency circulation. This should enable the bank to accurately feel the pulse of economic movements. It should promptly reflect production and distribution in the national economy of this city, while the bank should also actively participate in the work of compiling the economic development plan for this city. It is suggested that the municipal economic commission take the lead in establishing a joint consultation system consisting of the municipal people's bank and all the departments concerned with finance, taxes, statistics and commodity prices, for periodical studies of the major problems in the local economic development and to make comprehensive use of a great variety of economic levers to promote the economic and social development of this city.

(2) Replenishing and strengthening the administrative structure of financial management by the regional central bank so that it may exercise comprehensive supervision of and audit all business activities of banks and other financial institutions; especially at this time when our economic measures are not yet

fully in place, it is necessary to resolutely adopt necessary administrative methods, even in the form of legal provisions, to strengthen control and ensure that all financial institutions abide by and comply with banking laws and relevant regulations.

(3) Consolidating and perfecting a system of joint conferences of local banks and beyond that, in due time, establishing a local bank board. The joint conferences of Shanghai banks has already become an important institution for the coordination of business among all financial institutions, to mutually inform on economic and financial conditions, to study major regional economic policy decisions, and to provide guidance in banking affairs. It is necessary to further clarify the active and passive relationship between the regional central bank and the branches of the specialized banks as regards guidance in banking affairs and to gradually create the conditions for the transformation of the joint conferences into a bank board. A board would have the authority to set financial policy and would have decision-making powers; the post of board president should be occupied by the head of the regional central bank. In case the board could not reach a consensus, the president would have the power to decide. All branch banks would then be obliged to implement the final decision, otherwise the regional central bank may adopt such measures as freezing deposits, stopping allocation of cash, stopping all loans, and ordering the closing down within a certain time as punitive sanctions, to assure the authority of the regional central bank within the organization.

9808

CSO: 4006/861

## FINANCE AND BANKING

### BRIEF HISTORY OF CHINA'S INSURANCE BUSINESS

Shijiazhuang HEBEI RIBAO in Chinese 31 Jan 86 p 2

[Text] China's insurance business began in 1885. It was born and developed under the influence of foreign capital. To boycott foreign capital and to preserve our national interests, the China Merchants Steamship Co. founded two insurance companies, "Renhe" and "Jihe" in Shanghai in 1885. These two companies were later merged to form the "Renji Insurance Company," the first insurance company in China. National industry and commerce developed rapidly after the "May 4" Movement, and China's national insurance business also grew in stature. In the 1930's, more than 30 insurance companies were in operation in China, the major ones being "Yongning," "Taiping," "Siming," "Xinghua" and "Baofeng." On the eve of the Liberation, there were Chinese insurance companies throughout the country, including 168 large and small ones in Shanghai alone.

After the Liberation, the state consolidated and transformed the insurance companies in Shanghai, Tianjin and the other large and medium-size cities, and founded the People's Insurance Company of China on 20 October 1949. The basic task of this company was to "protect state properties, ensure production safety, promote material exchange, and advance the people's welfare." This event formed a new chapter of the history of the development of insurance business in China. In the 10 years from 1949 to 1959, various kinds of insurance, including fire insurance, and insurance for persons, agriculture, enterprise property, freight transportation, means of transportation, as well as compulsory insurance against accidents and passengers injuries in railway, waterway and air transportation, were introduced one after another throughout China. At the same time, China's business relations with foreign countries developed rapidly.

The "leftist" disruptions in 1958 brought a serious setback to China's domestic insurance business with its suspension. After the 3d Plenary Session of the 11th CPC Central Committee, this business was resumed after 20 years of suspension, and then developed rapidly. Now, the insurance companies have their branches or agencies in all provinces and municipalities and most counties.

At the beginning of 1982, the State Council fully affirmed the role of insurance in the national economy and laid down a distinctive guideline for the "active development of this business to accumulate insurance funds, to organize economic compensation, to avoid losses from disasters, to advance social welfare, and to serve China's socialist modernization drive." Since then, China's insurance business has continued its active and steady development.

9411

CSO: 4006/833

FINANCE AND BANKING

NUMBER OF CREDIT COOPERATIVES IN RURAL AREAS REACHES 420,000

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 7 Mar 86 p 3

[Article by He Jiazheng [0149 0502 2973] and Ming Jian [2494 1696]: "The Number of Rural Credit Organizations Throughout China Reaches 420,000--Last Year's Deposit Balance Amounted to 72.5 Billion Yuan"]

[Text] At present there is on the average 1 credit cooperative for every 1.9 administrative villages in the rural areas. The number of credit organizations with independent and related accounting systems throughout China has reached 420,000. In the rural areas, 80 percent of the peasants have credit relations with credit co-ops. The credit co-op has become an important financial force in the villages.

According to statistics by the Chinese Agricultural Bank, at the end of 1985, the total deposit balance of credit co-ops throughout China had reached 72.5 billion yuan, an increase of 45.9 billion yuan over the figure at the end of 1980, an increase of 172.6 percent, and an average increase rate of 22.2 percent over the last 5 years. In this figure, the deposit balance of individuals in the rural areas reached 56.5 billion yuan, an increase of 3.8 times over 1980 and an average increase of 37 percent over the last 5 years. At the end of 1985, the savings by peasants in the credit co-ops was an average of 67 yuan per person, an increase of 3.8 times over 1980. In 1985, the loan balance of all credit co-ops throughout China reached 40 billion yuan, of these 19.4 billion were loans to individual peasants, an increase of 11 times compared with 1980, which basically satisfied all the loan needs of the peasant masses for production and for their livelihood requirements. Loans to rural and township enterprises also totaled 16.5 billion yuan.

Loans granted during the 5 years since 1980 amounted to altogether 201.6 billion yuan, which is an annual average of 40.3 billion yuan. Loans by the credit co-ops amount to 62 percent of the total rural loans granted by the agricultural banking system, and their rate of recovery even reached 92.7 percent. The credit co-ops play an important role in the rural areas; their supply of capital forcefully supports and promotes the development of commodity production in the rural areas. In the last few years, while carrying out the initial stage of their transformation, the credit co-ops enhanced their flexibility and in many places started horizontal capital fund linkages, in this way accelerating the turnover of loan capital funds and invigorating the rural scene.

Relevant departments still believe that the work of the credit co-ops is not yet satisfying all the needs of the development of our modern rural commodity production, and that it is necessary to continue to conscientiously carry out the directives of the central government regarding the gradual reform of the rural credit co-ops.

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CSO: 4006/841

23 April 1986

## INDUSTRY

## DEVELOPMENT OF CHINA'S PACKAGING INDUSTRY DISCUSSED

Beijing JINGJI RIBAO in Chinese 5 Mar 86 p 1

[Article by Lu Dong [0712 2639]: "Accelerate the Development of China's Packaging Industry"]

[Text] Recently, the State Council has approved the "National Program for Development of the Packaging Industry in 1986-2000." This signifies a new stage of development of China's packaging industry.

For various reasons in the past, the work of packaging was long neglected, and the technology, equipment and management of the packaging trade were very backward. Most commodities were crudely packaged or not packaged at all. This was a serious handicap to the development of commodity production and the export trade. Poor packaging has been one of the important causes of losses to the national economy and poor economic results for many enterprises.

Now, more people have realized the importance of commodity packaging. Practice has proved that packing is indispensable to commodity production and important for commodity value and use value. Improved packaging can not only improve the economic results, but also increase our foreign exchange earnings through exports.

China's packaging industry has developed fairly rapidly in recent years. Last year, the total output value of the packaging trade was about 14 billion yuan, doubling the amount in 1980. During the Sixth 5-Year Plan period, the output value of the packing industry throughout the country increased at an average rate of more than 14 percent each year and faster than the GVIAO. The output of the major products was fairly greatly increased and their quality was improved. At the same time, a number of new products and new technologies were developed. We also paid attention to technical imports and to technical transformation, for which, more than 100 million yuan was invested by the state in 1981-1985. The investment of various regions and departments in packaging was far more than this figure. After transformation, the technology, equipment and management of a number of key packaging enterprises have been improved, and the commodity packages acquired a new look.

The importance of management in the packaging trade has become increasingly apparent along with the intensification of the economic structural reform.

Lateral integration across departmental and regional boundaries has continued to develop in various forms, and there is an urgent need for technical exchange, economic cooperation and technical training among different trades. Furthermore, macroeconomic control has to be strengthened. The "National Program for Development of the Packing Industry" approved by the State Council clearly laid down the principles, goals, priorities and the relevant policies and measures for the development of the packaging industry, and is serving as the blueprint for development.

For the implementation of this "Program," all regions and departments must work out their plans and measures according to their own specific conditions for developing the packaging industry. First, they must have a better understanding of the importance of improved packaging and treat packaging as an important link in the development of a socialist commodity economy to be included in the agenda of meetings among the economic departments in charge. They should support and encourage the development of this industry through taxation, pricing, credit, and the supplies of funds and materials.

Second, technical transformation of the enterprises must be accelerated in order that the packaging trade can make quicker technical progress. We must also carefully digest and master the advanced foreign technology imported so China can improve its technology of manufacturing packaging machinery as soon as possible. At the same time, we must set up key enterprises and model enterprises in the packaging industry and let them play their exemplary role.

Third, we must give prominence to the improvement of packaging quality. Along with the improvement in the structure of socialist markets and the development of our economic and technical relations with foreign countries, all enterprises will face a stern test which will determine their survival or elimination according to their performance. This is after all a competition in quality, and that is why the matter of quality, which touches on the question of the enterprises' survival and development, must be given prominence.

Fourth, we must pay attention to personnel training and to scientific and technical research in the packaging trade. Personnel training can take many forms, but stress must be laid on the development of technical education for the packaging vocation. At the same time, we must see to it that some institutions of higher learning run vocational classes for the training of packaging research workers.

Fifth, we must continue to improvement the work of management in the packaging trade. In coordination with the economic structural reform, we must be bold in practice and brave in exploration and make every effort to find some typically Chinese socialist way of trade management.

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CSO: 4006/846

INDUSTRY

SHANGHAI INDUSTRY TO INVEST IN NEW TECHNOLOGIES

OW070736 Beijing XINHUA in English 0656 GMT 7 Apr 86

[Text] Shanghai, April 7 (XINHUA)--China's biggest industrial center of Shanghai will invest heavily in new technologies to update its traditional industries and promote new ones, said a senior official of the Municipal Economic Commission.

In the next five years, more than ten percent of the old products will be rejected every year and the number of new products to be developed each year will account for five percent of the total in terms of output value, said Xu Qingxiong, senior engineer and vice-chairman of the Shanghai Municipal Economic Commission.

By the end of 1990, all major products in the city will have reached the international levels of the 1970's and early 1980's, he said.

Efforts to promote technological progress will include introducing advanced foreign technology, carrying out technical innovations and encouraging workers to put forward rationalization proposals.

The senior engineer said that about 30 percent of the additional 80 billion yuan in industrial output value from 1981 to 1985 came from technological progress. During this period, he said, the city imported 858 items of technology and developed a record 20,000 new products, mostly in the last two years by carrying out technical innovations.

During the last five years, the city completed more than 17,000 technological innovations and adopted 126,000 pieces of technical proposals put forward by workers. More than 337 items of technology developed by the city reached advanced international standards in 1985 and 163 more are expected to achieve the goal by the end of 1987.

Thanks to technological progress, Shanghai exported 57 ships, totalling more than 600,000 dwt, all produced according to international standards during the last five years.

The city is now concentrating technical efforts on tackling technological problems in the production of dies, computerized products, powder coating, high molecular materials, textile dyeing agents, hotel interior decoration materials and printing technology.

## INDUSTRY

### HEBEI'S ACHIEVEMENTS IN METALLURGICAL INDUSTRY

Shijiazhuang HEBEI RIBAO in Chinese 22 Feb 86 p 1

[Article by Li Xintang [2621 6580 1016] and Zhou Xiupu [0719 4423 2528]:  
"Victory in First Battle of Metallurgical Industrial Production"]

[Text] After overfulfilling the annual plan ahead of schedule last year, Hebei's metallurgical industry again reported new success in the first year of the Seventh 5-Year Plan period. In January, its GVIO amounted to 231.89 million yuan, a 13.4 percent increase over the same period last year. The total output of steel, pig iron, rolled steel, commercial billets, concentrated ferrous powder, refractory bricks, electrolytic aluminum, gold and several other major products exceeded the monthly quota, and was much higher than in the same period last year. The increase rate of the output of steel, pig iron, rolled steel, commercial billets, concentrated ferrous powder, refractory bricks and gold was all above 12 percent, while that of rolled steel, gold, concentrated ferrous powder and commercial billets exceeded 16 percent. According to the statistics on 22 metallurgical enterprises in the province, the profits and taxes realized and actually turned over to the state increased 27.1 percent and 64.5 percent respectively over the same period last year.

Since the beginning of 1986, the party organizations in all enterprises of the metallurgical industrial sector have stepped up their ideological-political work to arouse the workers' enthusiasm, to overcome the difficulties caused by the shortage of electric power and transportation facilities, and to ensure regular production in January. Even during the spring festival, the workers in the first line of production still kept on working in an effort to contribute to the increase in both production and income and to prepare for a good start in February. On 10 February, the output of all six major products in the province, namely, steel, rolled steel, pig iron, commercial billets, coke and concentrated ferrous powder, was above the 10-day production plan.

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CSO: 4006/845

INDUSTRY

NEI MONGGOL'S NEW, FINE-QUALITY PRODUCTS INCREASED

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 7 Mar 86 p 3

[Article by Tian Yuan [3944 0626]: "Significant Increase in Nei Monggol's New, Fine-Quality Products"]

[Text] During the Sixth 5-Year Plan period, Nei Monggol Autonomous Region developed more than 4,000 new industrial products, of which, 19 have won gold or silver medals from the state, and 78 have been certified by the ministries as fine-quality products.

Nei Monggol was able to develop new products and improve the product quality because of its technical transformation program and the pooling of technical resources to solve difficult problems.

During these 5 years, it invested 1.4 billion yuan in the technical transformation of its old enterprises and in technological development. A total of 3,246 technical transformation projects were completed in 5 years, and one-third of the large and medium-size enterprises were fairly comprehensively transformed. According to statistics, there was an increase of more than 2.3 billion yuan in the industrial output value and nearly 500 million yuan in profits and taxes. The quality of products was also improved and energy consumption was reduced.

Through the combination of technical research and foreign trade, compensatory trade, joint Chinese-foreign ventures, purchases with foreign exchange, leases and other channels, Nei Monggol imported 41 production lines from abroad and completed 121 import projects, of which, 107 were completed in 1984 and 1985. Through these imports and the technical transformation program, many enterprises have increased their capacity for developing new products.

During the Sixth 5-Year Plan, Nei Monggol organized more than 200 plants in the light industry, woolen textile, milk products and leather trades to improve their products so that they could catch up with the advanced standards at home and abroad. Some new technologies were also popularized among some 700 enterprises. Through these efforts, nearly 100 new products are now able to take their place among similar advanced products in the country, while some of them have even reached the advanced world levels. The Hongma-brand hydrochloric acid, the Hairu-brand glycsein, and the Changcheng-brand woolen rugs of natural colors are now fairly strongly competitive on the international market.

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CSO: 4006/846

## INDUSTRY

### BRIEFS

INDUSTRIAL PRODUCTION RECORD SET--Shanghai, April 4 (XINHUA)--Despite shortages of electricity, raw materials and funds, Shanghai, China's biggest industrial base, set an industrial production record for the first quarter of the year, XINHUA learned today. Its output value in the first quarter amounted to 20.041 billion yuan, a 1.8 percent increase over the same period of last year, and an all-time high. Spurred by industrial increase, the city's exports in the first quarter rose by 8.5 percent and the local revenue was up 4.4 percent over the same period of last year. The completion of major projects like the Baoshan Iron and Steel Works and the Shanghai Petrochemical Plant, and the application of 267 items of imported technology have revitalized the city's industry. Shanghai has also cooperated economically with other municipalities, provinces and autonomous regions. This not only gave full play to the city's production potential but also secured its resources of raw materials and energy. [Text] [Beijing XINHUA in English 1846 GMT 4 Apr 86 OW] /12858

CSO: 4020/271

## SMALL-SCALE ENTERPRISES

### HEBEI TOWNSHIP, TOWN ENTERPRISE OUTPUT VALUE SURPASSES GVAO

Shijiazhuang HEBEI RIBAO in Chinese 9 Feb 86 p 1

[Article by Bao Yonghui [0545 3057 6540]: "Output Value of Hebei's Rural Enterprises Surpassed GVAO for the First Time"]

[Text] While readjusting its production structure and correctly handling the relationship between industry and agriculture, Hebei Province vigorously developed its township and town enterprises on the basis of ensuring the steady development of agriculture. Last year, the output value of these enterprises exceeded 15 billion yuan, 45 percent higher than in 1984, and for the first time surpassing the GVAO [gross value of agricultural output].

Last year 25 percent of the peasants in Hebei left traditional agricultural jobs, without leaving their home towns, to enter industry, construction, communications and transportation. There appeared a new sight of townships, villages, joint groups and individuals simultaneously getting into action. There are now 108 rural enterprises with more than 4.8 million workers.

The influx of talents and intellectual development strengthened these enterprises. By the end of last year, these enterprises had already recruited through various channels more than 30,000 technicians of various types from the large and medium-size cities in Hebei and other provinces and formed business relations with more than 120 universities and vocational colleges. Chengguan Town of Qixian employed 35 senior technicians as its brain trust in running enterprises. In slightly more than 4 years, 12 new products were developed including the "Spring-wind" heating fins, which won a silver medal from the state's heat-supply trade.

One of the important reasons for the rapid development of these rural enterprises was the tapping of internal resources. To raise their productivity, 95 percent of the rural enterprises in Hebei have set up and strengthened various forms of responsibility system and popularized the practice of "one contract and three changes," meaning the contract system, the change from the assignment by the state to the enterprises' recruitment of cadres, the change from fixed wages to floating wages, and the change from permanent workers to contracted workers.

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CSO: 4006/821

CONSTRUCTION

NEW BRIDGE IN HARBIN TO BE OPENED TO TRAFFIC ON 1 OCTOBER

Harbin HARBIN RIBAO in Chinese 18 Jan 86 p 1

[Article by Zhou Deyu [0719 1795 6877]: "Large Highway Bridge Will Be Open to Traffic on 1 October"]

[Text] The construction of Harbin's Songhuajiang Harbin Bridge, the first extra-large permanent bridge in Heilongjiang Province, which began in the Sixth 5-Year Plan period, is making rapid progress with good engineering quality.

The work on this bridge, which is 24 meters wide and 1,656 meters long, formally began on 10 May 1983. After 2 and one-half years of construction, 5 of the 9 main sections of the main span have been closed, and 24 of the the 40 "cantilever poured concrete sections" in the remaining 4 sections have been completed. The main span has 15 side sections, and 10 of them have been completely installed. The approach at the south bank consists of a straight bridge, a slanting bridge and a loop bridge. The four sections of the straight bridge have been completed. Each of the eastern and the western slanting bridge has two sections and one each has been completed. Each of the eastern and the western loop bridge has 14 sections. Three of the eastern loop and 12 of the western loop have been completed. Approaching the bridge at the northern bank is a 17.3 km first- and second-grade highway. Three small bridges, 28 culverts and 98 percent of the roadbed for this highway have all been completed. All the basic engineering and the prefabricated reinforced concrete parts for the overpass which crosses with the Harbin-Manzhouli Railway and 30 percent of the "reinforced concrete work" for the overpass itself have been completed. The basic and the prefabricated parts for the 150-meter Jinhe Bridge has also been completed.

In addition, the improvement of the navigation channels, the reinforcement of the river banks, and the construction of a small housing area have been mostly completed, and is expected to be entirely completed before 1 October when the bridge will be open to traffic.

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CSO: 4006/846

## CONSTRUCTION

### HENGYANG-GUANGZHOU DOUBLE TRACK RAILROAD CONSTRUCTION BEGUN

Beijing RENMIN RIBAO in Chinese 5 Mar 86 p 1

[Article by Zhao Xiangru [6392 4161 1172]: "Construction of Double Track Railway between Hengyang and Guangzhou Begins in Earnest"]

[Text] Construction of the double track Hengyang-Guangzhou Railway has begun throughout the entire length of 540 km between these two cities.

The Hengyang-Guangzhou Railway is the southern section of the Beijing-Guangzhou Railway. The double track section between Beijing and Hengyang was built long ago, but the remaining section between Hengyang and Guangzhou, still remains the same as it was first built before the 1930's. The conditions of this section are poor because of the high gradients, the many curves, the low capacity of the marshaling and the storage yards, and the poor traffic facilities. Despite the renovation and potential tapping gradually carried out after the liberation, the traffic capacity is still far short of the requirements of the national economic development. It has become a bottleneck in the transportation route between the south and the north. Because of the open-door policy, the invigoration of the domestic economy, and the development of tourism, the construction of a double track line between Hengyang and Guangzhou is now urgently needed in the program of railway construction in southern China.

Construction of this double track line actually began in 1978. For various reasons, however, it was frequently interrupted. Last December, Wan Li [5502 6849], Hu Qili [5170 0796 4539] and other leading comrades of the CPC Central Committee held an on-the-spot meeting for the purpose of speeding up the construction of the double track line and strong measures were taken in political and ideological work to ensure the accomplishment of this grand construction task. They also issued specific instructions for every completed portion to be delivered immediately for use and for the entire line to be open for traffic in 1988. Comrade Hu Yaobang's comments were read at the meeting as follows: "This is a large artery between the south and the north of the motherland. It must be completed as soon as possible so that it will soon produce economic results. This is necessary for the development of our productive forces, and urgently needed by the people. Our cadres at various levels must bear in mind the overall situation and turn on the green light for this project. If necessary, local interests should be sacrificed for the sake

of the overall interests." The leaders and workers at the worksite all signed their "military pledge," and took active measures to accelerate the project's progress.

The terrain and geological conditions for this project were very complex. The twists and turns of the river courses and the landslides with weathered rocks made the construction most difficult. Furthermore, while the construction of the double track line is in progress, the original line must remain open for traffic and free from any interruption. Therefore, the work must be organized scientifically. Recently, because of frequent rain and snow, the temperature at the worksite was always about 4 degrees centigrade. Yet the workers, holding their pneumatic drills or pushing the wheelbarrows, were sweating all over.

More than 7 billion cubic meters of earth- and stone-work has been completed for the marshalling station in northern Hengyang, where the highest mountain has been leveled with its height reduced by 32 meters. For the Dayaoshan tunnel, 11 km out of a total length of 14 km has been dug out. For the Changduo He bridge, one of the piers was driven 48 meters deep into the ground through 13 layers of limestones, a rare feat in China's history of bridge-building. By the end of February, 51.8 percent of the total earth- and stone-work for the roadbed, 69.3 percent of the tunneling and 67 percent of the large and medium-size bridges had been completed.

The governments at all levels in Hunan and Guangdong and the people along the railway showed great concern for this project and gave it every support. The party and government organs as well as the civilians and the military personnel in various localities also warmly cooperated in every possible way. They all hope to see this large artery in operation between the south and the north of the motherland at an early date.

9411

CSO: 4006/845

CONSTRUCTION

CONSTRUCTION BOOMS IN COASTAL BEIHAI CITY

OW081322 Beijing XINHUA in English 1144 GMT 8 Apr 86

[Text] Nanning, April 8 (XINHUA)--The construction of Beihai, a small coastal city in south China, is making great progress.

Eight major projects are expected to be completed by the end of this year, according to Liang Ziwei, mayor of Beihai City. Beihai, in the Guangxi Zhuang autonomous region, is one of China's 14 coastal cities open to foreign trade and investment.

The Beihai airport, construction of which started a year ago, will be ready for test flights in July. Two 10,000 dwt shipping berths will be built by October 1.

Expected to be completed by the end of this year are a 1,860-line microwave telecommunications project with a total investment of 8.5 million yuan; a 110,000 volt power transmission project linking Beihai and Hepu County, a reservoir with a daily supply capacity of 50 million liters, five trunk roads totalling 6.5 km and a number of buildings, recreation centers and hotels for tourists.

According to statistics, Beihai invested 130 million yuan in construction projects last year--7.6 times more than in the previous year. Liang said, apart from construction projects, Beihai will also complete the technical transformation of 25 enterprises this year.

/12858

CSO: 4020/271

## CONSTRUCTION

### BRIEFS

KEY CONSTRUCTION GIVEN PRIORITY--Beijing, April 1 (XINHUA)--China will give top priority to 190 state capital construction schemes this year to ensure their quality and completion on time, according to the State Economic Commission today. These include 74 energy projects, covering the modernization and expansion of 15 large coal mines, six major oilfields, 14 hydro-electric power stations and 30 thermal power plants. Thirty-nine involve transport and telecommunications, 36 are in the raw materials industry and the rest involve science, education, culture, public health and defense. Funds, supplies and transport needed in these schemes will be guaranteed, said a commission official here. [Text] [Beijing XINHUA in English 0659 GMT 1 Apr 86 OW] /12858

CSO: 4020/271

23 April 1986

## FOREIGN TRADE AND INVESTMENT

## FOREIGN EXCHANGE CONTROL EASED TO BOOST JOINT VENTURES

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 25 Jan 86 p 1

[Unattributed article: "China Relaxes Foreign Exchange Control and Extends the Time Limit of Joint Ventures To Encourage Foreign Businessmen To Establish Joint Ventures in China"]

[Text] The Chinese Government will adopt flexible measures to help Chinese-foreign joint ventures in China balance their foreign exchange earnings and expenditures, thereby facilitating the production and management of these enterprises and the transfer of profits legally gained by foreign joint venturers to foreign countries.

In the meantime, the State Council also revised Article 100 of the "Rules and Regulations for the Implementation of the Law of the People's Republic of China on Chinese-Foreign Joint Ventures" and clearly stipulated that the time limit of general joint ventures is 10 to 30 years. As for projects with large amounts of investment, a long construction period and a low profit rate and projects producing highly sophisticated products with advanced or critical technology supplied by foreign joint venturers, the time limit may be extended to 50 years. With the special approval of the State Council, it may be extended to over 50 years.

The promulgation of these two important measures was revealed by Gu Ming, head of the Economic Legislation Research Center under the State Council, when he was talking to a CHINA DAILY reporter by the name of Liu Di [0491 4272].

Gu Ming said: Whether or not all legal profits of investment in China can be remitted overseas is a question which foreign joint venturers are most concerned with. The key to the solution of this problem lies in the ability of Chinese-foreign joint venturers to balance their own foreign exchange earnings and expenditures. The "Regulations of the State Council Concerning the Question of Balancing the Foreign Exchange Earnings and Expenditures of Chinese-foreign Joint Venturers," which was promulgated recently, emphasized that Chinese-foreign joint ventures should export more of their products to earn more foreign exchange and achieve a balance between income and expenditure or with some surplus.

Gu Ming said: The "regulations" adopt relatively flexible measures within the limit of the law of China to relax the policy on the foreign exchange control of Chinese-foreign joint ventures and help achieve a balance between the foreign exchange earnings and expenditures of these enterprises, especially those projects using advanced technology of foreign joint venturers to exchange for markets, projects producing substitutes for imported products and projects concerning energy, communications and infrastructure which require a long time for the recovery of investment.

The "regulations" have 14 articles. In order to achieve a balance between the foreign exchange earnings and expenditures of Chinese-foreign joint ventures, the "regulations" suggest the method of classified management, namely: The foreign exchange earnings and expenditures of those Chinese-foreign joint ventures whose founding was approved by authorized state organs should be balanced by such organs according to relevant rules through the regulation of the foreign exchange earnings of all joint ventures across the nation. Or they may be balanced by the authorized state organs and local people's governments according to a ratio they both agreed upon. As for those joint ventures whose founding was approved by local people's governments or ministries, such a balance should be achieved by local governments or ministries through the regulation of foreign exchange earnings of these joint ventures.

Those highly sophisticated products which are produced with advanced and critical technology supplied by foreign joint venturers or those high quality products which are competitive on the international market may be granted preferential treatment in regard to the ratio and period of domestic sales with the examination and approval of authorized departments.

Gu Ming said: The "regulations" allow Chinese-foreign joint ventures to balance foreign exchange earnings and expenditures by using the sales connections of foreign joint venturers to promote sales of domestic products overseas with the approval of economic and trade departments so as to make up in a comprehensive manner.

The "regulations" also allow a foreign joint venturer who has established two or more joint ventures in China (including different areas and departments) to regulate the surplus and shortage of foreign exchange quotas among his ventures with the approval of state foreign exchange control departments.

The foreign joint venturers of those joint ventures whose foreign exchange earnings and expenditures are imbalanced, Gu Ming said, according to the "regulations," may reinvest their share of profits in RMB in domestic enterprises which can create or increase foreign exchange earnings. They may acquire foreign exchange from the newly increased foreign exchange earnings of such enterprises and use it to remit their lawful profits.

Gu Ming said: The "regulations" are applicable to Chinese-foreign cooperative enterprises in China, joint ventures and cooperative enterprises established in inland China by companies, enterprises and economic organizations from Hong Kong, Macao and Taiwan and joint ventures and cooperative enterprises established with the investments of overseas Chinese.

12302

CSO: 4006/714

FOREIGN TRADE AND INVESTMENT

BRIEFS

LIAONING'S OVERSEAS VENTURES--In the past 3 years, the China Liaoning International Economic and Technological Cooperation Company established eight joint ventures overseas, 72 percent of all overseas joint ventures established by the Province. This company was founded in November 1981. Since 1983 this company has established in Japan, Thailand, Mauritius and Uganda eight joint ventures involving a total investment of \$6.12 million, of which, \$2.79 million are invested by Chinese. These joint ventures include manufactured goods, industrial dies, fishery, construction contracts and food services. The Lumingchun Restaurant, Sapporo, Japan; Liaocheng Building Ltd. of Thailand and Hengxinchang Fishing Ltd. of Mauritius are in operation. Still under construction are the Sino-Uganda Fishing Ltd., the Sino-Thailand Northeast Cooperation Ltd., and the Lumingchun Restaurant, Kyoto, Japan. Zhao Qingchang [6392 1987 2490], acting general manager, told reporters that those joint ventures which are operating have all achieved good results. For instance, he said, Hengxinchang Fishing Ltd., in cooperation with Mauritius, can catch 600 to 700 tons of fish a year. Zhao said henceforth this company will use Chinese equipment, materials and technology as investment for joint ventures in the cooperation with foreign investors and plans to invest \$15 to 20 million overseas during the "Seventh 5-year Plan" period (1986-1990). [Text] [Beijing RENMIN RIBAO (Overseas Edition) in Chinese 21 Jan 86 p 3] 12302

CSO: 4006/714

## SPECIAL ECONOMIC ZONES

### PROBLEMS IN DEVELOPMENT PROGRAMMING OF SOUTHERN FUJIAN

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 12, 5 Dec 86 pp 38-40

[Article by Zheng Zhuofan [6774 0587 0416]: "Preliminary Discussion of the Development Programming and Management of the Minnan Open Zone"]

[Text] Recently I participated in the development programming of the Minnan Economic Open Zone (abbreviated as the economic zone hereafter). At the same time, I also found out from indirect sources current situation in the current development programming of the Xiamen Special Economic Zone and I deeply realized that we should pay adequate attention to the development programming of the economic zone.

#### 1. Problems in the Current Work of Programming

A. The guiding ideology for programming is not clear enough and programming procedures lack the systems concept.

At present, classified by programming procedures, there are two ways of formulating development programs for the economic zone:

One is the so-called "industry first, integration second" method. Under this method, all trades and professions first draw up their own programs and then submit them to the next higher department which then puts all the programs together and reports them to the next higher level. The other is the so-called "block first, integration second" method. Under this method, programs are first drafted by blocks, which are set up according to prescribed regional and administrative divisions or the relations of affiliation, and then integrated under the leadership of the higher department.

Judged from the viewpoint of the systems theory, the economic zone is an independent system as well as a subsystem of large national or even international economic and political system. The abovementioned two methods have artificially severed not only the links between different industries, between industries and the economic zone, between industries and economic hinterland and between the economic zone and economic hinterland but also internal links that various development programs should have among themselves. What is especially common is that because they are confined to a closed system, this kind of programming method is likely to cause economic

development programs to divorce from scientific and technological development programs and various programs of other industries. This practice of mixing fragmented subsystems to replace the large system is in fact the demonstration of a lack of systems concept in guiding ideology. Such an outline of programs formulated without considerations for the internal factors of the system and the impact of external factors on the system itself, has low credibility and is fragile. Once unpredicted changes occur in external factors, such a program will lose its significance. Therefore, it cannot be used by planning departments as a basis for the formulation of plans.

B. Programming methods are backward.

Programming methods we currently use can be roughly classified into two categories: 1) The percentage progressive growth method. Under this method, annual growth rate is set according to a base figure and a percentage thought out or fixed before hand. Due to its characteristics of being direct and clear, this method has found definite uses in statistical work, but it is not quite suitable to be used for forecasting because it has a fatal weakness that is using a static and one-sided viewpoint to explain dynamic and comprehensive development process.

2) The "experts-put-together-a-program" method. Under this method, first, some people will sit and talk a few days or someone will work behind closed doors and come up with few tentative ideas; then, several people will put together a program outline. Because this method depends only on the data and knowledge of one or a few people, the program cannot reach the standards of scientific requirements and credibility. However, this method is now being widely used in the programming of the economic zone because it is the "easiest" and requires the least thinking in addition to the fact that departments at higher levels want the work done immediately. For instance, it is very common to let assumptions, experience or personal opinions replace the use of mathematical and economic-mathematical programming methods in data processing.

C. Programming organizations are inefficient and lack a serious and conscientious attitude.

Like planning, programming is a very serious task because its reliability has a direct impact on the reliability of policy decisions. However, due to various reasons our current programming work shows a lack of seriousness. For instance:

1) Due to the reform of urban economic structure, the relations of affiliation among many departments, industries and regions have changed and various forms of economy and the phenomenon of pluralized leadership have occurred in many industries. Under this circumstance, how to adapt programming work to the new situation becomes a major prerequisite of successful programming. But in fact this change has not attracted the attention of pertinent programming departments. How can we organize and dispatch programming forces? We do not even know for sure which is the actual leading unit of the economic zone itself and some industries. Due to inefficient organization, the economic zone and special economic zones are not communicating, causing pluralized and redundant programming which has not only wasted personnel, financial and

material resources but also restricted the applications and development of some scientific methods.

2) The number of programmers is limited. They are incompetent and uncoordinated in regard to expertise. According to surveys, the distribution of expertise is extremely irrational with most programming groups. Especially, no attention is paid to people specialized in economic and management fields. Some industries are short of hands in their programming groups, only three to five people whom mostly have regular jobs. Some groups are knocked together. When such a group get an assignment, each member of the group will go about it in his or her own way. Because of this, the targets of programs vary. There are even cases in which large amounts of investment were used but programs completed could not reach the targets of current intermediate levels at home.

3) The number of data and information processing equipment is limited and information collection is insufficient.

There is a great deal of work involved in working out an outline of program and collecting, compiling, retrieving, analyzing and circulating information and data. But currently, because the data bases of computer and information centers at all levels lag behind in work, except for a few departments and industries which are relatively advanced in data processing methods, the overwhelming majority of people still compile their programs based on the limited data they have personally collected and mastered over the years (not to mention how advanced such data are). Besides, such work is to be done in a very short period of time. For instance, one area used only 2 weeks to compile an economic development program. Judged by its speed and its total reliance on the means of "a pen and a brain," we can imagine how scientific and feasible this program would be. The research and formulation of China's first material input-output table used large amounts of personnel, financial and material resources and yet it still took more than 2 years to complete. The short time limit actually encourages programmers to do a sloppy job and go through the motions.

4) Ignoring the feasibility of programs, some areas and departments blindly come up with some figures for the amount of money and material resources needed for projects in their programs. They do not know how much money and material resources the state can invest during the programming period; neither do they want to study the methods of raising and recovering funds. Instead, they use the irresponsible "fishing" method and just stretch their hands out to the state. They deliberately raise the number of projects and expand the scale of program in an effort to get more investment and material resources in the sense of absolute quantity. Other areas and departments give no consideration to the issue of balance between the comprehensive economic results of programmed projects and the management results of microeconomy. They blindly pursue the starting of projects but fail to consider or assume responsibility for the "ending" of projects. For instance, in its program for the year 2000, an area asked the higher level to invest over 1 billion Yuan in the near future to build 18 harbor berths. This is totally impossible.

In addition, a lack of funding and failure to carry out economic and current situation surveys of proper scale and scope have also downgraded the quality of programs to differing extents.

## 2. Proposals for Strengthening the Programming and Management Work of the Economic Zone

In view of the abovementioned problems in the development programming and management of the economic zone, I set forth the following proposals for the purpose of improvement:

- A. Strengthen leadership. At present, the most important thing is to clarify leading units. In my opinion, if we fail to do so, breaking industrial, departmental and regional barriers to compile programs will become empty talk and the programming and management of the economic zone will be unrealistic. Judged from the current economic situations and locations of the three cities in the economic zone, it is ideal for Xiamen City to be the leading unit. As for those industries and departments which are involved with various forms of economy and multiple relations, the department or unit that occupies the predominant position should be the leading unit and other government organs should coordinate with it in all ways. Work groups should be set up to take full charge of this work.
- B. Apply systems engineering and design. Modern systems engineering provides us with many useful methods for forecast analysis, data processing and comprehensive balance. In order for the programming of the economic zone to adopt systems concept from the very beginning, we must first negate the original two programming methods, increase the influence and function of horizontal links and comprehensive balance in programming and adopt the forecast analysis method to form a production cooperation network system as soon as possible. Efforts should be made in the near future to compile the national economic input and output table of the economic zone, do a good job in the comprehensive balance of macroeconomy and, on this basis, carry out optimization and macroeconomic forecasts and set forth the goal of general program for the economic zone and development targets and ratios for various industries and areas. Then, various industries, departments and areas will compile their own development programs according to the general goal. Finally, the general goal will be revised according to the development programs of various subsystems. Only in this way is it possible to set appropriate goals and rational proportions of all sectors, ensure balance between macroeconomy and microeconomy and guarantee that no major macroeconomic errors occur in the development of the national economy. This practice increases the work load of preliminary phases but it is of immeasurable significance in improving the quality of programs, ensuring the continuity of programs and training and bringing up a contingent of programmers of the new generation.
- C. Adopt proper forecast, data processing and information analysis methods. In addition to the abovementioned input-output analysis technique of the national economy or departments, programming work in the near future may also apply some relatively mature methods such as the [te-er-feil], correlation analysis, seasonal variation forecasting, trend extrapolation, exponential smoothing and simulation methods. At the same time, it may also apply some

methods of decision-making and storage theories, target planning, mathematical programming and optimized programming so as to mete out various outlines to be optimized and chosen from. In addition, attention should be paid to absorbing and using the experience and direct judgement of various kinds of experts and personnel. In the meantime, attention should also be paid to data collection and processing. Government departments may in the near future provide relevant data to be processed in a unified manner in the economic zone. They can also use the method of "supplying egg-laying hens" to store data in the computers of units concerned (such as the computer centers of the provincial planning and scientific and technological commissions or good general-purpose computers) and copy many sets of floppy disks for the retrieval and applications of various departments in the economic zone. This practice will in the near future save expenses for purchasing hardware and hiring relevant personnel. However, in the long run, the economic zone still should establish its own computer system, hire relevant personnel and vigorously establish links with domestic and foreign data and information centers.

D. Attach importance to the strength of scientific research departments and universities inside and outside the economic zone and the building of the contingent of programmers. An important sign of the development of modern science and technology is the infiltration of various disciplines whereas various kinds of experts in scientific research departments and universities are the ones who are most sensitive to such changes. In the immediate future, the contingent of specialized programmers should not be too large; therefore, it is necessary to pay attention to borrowing other forces. Special attention should be paid to recruiting people from the economic field and frontier sciences such as management engineering to gradually establish a contingent of programmers which combines both professionals and amateurs and both ordinary and special programmers.

E. Concentrate energies on management. What is important in program management is to consider in a comprehensive manner the balance between the social results of projects and the management results of departments. Attention should be paid to normal data collecting and processing. In a certain sense, the quality of programming for the economic zone is determined by whether or not sufficient data can be collected and used correctly. It is also necessary to formulate unified programming procedures and quality control standards. Substandard programs should be replaced with new ones. Methods adopted and confidence intervals obtained should be explained in the estimated figures of the outline of programs.

F. Use the outline of the programs of the economic zone as a guiding document for all units, industries and areas in formulating ordinary plans, combine them organically and continue to increase the ability of the outline of programs to give practical guidance to the formulation of plans.

12302

CSO: 4006/714

LABOR AND WAGES

SEMINAR ON LABOR MARKET PROBLEMS HELD

Beijing JINGJIXUE ZHOUBAO in Chinese 19 Jan 86 p 4

[Article by Jia Guangcai [6328 1639 2088] and Zhou Lijin [0719 4539 0093]: "Establishing Labor Markets, Improving Labor Management--Meeting Held in Beijing To Discuss Labor Market Issue"]

[Text] To meet the requirements of the structural reform in labor management and to conduct a theoretical study in the problems of labor flow and the labor market which are becoming increasingly prominent in China's economic structural reform, the Beijing Municipal Labor Academic Association held a special-topic academic seminar on 23-24 December 1985.

The meeting was the scene of an enthusiastic discussion on the concept of labor markets, the nature of labor power and the way to establish a labor market under socialist conditions.

1. There were three different views on the concept of labor market:

First, the labor market is a mechanism and a means for the social distribution and regulation of labor power. In fact, it is an objective reality. The national conference on the work of providing jobs held in 1980 laid down the policy of "combining employment of those who are recommended by the labor agencies, employment of those who voluntarily get organized to create the job opportunity for themselves with employment of individuals who seek the jobs by themselves," and essentially advocated the establishment of a labor market under leadership. Second, the labor market is a mechanism for an objective regulation of socialist labor flow and the means for the planned exchange and disposition of labor. This is a noncommodity exchange because both the recruiting unit and the laborers have the freedom of choice, and this exchange does not affect the laborers' ownership of their labor power which is not a commodity. The special characteristics of a socialist labor market are as follows: (1) The exchange of labor in a system of public economic ownership is predominant, while the exchange in a system of individual economy is carried out under the protection of socialist laws. (2) The exchange of labor is not governed by the law of value, but rather by the law of basic socialist economy, the law of distribution according to work, and the law of planned and proportionate distribution of labor. (3) Equilibrium between labor supply and demand is the result of a combination of planned regulation

and market regulation with the former in the leading position. (4) The result of labor exchange is a better coordination of labor and the means of production, better developed productive forces, and the attainment of the socialist goal in production. Third, rather than "labor marketing," the term "appropriate labor disposition" or "rational labor flow" was preferred.

2. There were four different views on the question of the existence or nonexistence of a labor market under socialist conditions: First, because China's economy at the present stage is still not well developed, labor is in a certain sense a commodity subject to the law of value; and the exchange of individual labor in the labor market is the natural outcome of the coexistence of different forms of economic ownership. Second, in order for the system of recruitment to be flexible, the establishment of a labor market was strongly advocated. However, the law of value should not be the governing factor of labor exchange, which is not an exchange of commodities. Third, under socialist conditions, one of the features of labor power is that the laborer can decide on its disposition. This is the material foundation for the existence of a labor market. Fourth, there can be a labor market only in an individual economy or in an economy of joint Chinese-foreign ventures. In reforming the labor system, labor power must not be converted into a commodity.

3. There were four different views on the way to establish a labor market under leadership and to promote labor's rational movement. First, accelerate the reform of the labor management system so that people will have a better understanding of labor markets; second, strengthen the role of labor service companies so that they will become components of the labor market; third, establish "labor reserve" agencies and make a comprehensive arrangement for the training and employment of surplus labor, and for labor insurance; and fourth, conduct a comprehensive economic, legal and administrative reform along with a unified coordination of various policies.

9411

CSO: 4006/802

LABOR AND WAGES

'NOMINAL WAGE INCREASE, DRASTIC PRICE HIKE' IDEA UNREALISTIC

Kunming YUNNAN RIBAO in Chinese 17 Jan 86 p 3

[Article by Du Yuan [2629 1254]: "The Idea That 'Wages Grow Like Eyebrows and Prices Grow Like Beards' Is Unrealistic"]

[Text] Since the price reform, the general price level has risen while the workers' wages have increased little. After comparing their expenses on food with their hard wages, some comrades felt that the prices are rising rapidly although their wages have only slightly increased, and therefore came to the conclusion that "while the prices are rapidly growing like beards, their wages are like eyebrows which hardly grow." Is this comparison appropriate? Let us discuss this question here.

According to a sample survey on 82 cities, the average wages of workers throughout the country increased 92.4 percent from 1978 to the end of 1984. If the factor of price increase were taken into account, the actual increase rate was 60.5 percent. The actual income of the workers in Yunnan increased 59.54 percent. The average annual income of the workers in state-owned enterprises, government offices and establishments from their wages and bonuses was increased from 629 yuan in 1978 to 1,049 yuan in 1984, an increase of 420 yuan, while their cost-of-living index rose 14.6 percent and the average expenditure per person in their household increased by 67 yuan. Based on the fact that in 1984, each worker had 1.8 dependents, his expenditures were increased by 120.6 yuan. If the price factor is accounted for, his income actually increased by 299 yuan. Such a large increase in the workers' income has rarely been witnessed since the founding of the People's Republic. That is why it is incorrect to use the growth of eyebrows and beards as indicators of wage and price increases.

The conclusion reached by these workers was mainly because of their uncomprehensive way of accounting as shown below:

Only the hard wages, but not all the income in the nature of remuneration, such as bonuses, above-quota piecework bonuses and other subsidies, were accounted for. In fact, in the workers' remuneration, the proportion of bonuses and various kinds of subsidies is now quite high. The bonuses for the workers of commercial enterprises belong to the middle level, averaging 18.2 percent of their wages. The percentage would be even higher with the addition

of various subsidies. Let us again take the sample survey of 536 workers of state-owned enterprises for example. From January to July last year, the monthly hard wages averaged only 62 yuan, but their monthly remuneration averaged 96 yuan. This shows a fairly great change in the substance of the workers' wages, so that their hard wages can no longer reflect their actual income.

Only the food, but not its quality, was considered. On checking their food bills, some comrades often said that they formerly spent only a little over 10 yuan on food and now have to increase the amount to 30 yuan with hardly any improvement in their meals. Thus the increase in their wages by several grades was still inadequate for their heavier food expenses. It is true that the prices of meat, vegetables, fruits and other nonstaple foodstuffs have risen fairly much, resulting in higher food expenses. However, if we will check our food expenses more carefully, we will discover another important factor in the increase of these expenses--the better food quality. Meat, for example, was formerly rationed in Kunming, and each resident had a monthly ration of 1.5 to 2 jin, and the per capita consumption in 1984 was 5 jin and 7 liang. In January last year, when the price of pork was decontrolled, the per capita monthly consumption was 3 kg. The food pattern of some working families has gradually changed from that of "staple foodstuff" to that of "nonstaple foodstuff." In the volume of food retail sales in the province, the proportions of meat, poultry, eggs, and aquatic products have gradually risen, and will be as high as 27 percent this year. In the first half of this year, the general cost-of-living index for the workers in Kunming was 12.5 percent over the same period last year, this increase was the highest in the province. At the same time, however, the margin of increase in the workers' monthly income that is available for living expenses was much wider than in the commodity prices. According to an investigation conducted by the department concerned on 230 working families in Kunming, the income was 64.69 yuan per person, a 42.8 percent increase over 45.3 yuan of the same period last year. With money in their pockets and plenty of goods on the market, people can afford to eat what they want even though they complain of the high prices, and the market is thriving.

Only the expenses but not the consumption pattern were considered. Some workers said: Because of the price hike, money's value is not the same, and the expenses at the end of the month now total hundreds of yuan. Blaming the price hike for the increase in household expenditures is obviously incorrect. A remarkable change has occurred in the workers' consumption pattern in the past several years. Besides their better food, their clothing has also improved from that of a low-grade to that of a medium- or high-grade. According to statistics, the proportions of chemical fiber fabrics, woolen piecegoods, silk materials and their products in the total volume of consumer goods for clothing will increase from 19.4 percent in 1980 to about 30 percent. As for articles in daily use, the "capital construction" items of working families before 1978 were bicycles, radios and sewing machines. Before 1980, color TV sets, washing machines and electric fans were the commodities only for institutional purchases. Now, however, many workers have bought brand-name durable consumer goods. According to a sample survey conducted by the departments concerned on 631 working families in the province, every 100 families owned an average of 132 bicycles, 301 wrist-

watches, 72 TV sets (including 4 color sets), 46 washing machines, 34 cassette recorders, and 2 electric fans. Some of these families are even beginning to own motorcycles and refrigerators. Because of the constant "updating and upgrading" of the articles for wear and daily use by the workers and residents of the urban and rural areas, it is only natural that their expenditures increased. If the workers' income does not increase much faster than the rise in the commodity price index, how can such a phenomenon appear?

Only the income of individuals but not the income of the whole family was considered. In the first 4 years of the Sixth 5-Year Plan period, the province gave jobs to 310,000 unemployed persons through various channels. As a result, the number of dependents for each worker was reduced from 2.03 percent to 1.8 percent. This is also one of the important factors in the increase in the urban workers' income. However, it was often overlooked by some workers when they checked their income.

From these aspects, we can see that the increase in the average income for the workers of the province has been much faster than the rise in the commodity price index, and that the workers living standards have risen. Because of different individual circumstances, however, it is true that some workers' livelihood are being affected by the price hikes. The retired workers, for example, and especially those who retired several years ago and could not share the benefits of the wage increase during these years, now find their retirement benefits reduced. They can no longer receive any bonus or other income, while the subsidies given by the party and the government do not amount to much. Again, the workers of some enterprises which do not make much profit and therefore pay no bonus and only small wages; the middle-age workers whose sons and daughters are planning to enter secondary schools or universities and unable to find employment; and the workers who have old people to support are having a fairly hard time because of the price hikes. With the development of production, however, their income can certainly be increased.

On the whole, it is true that commodity prices have increased in the past several years. However, the increase in the workers income was even greater, and there is no doubt that the living standards of most workers have risen.

9411

CSO: 4006/802

TRANSPORTATION

CIVILIAN AIRCRAFT PRODUCED FOR INTERNATIONAL MARKET

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 25 Dec 85 p 1

[Article by NCNA Correspondent Zhang Jinsheng [1728 6930 0524] and RENMIN RIBAO Correspondent Dai Yuqing [2071 3768 1987]: "China-made Yun 12-2 Aircraft Found Airworthy. Civil Aviation Bureau Approves Aircraft As Meeting Specifications"]

[Text] A major advance has been made in reform of China's civil aviation administration system. For the first time, the Chinese Civil Aviation Bureau exercised authority in carrying out a comprehensive airworthiness examination of a China-made civilian aircraft, and issued a certificate of quality for this type aircraft on 24 December.

The Chinese Civil Aviation Bureau and the Ministry of Aeronautics jointly organized a group of experts with rich experience to conduct an examination and give approval for the design of the China-made Yun 12-2 aircraft. The results showed that the Harbin Aircraft Manufacturing Company's design and manufacture of the Yun 12-2 aircraft met internationally advanced domestic aircraft airworthiness standards, and its safety can be guaranteed. This marks the first time that a Chinese civilian aircraft has reached airworthiness standards in common international use, and it will enter the international civilian aircraft market.

Reportedly, commonly used international airworthiness standards were not used in past examination and approval of China-made aircraft; thus it was impossible for such aircraft to enter international civilian aircraft markets. Reform of the Chinese civilian aviation administration system has strengthened units responsible for airworthiness and has given a management function to national civilian aviation authorities. In order to insure that the safety and airworthiness of China-made aircraft advance development of the country's aviation industry, the Chinese Civil Aviation Bureau will use airworthiness standards in common use internationally in carrying out comprehensive airworthiness examination of both China-made and imported aircraft.

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CSO:4006/720

TRANSPORTATION

NEW PASSENGER AIRCRAFT MODELS TO ENTER PRODUCTION

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 13 Feb 86 p 1

[Text] JINGJI CANKAO [ECONOMIC REFERENCE] has reported that the Ministry of Aviation Industry has recently notified the newspaper media of plans for series layout and research and development on civilian aircraft during the period of the Seventh 5-year Plan.

Within the year, 20 Yun-12 passenger series aircraft with a seating capacity of 20 or less will be offered for sale in domestic markets. A void exists at the present time in the production of 30 to 40-seat passenger aircraft, so international cooperation will be entered into by way of speeding up research and development to produce them. To provide 60 to 70-seat aircraft, the Yun-7 airplane will be further improved and altered to meet international airworthiness standards, making it a key model for use on domestic feeder lines during the Seventh 5-year Plan. The Ministry of Aviation Industry has decided to provide 15 Yun-7 basic model aircraft to passenger lines this year in order to eradicate the situation in which foreign-built aircraft dominate China's air passenger transportation. This year 10 Yun-7 Model 100 passenger aircraft are to be produced. There is presently a void in the production of 80 to 100-seat aircraft. During the Seventh 5-year Plan, modifications of the Yun-8 passenger plane will be made to provide it with a pressurized cabin for carrying passengers. Simultaneously, the propeller fan engine passenger aircraft with very great potential for fuel economy that has been researched and developed jointly with the West German MBB Company will be placed on the market during the Seventh 5-year Plan. Twenty-five 150-seat passenger aircraft, the MD-82, which has been built jointly by the Shanghai Aviation Industry Company and the U.S. McDonnell Douglas Company will become available.

In the helicopter series is the 13-ton class Zhi-8 helicopter that can carry 30 passengers, which will be used for tourism and for carrying passengers. This helicopter is to go into series production during the Seventh 5-year Plan. The 4-ton class Zhi-9 helicopter will be produced jointly with France.

In addition to the Yun-11 and Yun-5 used in farming and forestry, a new 1 to 2 ton turbo-prop aircraft will be developed during the Seventh 5-year Plan.

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## TRANSPORTATION

### WANG ZHANYI DISCUSSES HIGHWAY CONSTRUCTION

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 3, 13 Jan 86  
pp 23-24

[Report on Interview with Wang Zhanyi by Xiao Hai [5135 3189]: "Highway Construction in China During the Seventh 5-year Plan; Statement by Vice Minister of Communications Wang Zhanyi; Building of 1,500 Km of First Class High Speed Highways, Improvement of 30,000 Km of Secondary Highways, and 70,000 km of Third Class Highways During the 5-Year Period"]

[Text] As the Sixth 5-Year Plan period was coming to a close, this correspondent paid a call on China's Vice Minister of Communications Wang Zhanyi [3769 1455 1942] and asked him to discuss the present state of highway construction in China and what he envisioned for the future.

#### Background on China's Highways

First of all, Vice Minister Wang reviewed events in Chinese highway construction over the past more than 30 years. He said that up until the 1950's China's highways were extremely antiquated. As of the end of 1949, There were only 80,000 km of highways in the whole country and 51,000 civilian motor vehicles. Highways were concentrated in plains and hill areas along the southeast coast, in north China, in the northeast and in south central China. There were virtually no highways at all in vast mountain regions and in border regions inhabited by minority nationalities.

During the First 5-Year Plan (1953-1957), national investment and civilian operation with public support were adopted as methods to expand highway construction. This scored very great accomplishments; however, construction standards for highways at that time were very low. Most highways were fourth class or simple roads.

In 1958, the state delegated the highway construction plan system to the provinces. For some time thereafter, state investment in highways was very small. As of the end of 1960, highway distances throughout the country totaled 520,000 km. As of the end of 1980, the country had 888,000 km of highways. At that time, most highways were still low standard, with only 196 km of first class highways.

In 1961, China's Sixth 5-Year Plan began. The unsuitability of highway transportation in terms of national economic development was very conspicuous, and the state also devoted increasingly serious attention to highway construction. State investment in highways also increased gradually.

Following 5 years of construction, it has been estimated that as of the end of 1985, China had a total of approximately 940,000 km of highways, and more than 90 percent of villages and small towns were served by roads. Road quality also improved. Newly constructed roads were largely in mountain areas and in border areas that lack railroad transportation.

#### Highway Construction During the Sixth 5-Year Plan

Vice Minister Wang's evaluation of mainland China highway construction during the Sixth 5-Year Plan was: considerable achievements.

More than 60,000 km of new highways were built within 5 years. This included a 200 km increase in first class highways; an approximately 10,000 km increase in second class highways; a nearly 30,000 km increase in third class highways, and an approximately 40,000 km increase in fourth class highways. During the same period, simple roads decreased by more than 20,000 km.

Construction included the new building or renovation of a number of trunk highways requiring substantial engineering as, for example the Yichuan-Lanzhou Highway, which totals 950 km in length and is a third class asphalt surface highway. Most highways in north China run along a north-south axis, very few going from east to west. This highway traverses Shaanxi, Gansu and Ningxia, thereby solving a major problem of transportation through the loess highlands area. In 1982, the Duku Highway in Xinjiang was opened to traffic. Covering a distance of 562 km, it is a third class asphalt surfaced highway. This is the first fairly high standard highway to traverse the Tian Shan range. The rebuilding of the Qinghai-Xizang highway was fully completed on 26 August 1985. This highway runs a total of 1,937 km. Most of it meets second class standards and it has a designed speed of 80 km per hour. Initially, the Qinghai-Xizang Highway was a fourth class gravel road and only wooden bridges were built across quite a few streams. As a result of this reconstruction, the entire highway has been paved with asphalt, and all bridges and culverts have been constructed of reinforced concrete. Formerly it took 9 days to travel from Xining to Lhasa by motor vehicle. Today it takes only 4 days. This highway, which was built at an average elevation above sea level of more than 4,000 meters, has solved a transportation problem on the "roof of the world."

Other trunk highways built or expanded during the Sixth 5-Year Plan period were as follows: Changping-Yanqing, Zhuoxian-Handan, Lhasa-Gonggar, Shenyang-Changchun, Shenyang-Jinzhou, Nanchang-Ji'an, Fuzhou-Xiamen and Guangzhou-Shenzhen, all of which are second class highways; and Beijing-Miyun, Beijing-Huangcun and Urumqi-Changjiwopu, all of which are first class highways. In addition a number of exit highways from large cities and harbor area dispersal highways were expanded.

Simultaneous with acceleration of highway construction was substantial development of highway transportation. In particular, long distance passenger

and freight transportation increased more rapidly. As compared with 1980, the number of passengers hauled in 1985 had increased by more than 87 percent; motor vehicle freight transportation increased 21.56 percent, and highway transportation turnover was better than 13 percent that of the total volume of turnover of the five kinds of transportation in China.

#### Remarkable Achievements in Highway Bridge Construction

Vice Minister Wang told the correspondent that highway bridge construction had been remarkable during the past 5 years, with the construction or renovation of 15,000 permanent bridges totaling more than 500,000 meters in length. Some ferry crossing have been converted to bridges.

Vice Minister Wang listed some major newly built bridges such as at four ferry crossing points between Guangzhou and Zhuhai and at two ferry crossing points between Guangzhou and Shenzhen, the large bridge across the Huanghe at Ji'nan (built in 1982), the large bridge across the Changjiang at Luzhou (built in 1984), the large bridge across the Hanjiang at Shayang (built in 1985), the large bridge across the Huanghe at Baotou (built in 1983), the large bridge across the Huanghe at Lamawan in Nei Monggol, the large bridge across the Oujiang at Wenzhou and the large bridge across the Jinjiang at Quanzhou (both built in 1984). More than 100 highway bridges are currently under construction including the large Huanghe bridge at Zhengzhou, the large bridges across the Huaihe at Fengtai and Bengbu in Anhui Province, the large Weihe bridge at Xi'an, the large Songhuajiang bridge at Harbin, the large bridge across the Wujiang at Guizhou, and the large bridge across the Qingyijiang in Sichuan. China has built a total of 140,000 highway bridges totaling more than 4 million meters in length.

#### Benefits From Highway Construction

In discussing benefits derived from highway construction, Vice Minister Wang said even though highway construction at the present time is faster than formerly; nevertheless, it is still unable to meet needs of national economic development. Why not? First, the speed of highway increase is slower than the speed of vehicle increase. Within 5 years, the rate of increase for motor vehicles was 46 percent, while it was only several percent for highways. As a result, some trunk highways remain crowded. Second, all in all, most of China's motor vehicles are light or medium size with a capacity averaging approximately 4 tons. This is another reason that full benefits cannot be derived from the highways.

Vice Minister Wang also compared benefits derived from highways with those derived from railroads. Highways are superior in that they require little investment; construction periods are short; transportation vehicles are simple, and cargoes do not have to be loaded and unloaded as frequently as on railroads. Nevertheless, for long distances or for the transportation of bulk cargoes, railroads are best. Today, highway transportation within 100 miles in China is more efficient than railroad transportation. For the transportation of valuable items, vegetables and fruits, highway transportation is more cost effective within 800 miles.

## Tentative Plans For the Next 5 Years

Vice Minister Wang Zhanyi said that the task of building China's highways remains a very daunting one. The State Council has decided to accelerate the pace of highway construction during the Seventh 5-Year Plan and has already drawn up several measures for this purpose. First, it will be necessary to increase gradually investment in highway construction during the Seventh Five-year Plan. Second, effective May 1985, a surcharge is to be collected on motor vehicle purchases as a source of funds for highway construction. Third, is an appropriate increase in highway maintenance fee collection standards. In addition, highways are to be built through "civilian operation with public support" and "contributions of civilian labor for construction."

During the Seventh 5-Year Plan, highway construction is to combine expansion and upgrading with the emphasis on upgrading. The focus in construction is to be on economically developed areas, on energy bases, on major ports, on special economic zones, on entry and exit from large cities and on road sections where bottlenecks exist on railroads, with the new construction and reconstruction of some new trunk lines.

Vice Minister Wang said that preliminary estimates call for the construction of 1,500 km of first class and high speed highways, improvement of 30,000 km of second class highways and 70,000 km of third class highways during the 5 year period. By 1990, China will have more than 1 million km of highways. When that time comes, the highway situation will show marked improvement.

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## TRANSPORTATION

### ALTERNATE TRANSPORTATION MODES RELIEVE PRESSURE ON RAILWAYS

Harbin HEILONGJIANG RIBAO in Chinese 21 Jan 86 p 1

[Article by Bing Yingnian [6728 6601 1628]: "Volume of Cargo Traffic Diverted to Other Modes of Transportation Exceeded 4 Million Tons--Pressure on Railways Alleviated through Utilization of Highways and Waterways"]

[Text] A new breakthrough has been made in the readjustment and reform of the province's transportation structure, according to the latest statistics obtained from the provincial planning and economic commission. Last year, more than 4 million tons of cargo for short hauls, a 78 percent increase over the previous year, was diverted to other modes of transportation. This diversion enabled the trains to increase their long hauls by 80,000 car loads, and has played a positive role in alleviating the pressure on railways and reducing the stockpiling of materials in the province.

At the end of last year, according to information from the provincial planning and economic commissions, the stock on hand of coal in various cities and enterprises in the province hit an all time high of 5.1 million tons. Since then, urgent requests for coal supply have been made by the industrial and mining enterprises and the people for their daily needs. In the first half of 1984, more than 150 enterprises in Mudanjiang Prefecture were forced to suspend their operations or to operate at half capacity, because of the shortage of railway transportation. Similar conditions did not arise last year. This was obviously a social benefit from the diversion of railway loads to highways and waterways.

The highways and waterways began to share the traffic of railways in May 1983, and 800,000 tons of cargo were taken over from the railways in the same year. In 1984, the amount of this cargo was increased to 2.25 million tons, and the highways and waterways received their commendations from the State Economic Commission. Proceeding from the overall macroeconomic situation, the leadership at various levels from the people's provincial government down to the local governments, the industrial and mining enterprises, and the railway, highway and waterway departments in the province have since last year treated the diversion of loads as an important way to solve the problem of transportation in the province. The scope of diversion has gradually expanded and the distance of the diversion hauls has increased from 50 to 200 km. Along the 12 railways, more than 160 small stations have stopped the

acceptance of small bulk shipments, and their action helped increase the railways' hauling capacity by 2 million tons. The enterprises are also more concerned with the overall situation than with their own gains. Daqing City has switched from railway to highway for its grain transportation even though at higher expenses. In 1984, only some 50,000 cubic meters of timber was transported by highways in lieu of railways in Yichun; last year, the volume was increased to 230,000 cubic meters. More than 20 cities and counties are now using trucks to transport their timber, and have organized more than 46,000 tons of coal for these trucks' return load. Their action has not only alleviated the pressure on railways, but also reduced the stockpiling of timber and changed the fuel structure in the forest areas. This can be called "killing several birds with one stone."

The diversion of traffic has also enlivened water transport in the province. From July 1984 to the end of last year, more than 300,000 tons of coal were shipped to Fulaerji Power Plant via the Songhuajiang and the Nenjiang. This way of transportation has not only opened a market for the inferior coal of Yilan and enabled the railways to carry more than 6,000 wagon loads of other cargo, but also reduced the transportation expenses of the power plant by more than 4.5 million yuan. Last year, more than 70,000 cubic meters of timber from the northern slope of Dahingganling was transported by waterways, and in slightly more than 1 year, more than 340,000 tons of coal from Qitaihe was shipped by joint highway-waterway transport. The stockpiles in these places have been reduced.

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## TRANSPORTATION

### CONSTRUCTION OF TRANSPORTATION INFRASTRUCTURE SEEN AS NEEDED

Hefei ANHUI RIBAO in Chinese 26 Jan 86 p 2

[Article by Wang Qinghua [3769 3237 5478], director of Provincial Transportation Bureau: "Every Possible Means Must Be Tried To Accelerate Construction of Transportation Infrastructure"]

[Text] Communications and transportation are among the strategic priorities in the four modernizations. However, they are also the weak links in the national economy. At present, the backwardness of communications and transportation in Anhui is shown in the management, the organization and the means of transportation, and the most conspicuous problem is that the infrastructure facilities and the capacity of transportation are far short of the requirements of social development and seriously out of proportion to the entire national economic development.

The outdated infrastructure facilities are now a serious obstacle to the development of communications and transportation, and constitute a serious problem in urgent need of solution. To end this backwardness, the provincial party committee and the provincial government have since last year adopted a series of policies and measures to enforce the open-door policy and to invigorate the economic at home, and tried every possible way to accelerate the construction of transportation infrastructure. A number of key projects are now underway for highways, bridges and wharves. Upon their completion, the backwardness of transportation in the province will be fairly greatly changed.

Construction of transportation Infrastructure has long lagged behind in the province mainly for lack of funds. The state's financial resources are limited, and many tasks are waiting to be done. To accelerate the infrastructural construction, reliance on state investment is therefore impractical. We must use different approaches for the sources of funds. In this connection, the provincial and the various local governments have tried many methods and measures which turned out to be effective.

The first method was that of building and managing public projects by the local people with state subsidy. Many cadres and people knew what they should do. They said: If we want to be rich, we must first build roads; if more highways are opened, the business will be more brisk. To open a highway

therefore means to open a source of revenue. Because of their great enthusiasm, many localities have successfully raised their own funds to build roads and bridges. The provincial party committee, the provincial and the local governments have also made the best use of the situation by fostering their socialist enthusiasm, providing more active leadership, working out the policies, implementing the measures, and whipping up a "people's war" in upgrading the highways. The situation is now gratifying and the transformation of highways is gathering momentum.

The second method was to enlisting state support after doing a good job of the advanced work. In infrastructural construction, some large projects, such as the building of bridges, shiplocks, harbors and wharves as well as the general improvement of the waterway network require a great deal of money and materials, and can hardly be accomplished without state support. According to our experiences in some large projects in the province, we must first exert our subjective efforts if we want to gain state support. We must first do the advance work well, including feasibility studies, technical and economic appraisals and the initial designs, as a precondition for state support. This was how we managed to build the Zongyang and the Huayang shiplocks.

The third method was to raise funds from different sources including the state, the collective and the individuals. "If many people help to collect the firewood, the fire will produce high flames." Since the funds of the state and the province are limited, it would be difficult to undertake infrastructure construction for transportation by relying on these sources alone. Some localities in the province have tried some flexible methods of fund raising through different channels and finally succeeded in completing many tasks. For example, the building of the the Huaihe bridge at Bengbu requiring an investment of 28 million yuan was mainly financed by the local finance authorities and subsidized by the Ministry of Communications and the provincial communications department; and the building of the Huaihe bridge at Fengtai, also requiring an investment of 28 million yuan, was mainly financed by the Ministry of Coal Industry and subsidized by the Ministry of Communications and the provincial communications department. Similar cases are many, and this method is a very good way of fund raising.

The fourth method is for the people to build what they need. The central authorities have laid down the policy of preferential treatment for harbor construction as a means of absorbing foreign funds so that whoever builds the wharves will manage them and reap the benefits. This policy has proved to be effective. Many wharves along the inland rivers in Anhui were built with funds raised by the plants, mines, enterprises and individuals. Most of the bus stations in the province were built in the 1950's. Now that the passenger traffic has increased many hundred-fold, the station facilities are far short of the people's requirements. Last year, the provincial government approved the measure for the people to raise their own funds and a new channel was opened for the renovation of these bus stations. The present major stations can be renovated in a few years in separate groups and different periods, and then the problems of buying tickets and passenger congestion will be solved. The burden on the people is very minor, and those who bear this burden will benefit from it. This is a classical case of "from the people, to the people."

The fifth method is the utilization of loans. The method of borrowing money to build roads and bridges and then collecting tolls to redeem the loans is quite commonly used in foreign countries. In recent years, many regions and departments are beginning to use the same method with good results. For example, the investment of 1.4 million yuan in building the Jiehe bridges at Zhenggu and Bengbu was obtained in the form of bank loans. Upon the completion of these bridges, and after approval by the provincial government, tolls were collected, and the investment may be recovered in only a few years. Some mountainous regions were short of funds for building highways. With the provincial government's approval, they boldly approached the World Bank for loans and thus solved the problem of funds for highway construction.

To further accelerate the construction of the transportation infrastructure, in addition to the continued use of these five methods, we must also appropriately raise the proportion of investment in these construction projects. It was above 10 percent during the First and the Second 5-Year Plan periods, but down to about 6 percent during the Third 5-Year Plan period. Based on the program and objective of communications and transportation developments in the province during the Seventh 5-Year Plan period, the experts have proposed that the proportion should be raised to 18-20 percent to suit the national economic development. In addition, we should make some readjustments in our economic policies, fully arouse the enthusiasm of various departments, enterprises and the people to accelerate the infrastructural construction in order to meet the requirements of the four modernizations.

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TRANSPORTATION

BRIEFS

TIANJIN PORT EXPANSION PLANNED--Tianjin, March 28 (XINHUA)--Tianjin Port authorities are planning to increase cargo-handling capacity at least four times over the next 15 years, according to Port Chief Engineer Xu Xuan today. Thirty-three new berths will be built by 1990, including 15 for 10,000 dwt ships and one--the biggest--for 50,000 dwt oil tankers. At present, Xu said, the port has 24 berths for 10,000 dwt ships. The number of berths for 10,000 dwt ships will have increased to 200 by 2000. The port then should have a total handling capacity of 100 million tons a year, compared with 18.56 million tons last year. Tianjin is an international port with trade links with 150 countries and regions. More than 2,000 ships called there last year. The first five-year stage of expansion will cost 1.8 billion yuan, of which one billion will come from port income, and the rest from the state and a World Bank loan. The central authorities has allowed Tianjin Port to retain all its income for its own expansion, Chief Engineer Xu said. [Text] [Beijing XINHUA in English 1830 GMT 28 Mar 86 OW] /12858

EXPRESSWAY TO BE BUILT--Beijing, April 6 (AFP)--China's southern port city of Guangzhou is to build the country's first high-speed expressway, it was reported here. The highway will be a 57-kilometer (35 mile) ring road with standard speeds of 100 kilometers (60 miles) per hour, the ECONOMIC INFORMATION newspaper said Saturday. To be completed in 1992 the expressway is to include 16 overpasses and total construction costs are about 1.1 billion yuan (\$375 million) said the report. Roadside facilities are to include hotels, fast-food restaurants, post offices, retail centers, small parks, rest stations, gas stations, car washes and garages, the newspaper reported. This ultra-modern highway will contrast sharply with China's other roads on many of which bicycles, pedestrians and horse and ox carts mingle with increasingly heavy automobile traffic. Traffic in Guangzhou has become especially congested because of the port's proximity to Hong Kong and the resulting rapid increase in taxis, motorcycles and other vehicles, observers said. [Text] [Hong Kong AFP in English 0357 GMT 6 Apr 86 HK] /12858

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