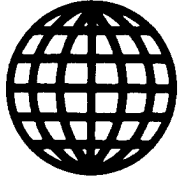


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CONTENTS

1 DECEMBER 1987

POLITICAL

- Initial Stage of Socialism Discussed [SHIJIE JINGJI DAOBAO, 19 Oct 87] 1
Value of Democratic Appraisal of Cadre Work Performance Reported
[Song Shiqi; RENMIN RIBAO, 8 Oct 87] 4
Commentator: Egalitarianism Not Same as Socialist Equality [NONGMIN RIBAO, 26 Sep 87] 5

ECONOMIC

NATIONAL AFFAIRS, POLICY

- Ma Hong on Issues of Contract Responsibility System
[Ma Hong; JINGJIXUE DONGTAI, 5 Jul 87] 7
Analysis of Preliminary Steps in Price Reform 11
Price Reform, Income [JINRONG SHIBAO, 26 Jun 87] 11
Status, Problems of Price Control System [JINRONG SHIBAO, 26 Jun 87] 12
Price Reform in 1986 [JINRONG SHIBAO, 26 Jun 87] 13
Dong Fureng on Economic Reform Difficulties
[Dong Fureng; CHING-CHI TAO-PAO, 1 Oct 87] 14

FINANCE, BANKING

- Arrearage Among Enterprises Termed Serious Problem
[Gai Feng'an, Zhou Xinglin, Li Xiulin; HEBEI RIBAO, 9 Jul 87] 16

FOREIGN TRADE, INVESTMENT

- Options in Using Foreign Investment Discussed [Xia Guijun; GUOJI MAOYI, 27 Jul 87] 17
MOFERT Official Urges Reduction of Export Costs
[Li Zhaofen; GUOJI SHANGBAO, 4 Aug 87] 20
'Gratifying Results' from Contracts Overseas
[Lu Gan, Liang Tianxiang; GUOJI SHANGBAO, 6 Aug 87] 21

REGIONAL

EAST REGION

- Ideological, Political Conference on Strengthening Higher Education
[JIEFANG RIBAO, 21 Aug 87] 23
Statistics on Shanghai Higher Education Reported [XINMIN WANBAO, 26 Sep 87] 24
Shanghai Takes Measures To Deal With Bureaucratism [Ji Wei; JIEFANG RIBAO, 12 Sep 87] 24
Excesses Termed Adverse Side Effects of Reform [Pei Yiyuan; XINHUA RIBAO, 24 Aug 87] 24

SOUTHWEST REGION

- Guizhou Appraises County-Level Cadres [Pan Didu, Hu Yueping; RENMIN RIBAO, 10 Oct 87] 25

Initial Stage of Socialism Discussed

HK291527 Shanghai SHIJIE JINGJI DAobao
in Chinese 19 Oct 87 p 3

[Report: "A Major Breakthrough in Theory on Scientific Socialism"]

[Text] In his article on socialist practice of the Soviet Union, East European countries, and China, Wang Mengkui pointed out: People now have a more profound and systematic understanding of the theory on the initial stage of socialism than in the past. If we have a good command of the theory on the initial stage of socialism, we will have a profound understanding of many problems we are facing, including economic construction, economic structural reform, political structural reform, party building, and how to uphold and develop Marxism.

In his article published a few days ago on socialist practice in the Soviet Union, East European countries, and China, Wang Mengkui pointed out that there had been a major breakthrough in the theory on scientific socialism.

1. The scientific inference of the initial stage of socialism is a completely new Marxist concept and a major breakthrough in scientific theory on socialism. This scientific inference was first mentioned in "Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic" adopted by the 6th Plenary Session of the 11th CPC Central Committee in June 1981. Item 33 of the "Resolution"—"socialism and socialism alone can save China"—points out: "Although our socialist system is still in the initial stage, China has undoubtedly established a socialist system and entered the stage of socialist society. Any view denying this basic fact is wrong. Under socialism, we have achieved successes that were absolutely impossible in old China. This is a preliminary and at the same time convincing manifestation of the superiority of the socialist system." It adds: "Of course, our system must undergo a long process of development before it can be perfected. Given the premise that we uphold the basic system of socialism, therefore, we must strive to reform the specific features that are not in keeping with the expansion of the productive forces and the interests of the people and to fight staunchly all activities detrimental to socialism. With the development of our cause, the immense superiority of socialism will become more and more apparent." The significance of such an important description of the initial stage of socialism by the "Resolution" lies in: 1) It has been clearly pointed out that socialism in our country is socialism in its initial stage, and that the superiority of the socialist system has just been initially demonstrated. 2) The socialist system in our country is undergoing a long process of progressing from a comparatively imperfect stage to a comparatively perfect stage. 3) Proceeding from the initial stage of socialism, the problems of reform and upholding the socialist path are

further discussed. All these are of theoretical and practical significance. However, we should say that when the important inference of the initial stage of socialism was first mentioned, it did not capture wide attention. Efforts to profoundly study or propagate it were scarcely made. The objective reasons for this might be that the inference is aimed at criticizing the rightist mistakes, which negated the socialist nature of our society and the socialist path. The emphasis was placed on positively expounding the superiority of the socialist system, rather than on specially discussing the initial stage of socialism.

When the report delivered at the 12th Party National Congress in September 1982 touched on the issue of building spiritual civilization, it once again discussed the problem of the initial stage of socialism. The "Resolution on the Guiding Principle for the Building of Socialist Spiritual Civilization" adopted by the 6th Plenary Session of the 12th CPC Central Committee in September 1986 further discusses the initial stage of socialism in a positive way. It points out: "Since our country is still in the initial stage of socialism, we must apply the principle of distribution according to work and develop the socialist commodity economy and competition. Also, for a long time to come, we shall develop varied sectors of the economy, always ensuring the dominant position of the public sector, and we shall encourage some of the people to become rich first, before the objective of common prosperity is achieved." Here, the economic characteristics of the initial stage of socialism are summed up for the first time in a comparatively specific way. The document also stresses that the initial stage of socialism is a comparatively long historical period. Thereafter, the study of the initial stage of socialism has been increasingly carried out in theoretical circles.

Since early this year, central leading comrades have talked a lot on many occasions about the issue of initial stage of socialism. It is appropriate to say that we now have more profound and systematic understanding than before of the theory on the initial stage of socialism. As long as we have a good command of the theory on the initial stage of socialism, we will profoundly understand many important problems we are facing, including economic construction, economic structural reform, political structural reform, party building, how to uphold and develop Marxism, and so on.

The scientific inference that China is in the initial stage of socialism covers the following two aspects: The socialist nature of the society in our country in the present stage, and the degree of socialist development. On the one hand, society in our country is a socialist society, and we must uphold rather than deviate from the socialist path. Any words and deeds that negate that socialist nature of our society or deviate from the socialist road are wrong. What is stressed here is the initial stage of socialism. On the other hand, socialism in our country is socialism in its initial stage, which is imperfect and immature. Our line and policy should be formulated in accordance with such practical conditions. We are not

allowed to surpass the stages of development of the society. What is stressed here is also the initial stage of socialism. Clearly understanding the initial stage of socialism of China will help us oppose and prevent the rightist mistake of deviating from the socialist path. Clearly understanding the initial stage of socialism will also help us oppose and prevent the "leftist" mistake of surpassing the stages of development of the society. These two aspects are unified and should be understood and grasped in a comprehensive way. It is not allowed to overemphasize one aspect at the expense of the other.

2. To profoundly understand the significance of the theory on the initial stage of socialism, party history since the founding of the People's Republic, and the reform now in progress, it is necessary for us to historically review our understanding of the stages of development of the socialist society. In the Soviet Union under the leadership of Lenin, the periods, which had far-reaching influence over later generations in both theory and practice, were basically the period of wartime communism and the period of new economic policy. These two periods were basically characterized by short-term policies. In the past, one defect in our study of the thinking of Lenin and the experience of the Soviet Union was that we overemphasized the inevitability of the implementation of the wartime communist policy. We even stressed that it was universally applicable. On the contrary, we failed to pay sufficient attention to Lenin's important thinking on the new economic policy. We regarded it completely as a temporary retreat. This was an important reason why the "leftist" ideology and policy prevailed in the Soviet Union and our country for a long time. What is interesting is that reforms in socialist countries, and the Soviet Union in particular, have gained enlightenment, or theoretical basis, from Lenin's thinking during the period of the new economic policy, although the present-day reforms are not aimed at restoring the new economic policy of those years.

After basic completion of socialist transformation of the private ownership of the means of production, Stalin announced in the 1930's that the Soviet Union had "completed the building of socialism" and had "realized, as Marxists call it, the first stage of communism." In the meantime, he put forward the task of "transition from socialism to communism." During his later years, in a book entitled "The Problems of Socialist Economy of the Soviet Union," Stalin also pointed out that his country "is preparing in deeds and not in words alone the transition to communism." It was obvious that this surpassed the stage of development, which was completely not in accord with the objective conditions of Soviet society. When the transition to communism was regarded as a practical task that should be fulfilled, it was difficult to carry out economic structural reform to meet the demand of the development of productive forces. Very often, this could only mean acting in a way that defeats one's purpose.

Although Khrushchev opposed Stalin, like Stalin he was anxious for the transition to communism. He was even

more anxious than Stalin in this regard. At the 21st National Congress of the CPSU held in 1959, he proposed an idea of all-around communist construction. At the 22d National Congress of the CPSU held in 1961, he stressed that it would take only 20 years—that is, by 1980—for the Soviet Union to "basically complete the building of communism." He added: "People of this generation will live under a communist system."

Brezhnev criticized Khrushchev for his "mistakes of subjectivism and voluntarism." He stressed that efforts should be made to "practically and scientifically assess the problems and prospects of socialist construction." In his report delivered at a rally to celebrate the 50th anniversary of the October Revolution, he gave up the idea of "communist transition" proposed by Khrushchev and said that the Soviet Union had only "completed the building of developed socialism." Later, Andropov changed the idea on the "completion of the building of socialism" into that of "starting point," saying that the Soviet Union was at a "starting point of a long historical stage of developed socialism" and that it was facing a practical task of "perfecting developed socialism."

Since assuming power, Gorbachev has used "perfect socialism" to replace Andropov's "perfect and developed socialism." He said that the strategic task of the Soviet Union in the present stage is to "perfect socialism in a planned and comprehensive way on the basis of speeding up the development of socialist economy." He even said that Soviet socialism is a "developing socialism."

Since the 1970's, the understanding of other socialist countries in Eastern Europe of the stages of development of socialism has, more or less, undergone changes similar to those of the Soviet Union.

4. Over the past 30 years or so since the founding of the People's Republic, our party has also experienced a complicated process with regard to its understanding of the stages of development of socialism. Generally speaking, this process can be divided into three stages.

After September 1952, Comrade Mao Zedong began to discuss the issue of the general line during the transitional period. On 28 December 1953, the CPC Central Committee approved and transmitted a document issued by the central Propaganda Department entitled "Outline for the Study and Propaganda of the General Line of the Party During the Transitional Period," which was a systematic account of the general line; People are familiar with the following passage: "From the founding of the PRC to the basic completion of socialist transformation is a transitional period. The general line and task of the party during the transitional period are that for a comparatively long period of time we should gradually realize socialist industrialization of the state and gradually complete socialist transformation of agriculture,

handicraft industry, and socialist industry and commerce." Generally speaking, our understanding of the stages of social development during that period was basically correct.

The second stage was the 20 years following 1957. In 1956, we completed socialist transformation of the private ownership of means of production. Socialism in our country entered a new stage of development. This was a great turning point in the history of our country. The Eighth National Congress of the CPC pointed out: "The history of class exploitation, which lasted several thousand years, has basically ended. The socialist social system has been basically established." It added: The main contradiction at home is a contradiction between rapid increase in economic and cultural demands of the people and the current state of affairs in which the people's economic and cultural demand cannot be satisfied. All this was correct. In his famous report "On the Correct Handling of Contradictions Among the People" delivered in 1957, Comrade Mao Zedong clearly and definitely stressed: The large-scale and turbulent class struggle of mass character during the revolutionary period has basically ended. He regarded correct handling of contradictions among the people as the main theme of the political life in our country. The speech was a continuation and development of the correct guiding principle of the Eighth National Congress.

It was unfortunate that, due to the "leftist" mistake in guiding thinking, the situation very quickly took a turn for the worse.

The "leftist" guiding thinking occurred as early as in the period of the upsurge of cooperative transformation of agriculture in 1955. The original purpose in delivering the report "On the Correct Handling of Contradictions Among the People" was to shift work focus. However, due to the influence of the anti-rightist struggle which was carried out throughout the country shortly after the report was delivered some contents, such as acute class struggle, the question of which will win has not yet really settled, and so on, which were irrelevant to the spirit of the original report, were added when the report was openly published.

While emphasizing class struggle, a nationwide great mass fervor of the "Great Leap Forward" was gradually worked up as a result of the criticism of right-deviationist conservatism during the campaign of cooperative transformation of agriculture in 1955, criticism of "opposing rash advance" by the Nanning meeting held in November 1958, and so on. At that time, it was stressed that it would take only 3 to 4 years—or, at most, 5 to 6 years—to change the ownership of the people's commune from collective ownership into ownership by the whole people. Such a gross mistake in understanding of the stages of social development brought about serious consequences in practice.

Due to the failure of the "Great Leap Forward" campaign and to other internal and external reasons, the Beidaihe meeting held in August 1962 and the Seventh Plenary Session of the Eighth CPC Central Committee again stressed class struggle. The idea of the "great transition" was proposed by the 10th plenary session. In other words, the entire historical stage of socialism was regarded as a transitional period from capitalism to communism. Such theory on "great transition" was one of the ideological roots of the "leftist" line and policy; it was also an important theoretical base for the "Great Cultural Revolution."

The situation described above shows that during the 20-year period after 1957, our mistake in understanding the nature and stages of development of socialist society contributed to the tortuous course of our party and state. In other words, it was an important ideological base for such a tortuous course.

The period since the 3d Plenary Session of the 11th CPC Central Committee was the third stage. At the beginning of this article, we review inference concerning the initial stage of socialism contained in official documents of the party Central Committee published since the 3d Plenary Session of the 11th CPC Central Committee. This inference has been drawn on the basis of summing up positive and negative experiences, and the lesson taken during a period of 20 years after 1957 in particular. The experience of the international socialist movement has also been taken into consideration. What is most important is that the party Central Committee has formulated a series of important policies in accordance with scientific understanding of the initial stage of socialism. Marked results have been achieved in this regard.

The common points of the abovementioned historical experiences of the Soviet Union, East European countries, and China are:

1. People in these countries once impractically appraised or idealized socialist society in the present stage. They overestimated its maturity and were extremely anxious for the transition to a higher stage of development. At present, various countries have been gradually redressing their errors in the overestimation so that they can make a rational appraisal. Such "retreat" with regard to the understanding of the degree of maturity of socialist society in the present stage is actually great progress in understanding, progress paid at a great price. They have dispelled illusion to return to reality.
2. The immature stage of development of socialist society (also called initial stage, or otherwise) covers a fairly long historical period rather than a brief period. There is a trend that various countries will lengthen the period needed for this stage of development.

3. The new understanding of the stages of development of socialist society is a theoretical basis for reform. With the deepening of understanding of the stages of development of socialist society, various countries will change their internal policy, and economic policy in particular, in varying degrees.

Value of Democratic Appraisal of Cadre Work Performance Reported

*40050016a Beijing RENMIN RIBAO in Chinese
8 Oct 87 p 4*

[Article by reporter Song Shiqi [1345 0013 3823]: "Expansion of Socialist Democracy in Cadre Work Helps Create an Environment of Benevolent Competition for Talents; Democratic Appraisal Instills New Vitality Into Cadre Contingent"]

[Text] In the last few years, party and government organs at all levels throughout the country have gradually changed the closed-door, mystifying method of assessing cadres and are arranging on a broad scale for cadres and the masses to directly and openly examine and evaluate leading cadres at all levels, thus instilling new vitality into the cadre contingent. This will contribute to the creation of an environment of benevolent competition, in which our best talents may make themselves known, as it will also promote a thorough reform of the cadre system.

As the main purpose of democratic appraisal is to ascertain whether leading cadres in party and government organs are sufficiently competent for their present duties, democratic appraisal has been, ever since the organizational reform of 1982, an important reform to expand socialist democracy in cadre work, enhance supervision of cadres at all levels by the masses within and outside of the party, and to show due respect for the right of the masses to select the "public servants of society." In the last few years, several areas, among them also Guangdong Province, have conducted valuable experiments in this type of reform. Last winter and during spring this year, such provinces, regions, and cities as Beijing, Guangdong, Hebei, Sichuan, Hubei, Liaoning, Fujian, Shandong, Liaoning, and Tianjin, and other places and cities have generally conducted democratic appraisals as to moral character, ability, diligence, and past achievements of certain levels of cadres, in connection with their end of the year overall reviews, such appraisals being participated in by cadres and by the masses of the particular units, also by leading cadres of subordinate units of first and second rank. On this basis, they furthermore conducted public opinion surveys by secret ballot on the question of whether the cadres, who are being assessed, are sufficiently competent for their duties. Some departments of the Central Committee and the state organs have also conducted democratic appraisals of leading cadres in ministerial departments (bureaus). According to statistics from some provinces, municipalities, and districts, over 80 percent of all cadres in the two categories of county and

department level cadres and prefectural and municipal department and bureau leading cadres have agreed to submit to democratic appraisals. Many cadres who have participated in the appraisals have shown a high degree of political enthusiasm. In the three provinces of Fujian, Guangdong, and Gansu alone, as many as over 100,000 persons from among their cadres and masses participated in democratic appraisals. Over 27,000 cadres of all ranks participated in appraisals and voting on recommendations in Guangzhou Municipality.

Practical experiences in many places have proven that democratic appraisal of leading cadres also motivated abolition of the system of lifelong occupancy of leading positions and helped implement a system whereby cadres may be moved up as well as down. If the masses in a realistic way appraise the quality and political achievements of leading cadres, and show by their votes—judging them as either excellent, competent, basically competent, or incompetent—that they have confidence in the competency of cadres, the result will be that those who are positively evaluated will easily have everyone's trust. Owing to these appraisals, it will no more only be the opinion of the party organization that will decide which cadre is to be promoted and which to be demoted, and why. Now the opinion of a vast number of cadres and of the masses has also to be heard; it is no more a matter which can be settled by the say of one individual or of a few persons. This greatly reduces the obstacles against moving cadres not only upward to higher positions but also downward to lower positions. When some cadres in Hebei Province saw that the majority of the masses voted them incompetent for their jobs, they did not wait for the opinion of the party organization, but on their own initiative submitted their resignations or requests to be moved to different positions. Cadres who were appraised as excellent are generally encouraged by reward-type salaries, promotions, commendations in reports, and in other similar ways. Leading cadres, who are appraised incompetent for their present positions, are either dismissed or transferred to other work, depending on the circumstances of the cases. In this way, not only is there a big change in that cadres can not only be moved upward but also downward, but all cadres are also encouraged to bestir themselves energetically and contribute effectively to the socialist modernizations.

Democratic appraisals will help the party organization broaden its field of vision by getting to know people well enough to select them for jobs commensurate with their ability, and will help them discover many outstanding talents. Appraisals will also create excellent conditions for the selection of good and capable people, according to the principle of employing persons of both political integrity and capability. They will also strengthen the buildup of a contingent of cadre candidates. Throughout the province of Guangzhou, the number of those recommended for municipal (prefecture) and county level cadre positions amounted to 15,000. In Hebei Province, among the talents recommended for leading positions of county and department rank, 40 were selected in an

initial weeding out process for fully employed cadres or candidate cadres of prefectural and departmental rank. Some prefectures and regions in Sichuan, furthermore, instituted a system of recommendations for specific positions, stating clearly for which position, at what rank, and for what particular leadership duties the recommended person is to be found suitable. Persons of comparatively high qualifications recommended at the various places had in many cases been completely unknown, or hardly known, to the party organization. Since the number of selected cadres has increased, it is possible to be more choosy in selecting the best, while rejecting the poorly qualified, and it is possible in good time to employ or accept as candidates those excellent cadres who wholeheartedly work for the four modernizations, uphold the four cardinal principles as well as the policies of reform, opening up, and revitalizing the domestic economy, who show outstanding political achievements, and who are honest and upright in their ways, so that they may replace those who have proven inferior.

The democratic appraisal system for leading cadres also created opportunities and forms that allow listening attentively to the opinions and demands of the masses, and enhanced among leading cadres consciousness to accept supervision by the masses. Leading cadres of county and department rank lacked in the past effective supervision from below by cadres and by the masses, a fact which often blinded them as to the acceptable or unacceptable state of their ideology, work, and workstyle. A situation where the masses have no outlet to bring their criticism of leading cadres to anyone's attention, nor would dare to voice such opinions, still exists to varying degrees in some places and units. The system of examining and appraising cadres shows respect for the democratic rights of the broad masses of the people and provides an opportunity for them to speak up and fully convey their own opinions. Cadres who are strongly devoted to their work, who are honest and upright in their ways of thinking and working, and who have outstanding achievement to their credit, will be fully affirmed by the assessment of the masses. Cadres who have shown serious defects in their ways of thinking, their character, and workstyle will be sharply criticized in the appraisal. This form of having the masses differentiate between cadres and select "public servants" will be a profound education and strong stimulus for leading cadres; many people are convinced that it will not do to simply let things drift along. Based on opinions received from the masses, many prefectures and municipalities in Hebei Province outlined certain definite reform measures, which they published, welcoming the supervision by the masses as to their execution. Some leading groups of bureau rank in Beijing Municipality are taking very careful note of the opinions of the masses, expressed in the appraisals; some of the criticism has indeed already been accepted, and for suggestions for which conditions are not yet ripe, the reasons are being explained. In the course of effecting improvements in their work, leading groups all over the country are now in the process of

fostering the habit of giving rightful consideration to public opinion and of accepting supervision by the masses at all time.

9808

Commentator: Egalitarianism Not Same as Socialist Equality

*40050013a Beijing NONGMIN RIBAO in Chinese
26 Sep 87 p 1*

[Article by staff commentator: "Don't Take Egalitarianism to be Social Fairness"]

[Text] The reform in China's rural areas has achieved great results, and many successful experiences can now be summarized. A very major one among these is the solution of the problem of "everybody sharing food from the same big pot" and practicing egalitarianism. We have really implemented and carried out the principle of distribution according to work, and have released the enthusiasm and initiative of the masses, which had been suppressed for so many years.

Egalitarianism demands that every member of society share equally in the social wealth, regardless of the size of his contribution. Many years' practice has shown that egalitarianism acts as a corrosive agent, which is detrimental to the development of enthusiasm and to the development of productive forces, and that it is an obstruction in the way of social progress. However, having been exposed for a long time to the influences of small-scale peasant economy ideology and leftist extremism, some people mistake egalitarianism for social fairness, and even go so far as to regard egalitarianism as an indication of superiority of the socialist system. Actually, the concepts of so-called fairness and equality have different connotations at different stages of the historical development of a society. Focusing on economic relations, we see that socialist equality means equal reward for equal labor. It means exchanging labor at equivalent rates, and, as regards distribution, it means distribution according to work. Positive and negative experiences over many years have proven that under the condition of the socialist public-ownership economy, not to implement the principle of distribution according to work, and not to eliminate egalitarianism, would make it impossible to fully mobilize the enthusiasm of the masses, production could not develop, the superiority of the socialist system could not be brought into play, and modernization would be completely out of the question.

Reform in rural areas generally adopted a system of contract responsibility of households for joint production, thus solving the problem of "everybody eating from the same big pot" and implementing the principle of distribution according to work. As a consequence, enthusiasm among the broad masses of peasants was stimulated and production developed at an accelerated pace.

However, we must also realize that the egalitarian ideology is deeply rooted in China and by far not yet eradicated. The main trend in present-day distribution is still to allow "everybody to eat from the same big pot," which is indeed the problem of egalitarianism. Prior to the reform in the rural areas, the state of things in many places, especially in the units of town organs, enterprises and industries, was one of: "It makes no difference whether you work hard or not, whether you do a good job or not, and whether you work or not at all." Some units almost always distributed material and welfare benefits, such as salary increases, payment of bonuses, allocation of houses, on an equal basis; everything is distributed according to the number of people, giving each person one share. Some leadership groups believe doing it in this way will, on the one hand, be least troublesome and, on the other hand, offend no one. They also believe that this is the only "equal" and "fair" way to do it. This is a big misunderstanding. Egalitarianism is not socialist equality. If social wealth is distributed equally to those who work less and those who work more, to those who work badly and those who work well, it means in actual fact that one section obtains free of charge the fruits of labor of another section of people. This is most unfair according to the principle of socialist equality!

In view of the multiple forms of ownership during the initial stages of socialism, we cannot have a single form of distribution, and it is even less possible to maintain it pure and unblended. In addition to the main form of distribution according to work, there are also interests on bank deposits, payment of dividends on shares, compensation for risks, and non-labor income incidental to certain amounts of labor expended by customers of privately operated enterprises. The principle that we must uphold during the initial stages of socialism is to adopt as the primary method the principle of distribution according to labor, and to allow other forms of distribution as supplementary. On selecting one of the various distribution policies, we must see to it that it aids actual work and is apt to increase the prosperity, as a matter of priority, of those enterprises and individuals that operate the businesses in question. On the other hand, it must also be oriented toward promoting the common welfare and must show efforts to comply with the demand for social fairness and increased efficiency. This is the only way in which the enthusiasm in all sectors can be fully mobilized and in which the development of productive forces can be accelerated. There is no conflict here with the principle of social fairness.

9808

NATIONAL AFFAIRS, POLICY

Ma Hong on Issues of Contract Responsibility System

40060881 Beijing JINGJIXUE DONGTAI [TRENDS IN ECONOMICS] in Chinese 5 Jul 87 pp 1-5

[A speech delivered by Ma Hong [7456 3163], Director-General of the State Council's Economic, Technological, and Social Development Research Center, at the National Seminar on Assets Management Responsibility System jointly sponsored by the Economic Institute of the Chinese Academy of Social Sciences and the Theory Department of the Economic Daily: "Some Issues on the Contract Responsibility System"]

[Text] The State Council has affirmed that the emphasis of this year's reform is to intensify the reform of enterprises and stimulate the large- and medium-sized enterprises. The approach is based on resolutions on economic reforms passed at the 3d Plenum of the 12th CPC Central Committee. One of the resolutions called for the separation of ownership from management of state enterprises and the establishment of many types of the contract responsibility system. The contract responsibility system for assets management is one such type. Comrade Ziyang attaches great importance to the reform of the management mechanism of enterprises. It was he who put forth this year's emphasis for reform. He asked state-run enterprises to implement multiple types of contract responsibility systems and separate ownership from management so that they could become mechanisms in which decision-making authority, responsibility, and profits were very closely integrated and so that large- and medium-sized enterprises would be vitalized. Today I am going to talk about some related issues.

The first issue is the intensification of enterprise reforms and the separation of ownership and management. There are some theoretical aspects that need to be clarified.

The 3d Plenum of the 12th CPCCC pointed out that ownership and management of state enterprises should properly be separated. Whether you look at it from a theoretical or a practical perspective, this thesis is correct and in conformity with the principles of socialism. The rural economy with its system of collective ownership has been highly successful ever since the implementation of the output-related contract responsibility system on a household basis, met with great success. The state industrial and commercial enterprises in cities are currently experimenting with many types of contract responsibility systems and have already yielded notable results. Nevertheless, opinions expressed recently in newspapers and periodicals show that there are still differing views. Some people say the separation is feasible and some say it isn't. Not long ago the Capital Iron and Steel Corp conducted a symposium on contracting. Someone made a comment at the symposium that from the standpoint of the state and the enterprises, ownership and management can be separated; but within an

enterprise, ownership and management must be integrated and must not be separated. This issue has an important bearing on the assets management responsibility system and should be looked into seriously so that we can be clearer as to whether ownership and management should be separated. A second view is that if you separate ownership from management while implementing the contract responsibility system, you might end up turning ownership by the whole people into collective ownership. This is a misunderstanding. In reality, separation of ownership and management is only a change in the management of an enterprise. It lets an enterprise have decision-making power in operation and management and encourages independent accounting and assumption of sole responsibility for profits and losses. It will not and cannot change the enterprise's status as being owned by the whole people.

A third view is that the contract responsibility system of state-run enterprises is based on the assumption that the enterprises have interests of their own. Through self-accumulation, an enterprise will further develop which will benefit the state and the enterprise itself. When this happens, will the new assets, acquired with funds which were at the disposal of the enterprise, be considered as belonging to the enterprise or will it be considered as indistinguishable from the assets which were the state's original investment in the enterprise? On this issue there are different views. Some feel that the new assets, just like the initial assets, should belong to the state, otherwise, the state-run enterprise will lose its status as belonging to the whole people and become in reality, owned by itself. The experience of some socialist nations indicates that this is not successful. Others feel the new assets essentially belong to the people. However, they really are not the same as the assets the state initially invested in the enterprise. These two types of assets should be treated differently by the state in order to motivate the enterprise to strive for more economic gains.

A fourth view is that state ownership does not really make each enterprise solely responsible for profits and losses. At best, it would be responsible for profits, not losses. This also needs to be thoroughly studied. After all, the goal of the contract responsibility system is to force an enterprise to take responsibility for their profits and losses. Still another view alleges that if ownership is separated from management through the adoption of multiple types of contract responsibility systems, requirements from and control by the state would be even less standardized. Is this in line with the direction of our reform? The direction of reform is to require standardization in the conduct of enterprises. The contract responsibility system includes the assets management responsibility system. This system allows each enterprise to adopt its own approach which makes for even less standardization. Would this make future reforms more difficult? This question deserves our attention. The implementation of many types of responsibility systems which combine decision-making authority,

responsibility, and profits during the past few years have netted fairly good results. Experience has proven that multiple types of enterprise management are necessary for the development of a planned commodity economy in socialism. When implementing the contract responsibility system, we should do what is best under given circumstances. We must ensure that the responsibility systems exploit the production potentials of enterprises, guard against the loss of state assets, steadily increase state revenues, and do not become obstacles in the standardization of reforms. It must also lead us to a path of enterprise management reform characterized by both a variety of methods and standardization. Moreover, we must guard against such problems as short-term behavior on the part of enterprises and an overexpansion of consumption.

Another issue is whether leasing and contracting are two different things or the same thing and if different, how.

There is another issue that needs clarification. If ownership and management in state-run enterprises are to be separated, are we going to adopt a system of shareholding? If so, what type of shareholding will we adopt? This needs to be addressed too.

All these issues must be clarified on a theoretical basis. In my opinion, the principle of separating ownership from management is in line with Marxism and socialism. Implementing all kinds of contract responsibility systems in accordance with this principle will promote and intensify the reform. We must theoretically recognize that ownership and management can be separated. As to how to separate them and what specific management forms should be taken, we must make a concrete analysis lest the reform tasks run into ideological obstacles.

A second issue is that we must recognize that there are many forms management may take in the of separation of ownership and management in contract responsibility systems. At present it is hard to determine which form is best. We cannot tell until we have compared different forms after some experience. Under present circumstances, it is not right to allow only one type and disallow others. Things always develop in many shapes and forms. Limiting ourselves to one form is a hindrance to development. It is understandable for us to say nice things about the assets management responsibility system because we are here to discuss it. But we should not negate other types. The State Council's policy is that there can be many types of management resulting after the separation of ownership and management. There are numerous trades and industries. Within each trade/industry each enterprise may have its own operational standard of management. The economic development of each geographical area is uneven and there are limitations to each type of contract management. None should be universally applied. Consequently, each type has to be carefully analyzed for its strong and weak points. The various types may have certain commonalities as well as

their own unique aspects or characteristics. One should adopt the advantageous features of the different systems so as to improve the system one is using.

According to the data provided by the State Economic Commission, there are currently more than 700 large- and medium-sized enterprises that institute a contract responsibility system (including trades contracting). There are many types of contract responsibility systems. The major ones are:

1. "Double Guarantees and Single Linking." Eight large enterprises in Beijing are representative. The first guarantee is the payment of taxes. The second guarantee is to undertake the technological transformation projects prescribed in the "Seventh 5-Year Plan." If the contracting enterprise cannot fulfill the contract terms, it will make up for the lack with its own funds. "Single linking" means the total wage bill is tied to the taxes paid. Beijing Municipality calls this type of reform, "Reform at one's own expense." An enterprise pays taxes according to the prevailing tax law. At the end of the year, the municipality's finance agency settles accounts with the enterprise and gives a refund to the enterprise.
2. Contracting to turn-in profits at a progressive rate. At present, over 20 enterprises are experimenting with this type. After paying a commodities tax, the enterprise turns in profits at a progressively increasing rate. Quite a few enterprises are asking to use this method.
3. Enterprises with minimal profits or which suffer losses may use either a contract responsibility system where the enterprise delivers a fixed rate of profit or a system where the enterprise can keep a larger percentage of the returns if they reduce their deficits.
4. The State Commission for Restructuring Economic System is experimenting with the enterprise management responsibility system in six cities. The enterprise pays 55 percent income tax out of its base profits and 30 percent of the portion in excess of the base. This is the "inverse 3:7 ratio."
5. A contract system involving a sharing of the profits after the target profit base has been reached. The amount of base profit is determined and once it has been turned in, the surplus is equally shared by the enterprise and state. Taxes will be paid first in accordance with the tax law. At the end of the year, the finance agency of the local government will settle accounts with the enterprise.
6. A contract responsibility system based on input and output is being implemented by the China National Petro-Chemical Corp, China National Nonferrous Metals Industry Corp, Ministry of Metallurgical Industry, Ministry of Petroleum Industry, Ministry of Coal Industry, Ministry of Railways, and other organizations.

The assets management responsibility system was enthusiastically received by Comrade Ziyang when it was first introduced. He has personally attended meetings on this. At present this system is being tested in Shenyang, Wuhan, Chongqing, and other places.

In my estimation there are more types of contract responsibility systems than the ones mentioned here. Each type must have its merits if we are to continue to use it and for it to continue to develop. But each type also has its limitations. We must analyze their common features, characteristics, merits, and drawbacks so that we can adopt the good aspects and avoid the deficiencies. Only by doing this can we make the separation of ownership and management perfect. We need to study the weaknesses and publicize the advantages of the assets management responsibility system. We must learn the merits of other types in order to overcome the weaknesses of our own type and so that we may be able to perfect our system and make it a vital force.

The third issue is that it is not yet quite possible to come up with a uniform standard. Nevertheless, in general, the leadership should exercise macro-level management of the contract system. There should be some common guiding principles to be observed by all, regardless of the type of contract system, just as in sports competitions where everyone follows common rules.

Currently, the common characteristics of the contract responsibility systems are "a guaranteed base figure, guaranteed delivery of profits to the state, retention of surplus, and payment for one's own deficits." We can set up some regulations within a given industry. Now, I am going to address the following issues.

First, there is the issue of base figures in contracting. All contracts must have base figures. A characteristic of the assets management responsibility system is that an appraisal is made of the added value or loss of assets. Bids submitted in the present method of bidding are based on the base figure. The issue of an appropriate base figure is one that must be settled regardless of the method of contracting we choose.

In the past when we were experimenting with the expansion of autonomy in enterprises, we generally started with tax reduction and profit concessions. Such reform was necessary under the old, highly centralized system. The situation has since changed. We have reached the limit in tax reduction and profit concessions. We do not have any more room for concessions. Therefore, we cannot expect to derive any more help from the state through contracting, nor can we raise prices at will. Enterprises will instead have to rely on their abilities to tap their own potentials. Those who are implementing the assets management responsibility system ought to have this kind of spirit. Of course, this issue must be handled in an appropriate manner in order to ensure the continuous growth of national revenue and the continued initiative of the enterprises.

We must also resolve the problem of the estimation of assets and rate of increase in profits. The assets management responsibility system shares the same problem as other types of fixed profit responsibility systems and that is the problem of how the base figure should be determined and at what rate it should be increased. The Capital and Iron and Steel Corp at first determined that the rate of fixed profits should increase 6 percent annually. Comrade Ziyang felt this was too low and later the rate was raised to 7.2 percent. The Second Rolling Stock Plant, like the steel mill, initially set a relatively low rate but later raised it. These two enterprises, unlike the Anshan Iron and Steel Corp, are in a growth phase and have great potential for increasing profits. Some "older enterprises," especially the "old, old enterprises," cannot have such a high rate of increase. That is why it is very important to determine the appropriate base figure. On the other hand, you must give an enterprise some benefit as inducement out of the increased portion of the output and revenue; otherwise, there will not be any incentive. However, you cannot afford to give too much. The base figure has to be reasonably set and thorough investigation and research should be conducted on this. One must not arrive at the base figure only at the spur of the moment. You cannot afford to be vague about the base figure and only arrive at it in the course of bidding. Naturally, bidding is better than no bidding at all. The Haidian District of Beijing was negotiating to lease a store. It planned to ask for 45,000 yuan. When the bidding ended, the price had gone up to more than 90,000 yuan. Our present market is far from perfect. It is very difficult to give a quick estimate of the base figure for assets management contracting and the annual increase of profits. When contracting, we must arrive at a base figure, and ensure that state assets increase continuously and as quickly as possible. Meanwhile, we must ensure that with this foundation of increasing state assets, enterprise revenues, and employee wages will increase each year.

A second issue is the life of a contract. The concept has a bearing on whether an enterprise's behavior is short-term. How long should a contract be? One year is too short because it encourages an enterprise to engage in short-term behavior. Generally speaking, 5 years is best. This amount of time will also cover the period of the Seventh 5-Year Plan. For example, if you use 1986 as the beginning of the contract period and contract for 4 more years to 1990, this period will coincide with the present 5-year plan. The contract period has a bearing on the base figure. Which year should be used as to compute the base figure? We have many lessons from the past to draw on. The year selected to compute the base figure makes a lot of difference. We should look into whether we should select the figure of the previous year or the average of the past few years. Nevertheless, under no circumstances should the year in which the assessment is being made be used. It has too many drawbacks. In the assets management responsibility system there is the issue of added value of newly-acquired assets. The input of new assets cannot generate added value within a short period of

time but needs a certain amount of time. We cannot prevent short-sighted behavior on the part of enterprises unless we have solved the issue of the length of the contract period.

A third issue is how to distribute the profits left for the enterprises' disposal. There are a multitude of ways. There are various ratios of distribution for development and production funds, welfare funds, and employees' bonus funds, such as: 4:3:3, 6:2:2, and 3:3:4, and the "Three-Three System," among others. It is not feasible to have the same ratio among enterprises in different industries. However, there should be a general ratio. In general, the portion allocated to expanding reproduction must be not less than 50 percent. Of course, the utilization of this capital should not be limited to the investment in the enterprise; it should include investment which will expand the enterprise's links in the economy. This will promote the rationalization of the organizational structure of enterprises and industries, and prevent the enterprises from engaging in short-term behavior and inflated consumption. At present, many enterprises use the distribution ratio of inverse 3:7. Some enterprises do not even have the basic capital for reproduction. This trend will hurt the development of production and the continued improvement of employees' pay. This trend has to be carefully and properly dealt with.

Furthermore, in the past, distribution of profits was limited to the above-mentioned three areas. Now, a portion of the profit must be reserved for making up losses. This is very important in the assets management responsibility system. Otherwise, you will have a situation in which enterprises are responsible for profits but not losses.

A contractor's personal property is not sufficient to undertake such a big risk. The risk is mainly assumed by the enterprise itself. Comrade Ziyang was very interested in this issue when he was briefed by several contracting enterprises in Beijing. These enterprises allocated only 60 percent of the year's retained earnings to the employees' bonus fund and put away 40 percent for making up deficits. If business is poor in the second year, the reserve fund could be used in order to avoid cutting employee wages and damaging their enthusiasm. We have said that everyone should share in the responsibility for profits and losses. This is just the idea in 'The Dream Of The Red Chamber': "When one person loses, everybody loses; when one person wins, everybody wins." But if we really cut employees' wages, their initiative will be dampened. How do we avoid this? We cannot solve the problem even if we were to eliminate the wages of the factory directors. Whether taken out of the enterprise's development fund or the employee bonus fund, an enterprise has to have a rainy day fund like this. Admittedly, if an enterprise reserves a portion for a rainy day fund, it may have to readjust the other three funds. We need to look into the optimum way of handling this problem.

Fourth, who is the principal of the contract? In the assets management responsibility system, the successful bidder is the responsible party. In a contract responsibility system, is the factory director responsible or the is the enterprise collectively responsible? How does collective responsibility work? Presently, there are three types: contracting by all personnel of an enterprise, collective contracting, and individual contracting. To which type does the assets management responsibility system belong? This question should be looked into. Some of you would say that the manager is the person whose bid was accepted and of course we have to have a person in charge. However, is the person in charge an individual or is it a collective body? And if it is a collective body, can it represent the interests of all the employees? The Capital Iron and Steel Corp says that the contracted responsibility falls on all its employees. It does not fall on the chairman of the board or the manager. Ultimately, the responsibility is on all the employees. I have read your papers. They were very substantive and stress the individual responsibility of the contractor, which is good. You were not very clear, however, on the relationship between the contractor and the collective body and between the contractor and all the employees. On this point I suggest that you carefully study the experience of the Capital Iron and Steel Corp. By contracting with the responsibility falling on all the employees as a group, the corporation gave everyone a common goal and a sense of responsibility. Competent executives, competent contractors, and all units engaged in contracting ought to strive in this direction; otherwise, their contracts will not have the firm support of the masses.

Fifth, the goal of every contract system must be to gradually assume full responsibility for profits and losses, regardless of the type of system. Comrade Ziyang has underscored this issue. He said that large- and medium-sized state enterprises ought to be pushed toward assuming full responsibility for profits and losses through the contract system. This is a very important guiding principle. For when you have implemented the separation of ownership and management and enabled the enterprises to have clear-cut managerial responsibilities, full managerial authority, and independent economic interests, they will gradually acquire the ability to manage and develop themselves and assume full responsibility for their own profits and losses, and generate more profit. The experience of many contracting enterprises has proved this. At present, some enterprises are elated when they get a contract. But once they find themselves in an unfavorable situation, they ask to get out of the contract. In short, they want to reap the benefits but do not wish to be responsible for the debts they have incurred. We must strive to avoid such a situation in the assets management responsibility system.

Six, there must be a written contract, regardless of the type of contract responsibility system. Furthermore, the contract must be legally binding. Problems will be handled by legal agencies. Debt repudiation is not allowed. The conditions of the assets management responsibility

system must be participated in not only by the two contracting parties but also by other departments such as finance, taxation, banking, labor, the State Economic Commission, and the State Planning Commission. The contract must also be notarized.

Guarantee and compensation is also an issue that needs to be addressed. You need a guarantee when you lease. Is a guarantee necessary in the assets management responsibility system? Who is the guarantor and how does he guarantee? For enterprises in capitalist nations, banks are the guarantors. In our society, how do you handle guaranteeing? We need to study this issue seriously.

Some of the issues I have dealt with regarding the contract responsibility system are related to the assets management responsibility system while other issues are not. On those related issues, we must be clear about their concepts and our approaches.

When I was in Chengdu last year, the comrades in Sichuan told me that the assets management responsibility system which they used was better than that originally proposed. The assets management responsibility system, like the contract responsibility system, is a new development. As long as we learn from our experiences, we can look forward to continuing developments and improvements in the future.

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Analysis of Preliminary Steps in Price Reform

Price Reform, Income

40060889a Beijing JINRONG SHIBAO in Chinese
26 Jun 87 p 3

[Unattributed article: "Income Distribution during Price Reform; Income Increasing Rapidly while People Remain Miffed at Prices; The Main Reason is that Policy regarding Price Subsidies and Income Distribution are not Clearly Defined"]

[Text] In recent years the price hikes that have occurred during price reform have pounded away at people's incomes and their living standards. Compared with 1978, the 1986 cost-of-living price index for staff and workers rose by an average 4.6 percent. During the same period, average wages rose at an average 10.1 percent annually; deducting the price factor, the increase was 5.3 percent. Overall, the increase in workers' wage income was not insignificant.

However, in Chinese socioeconomic life, it is striking that this rapid increase in incomes coexists with people's dissatisfaction towards price hikes. In addition to a psychological failure to adapt to changing prices, the reason for this contradiction lies primarily in the unclear policy distinction between our price subsidies and the distribution of increased income. As regards the former, our policy should take the form of equal and reasonable

subsidies; for the latter, it should take the form of distribution to workers according to their work, with an appropriate widening of differences. Since 1978, the cost-of-living price index for the country's staff and workers has risen 43.7 percent; in 1985 alone, this index rose 11.9 percent over the previous year, producing an impact of 77.9 yuan per capita on people's cost-of-living expenditures for that year, accounting for 10.6 percent of all cost-of-living expenditures, for a total of 6.5 yuan per month. However, aside from subsidies to producer units by the state's financial departments, the only price subsidies specifically given to the people were 5 yuan per month per worker in 1980 and the price subsidies issued to urban citizens in 1985 (varying from 2 to 8 yuan). Even though the price subsidies issued by the state's financial departments to ensure living standards rose from 9.39 billion yuan in 1978 to 29.95 billion yuan in 1985, and enterprises issued various forms of nominal subsidies to their workers, a considerable part of the increase in worker income is affected by price hikes and must be deducted. It is estimated that 60 to 70 percent of the increase in total and average wages was canceled out by price hikes. This produced a feeling among workers of having to suffer a double loss, since workers are also consumers.

However, in comparing worker income and prices, many workers compare only the reduction in their basic wages, while for the most part ignoring the more rapidly increasing bonuses, subsidies, and other additional income, which means that their comparison of income and price changes is incomplete.

The shortcomings of the social security system are another reason for people's negative response to price changes. According to survey statistics, in 1985 the number of urban households with the highest incomes were 1.86 times more numerous than those with the lowest incomes. Actual living standards declined for 10 percent of these households; most of these were workers in poorly operated enterprises, retired or laid-off workers, a few workers who had had no wage adjustments for many years, and workers supporting large families. It is quite clear that workers affected by poorly run enterprises, retired or dismissed workers, and workers raising large families cannot be provided for through the state's policy of wage-income distribution; it is only through the social security system that their basic living expenses to which they are entitled as consumers can be assured.

With worker incomes increasing rapidly and with many confusing arguments over price hikes, the government is forced to resort to traditional administrative measures and intervene in income increases and price hikes. The drawbacks of this approach are very clear; especially with reform passing through a very difficult period, it is easy for people's suspicions and doubts to be aroused, and it is difficult to achieve results like those under the traditional system. However, this is a choice we must make; otherwise, we will be unable to avoid falling into a vicious wage-price cycle.

In order to keep the application of traditional measures from having too great a negative impact on reform, we should pay particular attention to the following points as we now deal with income-distribution policy in price reform:

1. Clarifying the boundary between people's price subsidies and normal increases in worker income, to provide for different members of society through the social security system or through the worker income distribution system. The former should be aimed primarily at unemployed staff and workers; minimum assured standards should be determined according to basic cost-of-living expenses and the impact of price hikes in each locality. Increases or standard worker income distribution should be determined by the economic results of enterprises; during periods of major price changes, price subsidies should be issued taking into account the above factors and average family size.
2. Readjusting or perfecting as quickly as possible the present income-distribution policies; this includes experimenting with new methods, such as linking wages and bonuses to profits and taxes, wages per 100 yuan of output value, etc.
3. The state should reinforce its guidance and control over wage increases and progressively do away with financial subsidies and income-distribution policies intended to ensure minimum incomes for enterprise workers; worker incomes in poorly run enterprises should not have a guaranteed base.
4. Formulating policies to encourage and limit the distribution of various types of funds taken out of enterprise profits.
5. Trial conversion of the bonus tax to a wage-income regulating tax, to increase the feasibility of using tax revenue to rationally regulate worker income and reduce inequalities caused thereby. There should also be tax policies directed at the various income channels now being created.

Status, Problems of Price Control System

40060889b Beijing JINRONG SHIBAO in Chinese
26 Jun 87 p 3

[Unattributed article: "Present Condition, Conflicts, and Solutions for the Price Control System; Near-Term Choices for Price Reform Are: Maintaining Relative Stability of Control System, Reorganizing Price Types, Achieving Effective Regional Control and Changeover of Models"]

[Text] In adapting to the dual-track operation of the economic system as a whole, the price control system, after several years of reform, has gradually turned towards a situation of planned prices being set at different administrative levels and prices outside the plans being regulated by the market. The setting of planned

prices by different administrative levels merely improved the structure of the old planning system without fundamentally transforming the traditional system of plan coordination. The basic feature of this was decentralization and an expansion of local authority; this price control situation is directly driven by changes in the planning system. In terms of product types, excessive direct control by the central government prior to 1978 changed to a situation in which most products were turned over to the authority of the provincial and municipal governments (among the means of production, the prices of 758 items are still controlled directly by the central government, which is quite a large proportion). In terms of the proportions of the various types of prices in retail sales of popular commodities, the percentages of state-set prices, guideline prices, and market-regulated prices are approximately 30 percent, 30 percent, and 40 percent, respectively. Of course there are still major differences from region to region. Market regulation of prices outside the plans includes the continued existence of a small amount of country fair trade, but more significantly the decontrol of many prices that were originally controlled by the state, a considerable portion of which is the evolution and legalization of barter under the traditional system.

During the process of decentralizing the state's price-setting authority, the wide variety of prices within the plans opens the door to price hikes and leads to unregulated price increases within the plans. Haste in decontrolling prices outside the plans and weak macrocontrols easily produce two results: either prices rise sharply, or governmental administration is restricted.

This situation means that in the present stage we must emphasize the relative stability of the price control system, and there should be no major adjustment in the proportions of the various types of prices. The basic reason for this is that the target model for price reform is not at all clear. At present, however, the various types of planned prices and control methods, the range and types of products to which prices outside the plans are applied, and the float margin of guideline prices should all be reorganized.

In terms of the relationships among the various regulating measures in macroeconomic control, many conflicts have arisen due to a lack of coordination between reform of the price control system and reforms in other areas. For example, with no substantive changes having been made in the investment system, most investors bear no risk, and to a large extent loans are controlled by the government; the principal indicator for assessing investments everywhere is their rate of increase, and if there are excessive gaps when controls come down, and if the limits of technological upgrading and capital construction are not clear, there is no way for increases in the prices of the means of production to restrict the demand for investment in capital construction. As another example, with enterprises using their withheld profits first to assure worker wages and welfare, and relying primarily

on loans for their production and development, under the existing financial system the principle behind bank loan selection is that projects beneficial to raising enterprise profit retention and results should receive credit support; this has led to a wide disparity in enterprise borrowing ability, making it difficult for them to cut back on oversupplied goods and to increase the supply of undersupplied goods. This is usually the case when local governments interfere.

One particular point that merits attention during reform of China's price control system is that local governments at all levels are playing an increasingly significant role in price management and price control. According to surveys of Shandong, Jiangsu, and other provinces, of the retail price increases on the industrial consumer goods market in 1986, the proportion accounted for by the central government (all departments) dropped from over 96 percent in previous years to around one-half. One of the main reasons for this is that the central government adopted a method of target controls divided up among local authorities to control prices. However, problems arise during this process: 1) In dealing with the relationship between central and local interests, there is usually a lopsided emphasis on narrow, local interests; this leads to inaccurate reporting to the higher authorities, or the adoption of price measures detrimental to macroregulation. 2) In order to ensure local interests between one region and another, enterprises are ordered to use local raw materials that may be lower in quality and higher in price, which directly or covertly raises the prices of commodities sold outside the region; this results in a regional administrative embargo or monopoly, which defeats competition and protects backwardness, and this attempt at a local balance affects adjustment of the macrostructure. 3) Local governments generally protect enterprises in their area that they are able to protect by means of special considerations in the areas of prices, taxation, etc., so that the enterprises need not be concerned about operating losses or bankruptcy. Prices are one enterprise operating mechanism that is difficult to change fundamentally. This in itself limits the results that can be achieved through price reform.

However, in terms of China's actual conditions of socioeconomic development, coordinating and dealing with the relationship between regional interests while retaining a certain amount of competition and friction in those interests may still be an acceptable approach. While lowering the degree of centralization of state planning, this approach will also increase the feasibility of applying plan-coordination mechanisms. It also gets areas to exploit and utilize their local economic and resource advantages, so that the entire economy will undergo stable growth on the basis of each region exploiting its full vigor.

However, we cannot move too quickly to strengthen regional economic development; the main constraint is the unclear boundary between central and local authority. If we proceed too quickly, we will run into conflicts

that will be difficult to overcome. As regards the price control system, the following is acceptable: while ensuring the relative stability of the price system and instituting several types of reorganization, the principles and methods of control should be progressively adapted to the requirements of local economic growth and regional market formation, so as to achieve effective regional control and a shift in price-control models.

Price Reform in 1986

40060889c Beijing JINRONG SHIBAO in Chinese
26 Jun 87 p 3

[Unattributed article: "Review of 1986 Thinking on Price Reform;" first paragraph of text is source-supplied preface]

[Text] Experience has shown that, given China's present economic climate and conditions, price reform should not be overly comprehensive and centralized; rather, we should proceed with different focuses at different times.

The basic thinking underlying the 1986 complementary reforms of the national economy, spearheaded by prices, was that joint application of prices and taxation and their corresponding complementary measures would be used to raise the planned prices of the means of production by a wide margin and reduce the gap in the levels of prices outside the plans, while at the same time reform of the tax system and tax standardization would provide a climate of equality for enterprise competition and accelerate the establishment and refinement of the market system.

In terms of the basic focus and the outstanding problems, this large-scale complementary reform is quite reasonable. However, the main shortcoming is that there is no way to cast off the shackles of the type of economic development and control system that formed over a long period of time, and the possibility of being truly able to effect genuine reform is remote. The basic reasons are:

1. China's double-twist prices and taxation are due to the limitations imposed by the economy's regional structure, sectoral structure, product mix, technological patterns, market structure, and other conditions. The production cost of a given product varies greatly because of differences in the above conditions. Due to major shortages in market supply and demand and interference by the government, enterprises with high costs and backward management cannot be eliminated through competition; if we wish to reduce disparities between planned prices and prices outside the plans for certain products under such a situation, aside from benefiting from macrocontrol, we are primarily limited by this type of cost difference. Otherwise we will find either that prices have been smoothed out but taxes remain problematic, and the government will be obliged to provide many enterprises with special consideration and support in taxes, setting a

different rate for each enterprise, or that taxes have been smoothed out but prices remain problematic, and enterprises with high costs will have to solve their problems through prices.

2. China has long practiced planned product supply, and markets are not well developed. Although joint application of prices and taxes plays an important role in creating an external climate of equal competition among enterprises, this alone is insufficient to create the conditions of competition that enterprises require.

3. More important, there has been no fundamental change in operating mechanisms in Chinese enterprises; they are still not commodity producers taking responsibility for their own profits and losses. In such a situation, even if joint application of prices and taxes takes giant strides forward, no readjustment of interests will increase the pressure or have more impact on enterprises for improving their operations. Conversely, joint application of prices and taxes in designing options will unavoidably give way to enterprises having difficulty in reacting quickly to the market.

Certain problems also exist in terms of thinking about the options for price reform themselves. For example, even though raising the issue of prices for the means of production and for communications and transport at the same time has such merits as greatly improving product price relations between sectors, reducing disparities between planned prices and prices outside the plans, cutting back on the negative impact of dealing with them consecutively, and facilitating comprehensive designs, this option involves a large price increase that is difficult for enterprises to absorb; the financial departments lack adequate funds to support price reform, and it is particularly difficult to achieve consistency because of the significant changes in interests on all sides. Therefore, the possibility of getting these things on the agenda is very remote. The fault with this thinking is related to the following two points:

1. Impatience for success in the guiding ideology of reform. So long as there has been no fundamental change in enterprise operating mechanisms, it is obviously too much to expect that complementary reform through joint application of prices and taxes will create an appropriate market environment, invigorate enterprises, and thereby form a new, irreversible economic system. The necessity of complementary reform in no way negates the fact that economic reform is a complex, long-term process.

2. Inadequate estimates of the socioeconomic climate of reform. A basic premise of the 1986 complementary reform thinking about joint application of prices and taxes was the expectation that a relatively loose reform environment could be achieved through a macroeconomic retrenchment, but the facts have shown that this is only an ideal. Reform experience in other countries has shown that one of the major problems needing to be

resolved by reform is doing away with the phenomenon of large-scale shortages in the economy. However, at the same time, such shortages also become an important condition restricting the scope and pace of reform. This point, however, became clear only after the economic climate was unable to yield ideal results last year and price reform options had to be reselected.

Price reform drives the relationships between different interests in society. In China's present economic climate and circumstances, attempting to push price reform through the large-scale, concentrated application of complementary reforms makes less sense than selecting different focuses at different times, on the basis of a fundamental recognition of China's actual economic climate and so long as an approximate, overall plan for reform is formulated, so as to achieve coordination between price reform and other economic system reforms. The purpose of making a selection in this way is to avoid the impossibility of forecasts and controls caused by major changes in interests within a short period of time, thereby making it possible to improve the relationships among all social interests during progressive, partial adjustments. At the same time, such a selection is consistent with our need to deepen our practical understanding of the complexity of economic system reform as a whole, its developmental goal model, and the results produced by each measure. Given the above considerations, the proposals and options for reform that we select should be aimed at progressively adjusting and decontrolling prices in order to solve salient conflicts at different times and in different places.

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Dong Fureng on Economic Reform Difficulties
40060009 Hong Kong CHING-CHI TAO-PAO in
Chinese 1 Oct 87 pp 12-13

[Article by Dong Fureng [5516 6534 4356]: "A Plurality of Ownership Systems May Solve Economic Reform Difficulties"]

[Text] Now in its eighth year, reform in China has had considerable achievements, but the difficulties encountered have also been more daunting than expected and reform tasks put forward in the Seventh 5-Year Plan cannot be accomplished as scheduled. Chinese economic reform is designed in accordance with the theoretical concept that the socialist economy is a "planned commodity economy." Put simply, this concept calls for the state to regulate and control the market in a planned way. The market, in turn, will regulate and guide enterprises. Under the concept: 1) State-owned enterprises are to be converted into managerially autonomous commodity producers responsible for their own profits and losses; 2) A market system is to be established and nurtured to make market mechanisms the built-in mechanisms of the socialist economy; 3) Direct state regulation and control of enterprises will be replaced by indirect regulation.

The reform of state-owned enterprises is basic to these three changes and can be looked at from two angles:

First, as far as the relations between enterprises and the market are concerned, it is clear that if we do not build and develop a market system and make it an internal mechanism of the operations of a socialist economy, we cannot begin to talk about converting the old order into a new system. However, China has run into numerous difficulties in trying to build and develop a market system. These difficulties stem from various sources, notably the following: 1) The underdevelopment of social division of labor and of productive forces and the important role retained by the natural economy and semi-natural economy, which have hampered market formation and development; 2) A whole array of difficulties created by the existing economic system, such as the problems of price reform; 3) The failure so far of the effort to turn state-owned enterprises into commodity producers with managerial autonomy and responsibility for their own profits and losses. Only the last difficulty will be discussed here. Basically what constitutes a market is the collection of transactions between the various active major players in the market, the most crucial of which is the enterprise. In China, state-owned enterprises occupy an overwhelmingly dominant position. If state-owned enterprises have no managerial autonomy, are not accountable for their profits and losses, and cannot function as a major player in the market with independent economic interests or as genuine commodity producers, they will not be able to react to market changes promptly, energetically, and appropriately. Nor can they take an active part in such market activities as competition. A market system will not take shape under these circumstances and the market will not function normally as a regulator of the economy.

Second, about the relations between the state and state-owned enterprises. Clearly if the state continues to intervene in an enterprise's day-to-day operations and activities, instead of shifting toward indirect regulation and control, the enterprise cannot emerge from its position as an appendage of some government administrative agency to become a managerially autonomous commodity producer that assumes responsibility for its own profits and losses. On the other hand, if state-owned enterprises are not converted into autonomous and financially responsible commodity producers, state regulation and control of enterprises must remain essentially direct rather than indirect. This is because indirect macroeconomic control and regulation by the state in these conditions lacks a microeconomic basis. Enterprises will not be able to react promptly, energetically, and properly to all the moves made by the state to regulate and control them through the market. In this situation indirect state regulation and control will neither work nor have the desired effects.

China has run into enormous difficulties in its reform over the past few years, the most tricky problem being the fact that since all the assets of state-owned enterprises belong to the state, it is very hard to turn these

enterprises into autonomous commodity producers responsible for their profits and losses. This is the reason why China's many (though not enough) reforms in establishing and developing a market system and in modifying the functions of the state as well as the way it regulates and controls enterprises have not been as effective as anticipated. Accordingly, the thrust of reform must be shifted to state-owned enterprises. Of course, this does not mean that other reforms (including the establishment and development of a market system, changes in the method of state regulation and control, and political restructuring) should be downgraded. Rather, the idea is to make enterprise reform the cornerstone of other reforms and ensure that the former meshes with the latter. Current practice suggests that to overcome the above-mentioned difficulties in the course of reform, the reform of state-owned enterprises may take three complementary approaches:

The first approach is to continue to reorganize a portion of state-owned enterprises into collective- or individual-owned enterprises. Some enterprises have undergone just such a conversion, but their number is very small and all of them are small enterprises (primarily in commerce and the service sector). This approach automatically enables state-owned enterprises to develop into commodity producers with managerial autonomy and accountability for their own profits and losses. They must operate in accordance with the rules of the marketplace and take part in market competition. They must react sensitively and correctly to market changes. In the process they cannot but submit themselves to the indirect regulation and control of the market by the state. Because there are strict controls on the assets of collectively- and individually-owned enterprises, they must be responsible for their profits and losses and enjoy full operational autonomy. Their post-reform business condition is usually much better than when they were state-owned enterprises. While this kind of reform should continue, there are inevitably limits to how far it can go. Unlike capitalist nations like Britain which are privatizing their public enterprises extensively, China must limit this reform to only certain state-owned enterprises, otherwise the socialist nature of the economy will be altered. Also, an useful experiment, now under way, is to reorganize enterprises totally owned by the state into service enterprises in various forms.

The second approach is to separate ownership from management in state-owned enterprises that have not been turned into collectively- or individually-owned enterprises or stockholding enterprises. The current practice is to keep the assets of state-owned enterprises as state assets, while handing management over to the enterprise or enterprise managers through such devices as leasing or contracting. This particular reform helps nudge state-owned enterprises in the direction of managerial autonomy and financial responsibility to various extents. Enterprises become more autonomous and come under stronger budgetary restraints, which will naturally help vitalize them (particularly the large and

medium-sized ones), provide an impetus for the building and development of a market system, and facilitate the transformation of state regulation and control from a mainly direct mode into a primarily indirect mode. The results in practice have been quite satisfactory. But we should also see that as long as the assets of state-owned enterprises remain totally in the hands of the state, this reform is not enough to turn state-owned enterprises into completely autonomous commodity producers, particularly commodity producers with full accountability for their profits and losses. The reason is that the budgetary discipline this kind of enterprise operates under is not as strict as that in a private or collective economy. It often happens that when an enterprise makes a profit, it is shared, and when it incurs a loss, it is the state that usually picks up the tab in the end. The state and enterprises frequently haggle back and forth over earnings distribution. While this reform has vitalized state-owned enterprises and modified their behavior so that they operate in accordance with the rules of the market more often now than before and have grown somewhat more responsive to indirect state regulation effected through the marketplace, they are still not operating like commodity producers that are totally autonomous and responsible for their profits and losses. In my opinion, this approach offers no basic solution to the serious problems of state-owned enterprises.

The third approach calls for the development on the basis of the two above approaches of an economic structure featuring a plurality of ownership systems, with a number of public ownership systems playing a dominant role. Specifically: 1) Enterprises whose assets are totally owned by the state should be limited to those fields which have a bearing on the nation's political and economic life lines and ensure social public welfare or where profit-making is not an appropriate objective. Reform—separating ownership from management—should continue in state-owned enterprises thus retained; 2) Other than those owned by the state, there are enterprises under a variety of public ownership systems. These should be developed. Some of the existing state-owned enterprises can be turned into other forms of public enterprises, including enterprises where state ownership plays a definite role or stockholding enterprises where the state owns a controlling number of shares. These enterprises exercise stronger financial discipline than enterprises wholly owned by the state. Then there are some enterprises (such as genuine collectively-owned enterprises) which approximate private enterprises. They are more likely to develop into commodity producers with managerial autonomy and financial accountability; 3) Within a framework dominated by a multitude of public ownership systems, we may develop a range of non-public enterprises (including individual-owned enterprises, capitalist enterprises, and miscellaneous mixed public-and-private enterprises).

If we reform following the three approaches, the numerous ownership systems will support and condition one another, magnifying one another's strengths and minimizing one another's weaknesses. One system's strengths

would offset another's weaknesses, thus avoiding the problems of having a single public ownership system or a single state ownership system. In particular, wholly state-owned enterprises that are still existent will have a chance to shift toward autonomy and financial accountability as much as they can and, amid competition with other public-owned and non-public-owned enterprises, improve efficiency and operations, participate in market competition, and interest themselves in market changes. Given the central role of public ownership, moreover, not only can we ensure that the economy develops in a socialist direction, but seeking private gain at public expense, unchecked production, and other shortcomings related to assorted privately owned enterprises will be curbed. The development of this kind of multiple-ownership system where public ownership in its diverse forms continues to take center stage will prove instrumental in stimulating competition and the establishment and growth of a market system and facilitating indirect state regulation and control of enterprises. In addition, it will reconcile, in a relatively satisfactory manner, equity with efficiency, common prosperity with justifiable income disparities, economic planning with economic flexibility, general social interests with various special interests, and macroeconomic performance with microeconomic performance. To me, this seems a feasible and effective way to overcome the difficulties discussed above.

12581

FINANCE, BANKING

Arrearage Among Enterprises Termed Serious Problem

40060853 *Shijiazhuang HEBEI RIBAO in Chinese*
9 Jul 87 p 2

[Article by Gai Fengang [5556 7364 1344], Zhou Xinglin [6650 5281 2651], and Li Xiulin [2621 0208 2651]: "A Solution Must Be Found to the Problem of Arrearage Among Enterprises"]

[Text] The problem of arrearage among enterprises is quite serious now and is getting worse year after year. The problem should be taken seriously by the leadership and departments concerned.

A survey of 74 state-owned enterprises in Xingtai City shows that, as of the end of February this year, a total of 170 million yuan in accounts payable for goods purchased was overdue, an increase of 33.81 million yuan over the same period a year ago. It is believed that 90 percent of the enterprises in Xingtai Prefecture and City are in arrears.

The state has tried to straighten out the debt problem among enterprises. But no sooner have old accounts been settled than new ones become overdue. The problem has only worsened, seriously affecting some enterprises' normal production and operations and hindering

efficient use of funds. From interviews with heads of banks, financial departments, courts, and enterprises, we found that default among enterprises is caused mainly by the following: 1. Some buying units unreasonably refuse to pay. In order to ease their own fund shortage, some units use pretexts to refuse or delay payment to the banks for their purchases so that they can have interest-free use of the money that is no longer theirs. 2. Some units are not serious about getting paid for what they sell. Since efficient use of funds is not a major criterion used by the economic departments in charge in evaluating the performances of enterprises, management personnel in some enterprises pay no attention to payment so long as goods are sold. Once the goods are sold, and the books show no unsold stock, they claim success. When funds run out, they run off to apply for loans. It should be noted that some enterprises are in arrears as much as several times the total of their state-allocated and self-generated working funds. 3. Some units are victimized by swindlers because they are too eager to make a deal and fail to check the buyers' credit, production and operation, and financial situation. The Xingtai Metallurgical Equipment and Roller Plant rashly signed an agreement to buy steel ingots from a commune factory in Xinhui County, Guangzhou [textual error; this should be Guangdong], and remitted 170,000 yuan. It turned out to be a fraud, and there was no other choice but to take the commune factory to court. 4. There is a lack of cooperation among the departments in some enterprises, and no one will take the lead in clearing the overdue accounts. In most enterprises, the sales department is concerned only with delivering goods according to contracts and does not bother about payment, and there is little the finance department can do. The result: long overdue accounts. One enterprise has 2 million yuan in accounts receivable, which have remained outstanding for 7 years, but any suggestion of action to press for payment only throws its various departments into wrangling and buck-passing. 5. Default can be caused by both sides. Sometimes when the product fails to meet quality standards or contract specifications, the buying unit demands a price reduction or refund on the order, but the selling unit does not act and so the buying unit does not pay. In other cases, manufacturers, owing to sudden, unexpected change of circumstances, become unable to make payments to their own component and part suppliers, and a chain reaction is set off (finished product manufacturers default on payments to parts manufacturers, which in turn default on payments to suppliers of raw and semifinished materials). 6. Payment is made blindly with no assurance of delivery. The Qiaodong Materials Distribution Co, in Xingtai City, signed a contract for 300 tons of pig iron with an individual entrepreneur in Jiagou Village, Xingtai County, and made a lump payment of 600,000 yuan. Through several intermediaries, the individual remitted the money to some peasants in Shanxi Province who subsequently used the swindled money to set up an ironworks. In the end, an investigation resulted in the confiscation of the

ironworks and both the merchandise and the money were lost. It is now imperative that we solve this problem by adopting effective measures. We suggest the following:

1. Banks must exercise vigilance on stop-payment requests, and reasons given for such requests should be checked out carefully. When an enterprise makes a stop-payment request to its bank, the bank should take the interests of the whole into account, carefully examine the justification of the request, and refuse to honor it if it is not justified.
2. Banks should adopt necessary administrative measures and use their functions to urge enterprises to take the matter of payment seriously. Enterprises which have large past-due receivable accounts but make no effort to demand payment should be punished by imposing higher interest rates or fines on their loans to force them to take the matter seriously.
3. Banks should help enterprises in their effort to press for payment on their past-due accounts. When there are disputes or problems, the banks on both sides should step in to supervise, mediate, and help bring about an early settlement.
4. Departments in charge of enterprises should make efficient use of funds an important criterion in evaluating their performance to prevent waste and achieve better economic returns.
5. Laws should be strengthened to provide the legal measures needed to deal effectively with this kind of problem. Under the current economic law, those who refuse to pay their debts are subject to legal sanctions. However, in most of the default cases, the question is not refusal but inability to pay. Even the courts have no way to force payment in such cases. Therefore, we hope that the legislative departments will make laws and regulations to provide clear-cut legal provisions for dealing with this kind of problem.

12802/6662

FOREIGN TRADE, INVESTMENT

Options in Using Foreign Investment Discussed
40060902 Beijing GUOJI MAOYI [INTERTRADE] in Chinese 27 Jul 87 pp 38-40

[Article by Xia Guijun [1115 6311 6511]: "A Brief Discussion on Options in Using Foreign Investments"]

[Text] In his article "Thoughts on Using Direct Foreign Investments in China" (referred to as "Thoughts" hereafter) appearing in the third issue of GUOJI MAOYI in 1987, Comrade Wang Yibing [3769 0001 0365] expressed the opinion that the disadvantages of adopting the indirect method of investment outweighed its advantages and that the advantages of the direct method of investment were greater than its disadvantages. In this article, I would like to present certain views on the direct and indirect forms of utilizing foreign investment in consultation with Comrade Wang Yibing. [Editor's Note: A translation of the article mentioned above appeared in JPRS-CAR-S7030 of 7 Aug 87 on pp 46-51.]

The various methods of utilizing foreign investment have their advantages as well as disadvantages. They have all played useful if different roles in the economic construction of our nation. It would serve little purpose to pass sweeping judgment on the comparative merits of the various methods. The overall purpose of opening our nation to the outside world is to enable our national economy to free itself gradually from the fetters of our isolation policy so that good use may be made of our domestic and international natural resources and markets. To achieve this overall objective and to acquire the funds to meet our needs, different methods should be adopted for the utilization of foreign investment.

Prior to the adoption of our open door policy, the balance of our national economy was brought about within the narrow confines set by the need to achieve a domestic balance. At a time when our export capability had yet to be fully developed, our ability to control and adjust the amount of surpluses and shortages of commodities through foreign trade was strictly limited. Thus, the balance achieved domestically was not only of a short duration, but the overstocking of products and the idling of production funds have also seriously set back the development of our national economy. The purpose of opening up to the outside world is to import capital and technology from abroad to make up for our lack of funds and technology and to speed up the development of the backward trades and businesses in the nation. Judging by the actual state of economic development in China, the shortage of energy and transportation facilities has become a major factor accounting for the slow pace of our economic development. At a time when our accumulative capability is relatively low and when there is a need for large amounts of investment, it is extremely difficult to rely on our own resources to remedy the backward state of our energy and transportation development within a short period. Thus, we have no choice but to utilize foreign investment to speed up the development of such basic industries as energy and transportation in engaging in economic construction. Generally speaking, all energy and transportation construction projects share the following special features: large amounts of investment and a lengthy production period; slow recovery of capital; complex nature of construction projects and high degree of difficulty. In other words, these projects are similar to such basic industries as large factories, cement plants and steel mills in that they all require large amounts of capital and a lengthy period of time.

At present, many of our 500,000-odd industrial enterprises are relatively backward insofar as equipment, technology and industrial technology are concerned. For example, the equipment of over 50 percent of the enterprises in the light industrial system in Shanghai, having been installed prior to the 1950's, has been in service for 30 to 40 years. As another example, over 75 percent of the equipment of the factories in the machinery industrial system in Chongqing was installed prior to 1960.

Due to the backwardness of the technology and equipment of the industry, it would be extremely difficult to upgrade and update its products. Sixty percent of our machinery and electrical products have become obsolete and need to be replaced. Eighty-five percent of the machine tools throughout the nation are common tools marked by technical backwardness, low product quality, the high energy consumption, serious pollution of the environment and low economic efficiency. Due to the limitation imposed by the inadequate accumulation of funds, our enterprises are hard put to bring about reforms through their own efforts to meet the needs for economic development. If we are to improve the technical standard of our existing enterprises, it is imperative that we should import foreign capital and technologies. A common feature characterizing the need for funds for reforming the existing industries is the large number of projects involved and the small amount of investment in each particular project.

Since the establishment of the new China, considerable progress has been made in the scientific and technological fields. In certain areas, we have reached the level of the most advanced countries in the world, a fact that has greatly contributed to the economic construction of the nation. However, our scientific and technological standard at the present time is on the whole some 20 to 30 years behind that of the advanced nations. That being the case, it is imperative that we should import advanced technologies from abroad to speed up the modernization of our construction projects. We should import whole sets of the most advanced technologies available, study the most sophisticated technologies and industrial technologies and import those on a small scale. Some of these technologies can be imported through direct investments made by foreign businessmen. However, there are also certain urgently needed technologies that foreign businessmen are reluctant to export through direct investments. We must acquire these technologies by purchasing their patent rights or by importing whole sets of equipment. Regardless of how we import technology, we should try to use foreign capital. We should use not only direct but also indirect foreign investments. What method we choose is determined by our needs.

It may be seen from the above that, in as far as foreign capital is concerned, we are in need of both long-term and short-term funds. While some of the funds are used for the importation of technologies, others have nothing to do with any specific project.

In discussing the merits of adopting the method of direct investment, "Thoughts" pointed out that "in establishing factories and enterprises, foreign businessmen must observe the relevant laws and regulations of our nation. In this way, it is easier for us to direct their investments and improve the investment structure." To me, such a conclusion appears to be oversimplified. It should be noted that while the laws and regulations of our nation serve to set the limits within which foreign businessmen may be permitted and are encouraged to invest in

various trades and businesses, they cannot compel them to invest in particular industries and businesses or set the amounts of investment. What industries and businesses foreign businessmen decide to invest in is determined entirely by the amount of risks involved and the rate of profit which may be derived from their investments. Many factors affect the risk of investments and the amount of profit. Factors affecting the investment risk include the stability of the political situation and the policies of the government, the stability of the energy supply, raw materials, and other key production elements, the length of the production period of the various projects and the adequacy of the relevant laws and regulations. Factors affecting the rate of profit include the supply and the cost of energy and raw materials, the wage level of staff workers, the selling price of products and the rates of the various taxes. As is well known, our market mechanism is far from what it should be. Thus, we are in no position to exercise effective control over the direction in which direct investments by foreign businessmen are made. Since our objective in utilizing foreign investment and the objectives of foreign businessmen making investments are not always identical, foreign businessmen may not be interested in investing in industries and businesses that we wish to develop on an urgent basis. In recent years, most of the direct investments made by foreign businessmen are in industries and businesses that yield high profits, have a short production period, and that involve a simple production process such as tourism, guesthouses, food-processing, clothing, and the assembly of electronic products. Since direct investments cannot be placed under planned control, it is difficult to set their direction and to establish a link between such investments and the state of domestic production. On the contrary, there is considerable leeway in the utilization of indirect investments in that they can be coordinated with the state plan to establish a link with domestic production. Indirect investments hold a distinct advantage over direct investments in that foreign capital can be used where it is most urgently needed in the development of the national economy. That is especially true with regard to foreign commercial loans which we can use in projects of cooperation. The development of energy and transportation requires the input of considerable foreign capital to make up for our shortage of funds. Large-scale chemical, steel, agricultural reclamation, and mining are among the kinds of projects in which foreign investments can be put to good use. However, due to the length period and complicated process of production, the low rate of profit and the slow return of investment capital, it is extremely difficult to persuade foreign businessmen to make direct investments in such projects. In view of the urgent need for foreign capital to make up for our lack of funds on the one hand and the reluctance of foreign businessmen to engage in direct investments in such projects on the other, it is preferable to adopt the indirect method of investment as a means of obtaining long-term foreign capital to meet the needs of our construction projects. Contrary to the view expressed in "Thoughts" that "the use of foreign loans to promote economic development is

restricted by our limited ability to assimilate such loans and to produce necessary accessories." It is my belief that it is preferable to use indirect foreign investments to make up for our deficiencies and to enhance our overall capability to produce accessories to promote our national economy that to allow foreign businessmen to invest in projects of their own choice.

"Thoughts" takes the stand that, by adopting the indirect method of investment, "our inability to synchronize the work of attracting investments would make it extremely difficult to achieve economic effectiveness and that by merely absorbing foreign capital and importing technologies, the lack of coordination in the installation of equipment would render it difficult to improve our situation within a short period of time." As a matter of fact, the overwhelming majority of indirect investments are related to specific projects and synchronized with the import of technologies. For instance, the loans extended by Kuwait for the importation of equipment have been used to establish the Nigguo Cement Plant in Anhui and the Chemical plant in Urumqi. So far as the import of technologies and equipment is concerned, the adoption of the indirect method of foreign investment is preferable to that of direct investment. First, by engaging in direct investments, foreign businessmen seek to capitalize on our cheap labor, abundant natural resources, and extensive commodities market rather than to import advanced technologies. In other words, a large part of the investments is used for the transformation of the "setting sun" industries. Second, some of the direct investments have something to do with advanced technologies. In order to hold on to their competitive edge, foreign businessmen are careful not to divulge information of a confidential nature that might be of benefit to our enterprises. Third, we are in urgent need of adopting the indirect use of foreign capital for the importation of technologies and equipment. Furthermore, we have considerable leeway in extending specific projects and enterprises to develop their economic effectiveness to a fuller extent.

In pointing out the disadvantages of the indirect method of investment, "Thoughts" cited "the heavy financial burden assumed by the state and the difficult of achieving a foreign exchange balance." Such concerns are entirely uncalled for. As China has a planned economy, it is mainly based on planned production and circulation. The amount of foreign capital put to use is based on and determined by what is required by our economic construction projects and our ability to make loan repayments. The contracting of foreign loans within the limits of our ability to make repayment is one of the positive ways to use foreign resources to develop our economy. The use of foreign capital, of course, has its limits. According to international practice, the amount of foreign capital put to use by any nation should be determined by the following: the rate of loan repayment, that is, the amount of foreign exchange needed for the repayment of capital with interest, should not exceed 20 to 25 percent of the amount of foreign exchanged derived from

the exports of the nation in question; the debts incurred, that is, the total amount of foreign debts should be kept between 5 and 20 percent of the nation's GNP. What is the proper amount of foreign capital that we can put to use? According to the Rand Corporation, a well-known American consultant firm, the safety line for 1995 comes to \$100 billion and the warning line to \$150 billion. Since the amount of foreign debts incurred by our nation is far below that level, our potential for absorbing indirect investments by foreign businessmen remains considerable.

The method for utilizing foreign capital should mainly be determined by two considerations: First, we must seek to promote economic effectiveness; second, we must seek to reduce our economic burden and the cost of importing capital. While the cost of importing capital incurred by the payment of interest for indirect investments made by foreign businessmen is something that is tangible and clearly visible, the cost of adopting the method of direct investments is more difficult to gauge. In actual practice, however, the rate of profit made by foreign businessmen in engaging in direct investments must of necessity be higher than that for international loans. Otherwise, they would, instead of investing their money, as soon put it in the bank. Statistics show that between 1946 and 1977, the total amount of foreign investments made by the United States increased by over 18 times, profits increased by over 25 times, and profits derived from investments in the Asian and African regions increased 35 times. That being the case, the cost of importing foreign capital by making use of indirect investments is lower than that of direct investments, providing the amount of foreign capital invested is within our ability to repay. The method of indirect investments should therefore be adopted in most cases, especially for projects involving the large-scale development of our natural resources.

In short, my opinion is that, instead of the proposal put forward by "Thoughts" that "major consideration should be given to the adoption of the method of utilizing direct foreign investments and secondary consideration to that of indirect foreign investments," major consideration should be given to the utilization of indirect foreign investments and secondary consideration to direct foreign investments in the absorption of long-term funds and that major consideration should be given to the utilization of direct foreign investments and secondary consideration to that of indirect foreign investments in the absorption of short-term funds. The strategy behind the selection of this method is bolstered by three considerations: First, such basic industries as energy production and transportation require large amounts of foreign capital over a long period of time. For certain key departments in the national economy, it is better not to adopt the method of direct foreign investments so as to prevent foreign businessmen from exercising their control. There are other departments in which we encourage foreign investments but in which foreign businessmen have shown no great interest at the present time. Thus,

the adoption of the indirect method of investments involving the use of long-term funds would make available to us the necessary funds to meet the urgent needs of our economic development, to produce commodities in short supply, and to bring about the balanced development of our national economy. Second, in order to reduce the burden imposed by foreign debt and for us to learn and to import advanced technologies from abroad in a more direct manner under the special circumstances of our enterprises at the present time, we should make direct use of foreign capital by setting up joint and contractual projects with foreign businessmen. Third, since a considerable part of the products turned out by the joint enterprises and enterprises solely owned by foreigners are being exported and sold abroad, we stand to earn a certain amount of foreign exchange income which can be used to repay the interest and principal on debts incurred by the indirect utilization of foreign capital. It is by making full use of both direct and indirect foreign investments that we can best promote the construction projects of the nation.

9621/9274

MOFERT Official Urges Reduction of Export Costs

*40060882a Beijing GUOJI SHANGBAO in Chinese
4 Aug 87 p 1*

[Report by GUOJI SHANGBAO reporter Li Zhaofen [2621 5128 5358]: "First, Increase Exports; Second, Emphasize Economic Returns"]

[Text] MOFERT held a national phone conference on foreign trade and exports on 3 August. In his speech at the conference, Li Lanqing, vice minister of MOFERT, called upon foreign trade enterprises across China to mobilize to expand exports and earn more foreign exchange by every possible means, and to work hard to fulfill and surpass all of this year's foreign trade and export contract targets.

In analyzing China's export performance in the first half of this year, Li Lanqing said that according to MOFERT statistics, as of the end of June, China had fulfilled 63.3 percent of this year's export target, an increase of 36 percent over the same period last year. Guangdong province's exports ranked first on a regional basis.

Foreign trade enterprises began practicing the contracted management responsibility system for exports this year, in which business accounting is done before settling bills and delivering goods, and in which emphasis is laid on earning both foreign exchange and Renminbi. In line with the "double increase and double economizing" campaign and the principle of raising economic returns, all regions have put emphasis on the following: vigorously expanding exports; gradually fulfilling the three contract targets; adjusting both the export commodity mix and the market structure to attain optimum selling

prices; actively developing trade with flexibility; promoting commercial domestic sales; reducing all kinds of expenses; speeding up the process of recovering balances due within and outside China; taking inventory of warehouses and making better use of stockpiled goods; and promoting the sale of inventories to minimize locking up of capital. The contracted management responsibility system, though having been practiced for only a few months, has achieved some initial success. In the first half of this year, exports have been growing more rapidly, and a large number of foreign trade enterprises have fulfilled the three targets relatively well.

Li Lanqing pointed out that the main problem with exports at present is that the average rate of reduction in export costs in the first half of this year failed to meet the requirements of contracts in economic relations and trade organizations. Soaring procurement prices have led to rising export costs. If this problem is left unattended, foreign exchange earned from exports in the second half of this year will be less. Vice minister Li Lanqing urged all economic and trade departments across the country to jointly exploit their strengths and overcome difficulties. On the basis of a conscientious review of exports in the first half of this year and taking local conditions into consideration, the departments should work out practical and effective measures to limit expenses, expand exports, and earn more foreign exchange by every possible means.

Li Lanqing laid out the plan and goals for exporting during the second half of this year:

1. The contracted management responsibility system must be better implemented and unswervingly carried out. This year's three planned contract targets must be followed rigorously and should not be revised in any way. After we have fulfilled the three contract targets, efforts should also be made to surpass the export quota.
2. To lay a material foundation for exports, we must continue to emphasize organizing procurement of commodities that sell well. In the course of purchasing, particular attention should be paid to achieving good economic returns. Provisions regarding procurement price control in foreign trade must be scrupulously observed so as to keep procurement prices from skyrocketing and to prevent both price hikes and buying panics. Indiscriminate purchasers who do not follow the stipulated price schedules must be punished accordingly.
3. Make vigorous efforts to promote overseas sales.
4. Emphasize the economic returns of goods in stock.
5. Emphasize safety.

As for next year's export plan, Li Lanqing said we will reinforce and improve the contract management responsibility system. To sum up, first, exports and foreign exchange earnings must be increased; and second, economic returns must be stressed.

MOFERS's representatives in Beijing, Lu Xuejian [0712 1331 0313], Zhang Haoruo [1728 8510 5387], Zhu Youlan [2612 0645 5663], Wang Wendong [3769 2429 2639], and Liu Yan [0491 1484], and officials of national foreign trade corporations attended the phone conference. Participating locally in the phone conference as well were officials of foreign economic relations and trade departments (commissions or bureaus) of various provinces, autonomous regions, independent municipalities, cities with province-level economic decision-making authority, and officials of both foreign trade branch corporations and industrial and trade companies.

'Gratifying Results' from Contracts Overseas
40060882b Beijing GUOJI SHANGBAO in Chinese
6 Aug 87 p 1

[Report by Lu Gan [0712 0474] and Liang Tianxiang [2733 1131 5046]: "Overseas Contracted Projects and Labor Service Cooperations Achieved Gratifying Results"]

[Text] A forum attended by overseas contractors, labor service and technical cooperation corporations in the Beijing area was jointly sponsored by MOFERT and the Bank of China. The reporters learned from the forum that over the past eight years of opening to the outside world, China has made relatively good achievements in overseas contracted projects and labor service cooperative projects and has opened up a new prospect for this kind of business.

Three salient features of the development of China's overseas contracting business are as follows:

—The turnover of contracts signed abroad is growing at a relatively rapid rate. According to the statistics released by concerned departments, during the eight-year period from 1979 to June 1987, China's overseas contracting corporations signed 4,000 contracts for construction and labor service projects with 104 countries and regions all over the world. The total value of the contracts amounted to over \$7.21 billion at an average annual rate of increase of 80 percent. The aggregate value of contracts fulfilled totalled over \$3.98 billion.

—The majority of the corporations which have entered the international contracting market have gained a reputation for project quality. As of the end of June, China had approved the establishment of 70 international economic and technical cooperation corporations in succession, including 38 under central ministries or commissions and 32 under local governments. In accordance with the guiding policies of "equality and mutual benefits, emphasizing practical results, diversified

forms, and joint development" and the management principles of "abiding by agreements, ensuring quality, seeking small profits, and emphasizing fairness", the corporations are making all-out efforts to contract construction projects and labor service. At present 56 percent have secured contracts for overseas construction projects. A large number of the corporations have accumulated experience by learning and through practice, developed qualified personnel and skills. Their careful designs, meticulous work, and timely delivery with excellent quality have won praise from their partners. Six corporations, including the China State Construction Engineering Corporation, China Civil Engineering Corporation, China Road and Bridge Engineering Corporation, China Sichuan Corporation for International Economic and Technical Cooperation, and China Geoexploration and Water Well Engineering Corporation have won various international prizes. They include

the Gold Mercury International Emblem, two gold medals at an international garden exhibition in Munich, Germany, first prize at an international garden festival in Liverpool, Britain, an international commercial award from Spain, the first international Arab award given by Spain's Eastern trade and Arab magazines, and the second international award for craftsmanship given by OFICE.

—At present, the majority of China's overseas contractors have achieved relatively good economic returns, with some having an aggregate contract value of over \$100 million.

13339

EAST REGION

Ideological, Political Conference on Strengthening Higher Education

*40050010c Shanghai JIEFANG RIBAO in Chinese
21 Aug 87 pp 1,3*

[Excerpts] The conference on ideological and political work at Shanghai's institutions of higher learning was inaugurated yesterday morning at the auditorium of Jiaotong University. Chen Tiedi [7115 6993 6611], member of the standing committee of Shanghai's municipal party committee and secretary of the Education and Public Work Commission of the party committee, gave a report to the conference on the theme "Hold Fast to the Two Fundamental Points; Earnestly Improve and Strengthen Ideological and Political Work at Our City's Institutions of Higher Learning."

When reviewing ideological and political work at the institutions of higher learning performed during the first half of this year, Chen Tiedi made the following statement: During the first half of this year, working in the spirit of relevant Central Committee documents and of the specific plans of the municipal party committee, we have taken a clear-cut stand in launching positive education to oppose bourgeois liberalization and for upholding the four cardinal principles, also for reform and opening up. We have aimed at certain major problems that have surfaced in the ideological and political work at our institutions of higher learning, with the overall objective of further consolidating and developing the state of stability and unity, and we have worked in eight directions: We have conscientiously studied the documents and achieved unity of thinking among cadres of all ranks. We have persisted in positive education and raised the powers of discernment among our numerous students. We have promoted teaching and educating, and urged our teachers to show greatest concern for their students. We have organized social practice to allow our students to be tempered in contacts with society. We have improved ideological work and infused a variety of activities with ideological education. We have rectified school workstyle and school discipline and continuously improved school administration. We have intensified party building and strengthened the party's cohesiveness and fighting power. We have mobilized the strength of our society to unite in the work of educating our students.

Chen Tiedi demanded of all the city's institutions of higher learning to comply with the demand for earnest improvement and strengthening of ideological and political work and exert efforts toward achieving a unity of thinking, clarifying our objectives, carrying out appropriate measures, perfecting our institutions, and striving for substantial results. We must unify our conception of the two fundamental points, and intensify propaganda and education for reform and opening up. We must establish unified concepts in our guiding ideology and in dealing with education. We must strengthen ideological

and political work at institutions of higher learning. We must establish unity of concepts in the assessment of our students. We must strengthen positive education. We must establish unity in our conception of the importance of protecting the state of stability and unity. We must strengthen in all our work the sense of responsibility, as well as foresight and consciousness of our aims. We must unify our awareness of the dialectical relationship between the "larger trend of the day" and the "lesser trend of the day." We must strengthen every kind of construction at the institutions of higher learning themselves.

In her report, Chen Tiedi pointed out that the situation and the "larger trend of the day" at the ideological and political fronts are excellent. They present an excellent opportunity for further earnest improvement and strengthening of ideological and political work at our institutions of higher learning. She demanded of every institution of higher learning that they firmly and effectively take in hand this year and next year several aspects of work. First, they must earnestly improve ideological and political work: intensify education in Marxist theory and on the policy governing the present situation. They must view as important and strengthen links with the practical reality, and guide the students along the correct road toward healthy development. They must energetically promote teaching and educating, must infuse ideological and political education into all professional education. They must rectify school discipline and gradually achieve an excellent school workstyle. They must show concern for the studies and personal problems of their students, and must provide effective logistic services and direction in their personal affairs. Second, they must firmly take in hand the buildup of Marxist theory contingents, student ideological and political work contingents, instructor contingents, and backbone student contingents, so as to gradually form a most perfect, highly efficient, highly qualified ideological and political work network. Third, they must continuously pursue in depth the reform of the educational system. The primary aim of the educational reform must be to bring up students who will have both ability and political integrity, who will be of high moral quality and diligent in their studies. The reform must be a means to improve the political quality and professional quality of the students and raise their enthusiasm for learning. Fourth, they must earnestly improve and strengthen the leadership of the party. Party committees at the schools must cooperate with the administration in working with labor unions, the Communist Youth League, students associations, and forces in various other sectors to give fullest attention to the functioning of democratic parties, so as to have all jointly contribute to the initiation of a new situation in the ideological and political work at our city's institutions of higher learning and to raise the ideological and political work at the institutions of higher learning to new heights.

Statistics on Shanghai Higher Education Reported
40050010b Shanghai XINMIN WANBAO in Chinese
26 Sep 87 p 1

[Excerpts] Data provided by the Municipal Bureau for Higher Education show:

Compared with 1978, the city's regular institutions of higher learning have increased by almost another 50 percent, such institutions now number 51, which amounts to 4.8 percent of all institutions of higher learning in the entire country. Of these 51 institutions, 24 are qualified to confer master degrees, they are 6 percent of such institutions throughout the country, and 17 are qualified to confer doctoral degrees, they are 8.5 percent of such institutions throughout the country. This year the city's regular institutions of higher learning enrolled 34,000 students, which is 5.8 percent of the total for the whole country, an increase of 65 percent compared with 1980. This year there are 120,000 students on the campuses of regular and specialized institutions of higher learning, which is a 57.1 percent increase compared with 1980. There are 11,300 graduate students enrolled. The overall total of students enrolled is over 130,000, which is 6.5 times what it was at the time of founding the PRC. In the 38 years since founding the PRC, Shanghai's institutions of higher learning have provided the state with 380,000 graduates, which exceeds the total of 210,000 who graduated from institutions of higher learning throughout the country up to the time of liberation. Since 1979, 165,000 students have graduated from Shanghai's institutions of higher learning, which is 43.3 percent of the total for these 38 years. The number of graduate students enrolled this year is over twice the number enrolled in 1979. The number of graduates in the last 8 years is more than 4 times the number of graduates in the last 30 years.

There are at present over 30,000 instructors at Shanghai's regular institutions of higher learning. Since generally initiating a system of employment on a contract basis for teaching positions, the rate of those in senior positions has risen from 5 percent in 1980 to about 29 percent in 1987. There are more than 50 assistant professors aged 40 and less, and more than 20 aged 45 and less. The average age of instructors has declined from 70 years in the past to now only 61.5 years. The average age of assistant professors has declined from the former 59 years to 54 years.

9808

Shanghai Takes Measures To Deal With Bureaucratism

40050010a Shanghai JIEFANG RIBAO in Chinese
12 Sep 87 p 1

[Article by Ji Wei [1323 0251]: "Resolutely Implement the Municipal Party Committee's and the City Government's Plans for Severe Punishment of Serious Cases of Bureaucratism; Nine Large Accidents in Shanghai Have Been Fully Cleared Up; Disciplinary Measures Have Been Taken by Party and Government Against Cadres at Fault"]

[Excerpts] In line with the plans of the municipal party committee and the city government, Shanghai's party and government agencies at all levels, as well as discipline inspection organs, are earnestly investigating serious cases of bureaucratism, which have been the cause of great losses to the state. In the last 2 months, units of district, county, bureau, and higher levels assumed responsibility in investigating and clearing up 296 incidents and mishaps of this kind. Disciplinary measures have already been taken by party and government against over 50 cadres found directly responsible or guilty of serious bureaucratism. Cases in which criminal law was found to have been violated were handed over to the judicial authorities for due punishment according to law.

Units that were earnestly criticized by Mayor Jiang [3068] at the meeting of the city's leading cadres on 18 July, as well as the superior organs of these units, paid serious attention to the investigation of the problem of serious bureaucratism. By now, the nine cases of serious accidents and mishaps, which Mayor Jiang had specifically cited in his criticism, have already been fully cleared up; they are now in the process of being appropriately dealt with.

The many terribly serious accidents that have occurred in the city since 1985 are now again being reviewed by the relevant organs for a case by case investigation. As bureaucratism of the leadership was to blame in some of these cases, disciplinary measures were taken against 2 bureau-level cadres, 9 company executives, and 6 factory directors and party secretaries. In May this year, a deputy chief of the Shanghai Salvage Bureau was on the spot directing the towing of an oil drilling rig, when he did not become sufficiently informed about the material involved and caused the sinking of "Hu Jiu 11." A deputy factory director, specifically in charge of production safety at the Shanghai Instrument and Meter Plugs and Sockets Factory, disregarded an accident at his factory which shut down electric power over a large area around the factory, and impudently gave as excuse that it was not his shift. Some units in the counties of Nanhui and Chuansha blindly imported production lines and thereby caused economic losses of several million yuan. There are also factories which operate without proper rules and regulations and under chaotic business management, and as a consequence supply the market with inferior, sometimes even poisonous, goods. All the above cases have been exposed and are being appropriately dealt with.

9808

Excesses Termed Adverse Side Effects of Reform

40050010d Nanjing XINHUA RIBAO in Chinese
24 Aug 87 p 1

[Article by Pei Yiyuan [5952 5669 0337]: "Cursory Comments on Semblance and Substance in the Reform"]

[Excerpts] Reform is presently the "great trend of the day." The majority of the people support and endorse the reform. But incidents are not rare where it is only the signboard that shows reform, and there is no lack of people who merely show the signboard of reform without doing any real reform work. Evidence of this are the "six things in excess" that have appeared in many places.

First, an excess of reform organizations. Reform is to be pursued by the entire party and the whole nation, and as a matter of course it is to be part of the regular work of every party and government organ at all levels. But now we see formations being set up at all levels and grades, such as "reform guiding group," "reform affairs office," "reform consultation group," "reform investigation team," etc. These formations add another set to the originally duplicative and cumbersome organizations.

Second, an excess of meetings called in the name of reform. Since the original organizations would stress meetings, the new ones will also stress them. "More temples and more gods are bound to bring more blessings." It all ends with today calling a reform theory discussion meeting, tomorrow calling a reform experiences exchange meeting, and the day after tomorrow a reform results reporting meeting. Some meetings, not at all concerned with reform, are called in the name of reform. Finally, large meeting follows small meeting, one meeting follows another meeting. Many meetings are duplicative, and many executives of enterprises, who have work to do, are tired of coping with these meetings, which keep them on the run the whole day and leave them no time to attend to the affairs of their enterprises.

Third, an excess of documents and data concerning reforms. The increase in reform organizations and reform meetings leads of course to much documentation. There are reform notices, circulars, briefs, digests, work studies, investigation reports, guideline speeches, voluminous discussions, exchanges of experiences, etc. In the end, many places resign themselves to the fact that "there are too many directives to be read, too many reports to be commented upon, too many experiences to be transmitted, and too many statistical tables to be used."

Fourth, an excess of travelling on the pretext of gathering experiences of others. Reform and opening up have engendered certain typical "openings," used by everybody to fly away like a swarm of bees, to study, to investigate, or to rush to Shenzhen and Shekou, or visit the "Wenzhou model," or travel to southern Jiangsu to "gather experiences". They run south and dash north, enter the capital and visit Guangzhou, go to Shanghai and visit Nanjing, taking advantage of this opportunity for touristic excursions, thereby squandering the financial resources of the state and of their communes.

Fifth, an excess of feasting and entertaining in the name of reform. The "feasting habit" was originally an unhealthy tendency, utterly detested by the people. But

some people take opening up and revitalizing the domestic economy as a pretext, as they regard eating, drinking, receiving presents, looking after people, and sending presents in the course of economic activities as "regular business intercourse." They say something like: "In the interest of the great undertaking of reform, one must not be stingy about one or two tables of food."

Sixth, an excess of staff employed in the name of reform. Since many places have added reform organizations, the original organizations recruited many new cadres and technical staff, without reducing the complement of the original organization, so that some organizations are filled up with people and exceed to a serious extent their authorized complement of staff.

9808

SOUTHWEST REGION

Guizhou Appraises County-Level Cadres *40050015a Beijing RENMIN RIBAO in Chinese 10 Oct 87 p 4*

[By reporters Pan Didu [3382 1593 6757] and Hu Yueping [5170 6460 1627]: "Enhance Buildup of Leading Groups; Promote Reform of Cadre System; Guizhou Carries Out Democratic Appraisal of Leading Cadres at and Above County and Departmental Levels"]

[Text] Guizhou has achieved good results in its democratic appraisal of leading cadres at and above county (department) level. Through democratic appraisal, the buildup of leading groups at all levels was strengthened. It was also effective in actively promoting reform and accelerated democratization of the cadre system. The system of supervision of leading cadres by the masses is quickly taking shape and on the way to perfection.

As it was begun in Guizhou in September last year, the work of democratic appraisal of cadres comprises democratic appraisals, public opinion polls, and democratic recommendation of cadres. The main objective of democratic appraisal is checking, evaluating, and testing the cadres in four respects, each making up one topic of appraisal: moral character, ability, diligence, and past achievements. The appraisal consists mainly of a three-in-one combination, i.e. it combines appraisal by the masses with evaluation by the party organization, it combines appraisal behind the back of cadres with face-to-face appraisal, it combines qualitative analysis with quantitative assessment. According to statistics, appraisals up to May of this year have been completed in the various prefectures, autonomous prefectures, and municipalities throughout the entire province of 433 province-level leading groups, and 1,956 leading cadres at and above county (department) level. Combined with this year's elections for new terms, 88 counties, municipalities, and prefectures throughout the province have generally launched democratic appraisals. Departments and bureaus directly administered by the province have

also begun early this year the work of instituting democratic appraisals up as pilot projects, and carried out democratic appraisals for 46 cadres of department rank. To accelerate the progress of this work, Guizhou's provincial party committee has recently made new dispositions for this work, basing on a review of experiences during the initial stage of democratic appraisal work. At present, this work is going on throughout the entire province.

Introduced by relevant provincial departments, the work of democratic appraisals has already achieved distinct results. The following is concrete evidence: First, it promoted the buildup of a proper ideological attitude in leading groups. It helped clear up problems in ideological aspects among leading organs and leading cadres, and strengthened the solidarity of leading groups. For instance, prior to appraisal, the lifestyle of some units was undemocratic, in that they did not properly coordinate their work. Through the process of appraisals, they opened up, freely exchanged ideas, eliminated mutual misunderstandings, worked united as one, expended all strength on their work, and effected a complete change in their way of thinking and working. Second, many leading cadres came to show a sense of urgency and a growing sense of responsibility and dedication. It made some of the "complacent mandarins" of limited ability and little initiative, those who lack exploratory and creative spirit, feel the pressure, and have them determine on a change of workstyle, renounce the old ways and strive for new ways, so as to accomplish real achievements. For instance, after listening to appraisals and opinions of the masses, some party members in the provincial department of communications, were greatly shaken up and

immediately set aside 3 1/2 days for meetings on democratic lifestyle, started criticism and self-criticism, and listed 30 articles of rectification and reform to serve as important guides in future work, to be supervised by the masses. Third, it strengthened the democratic consciousness of cadres and of the masses, also the democratic concept and mass concept of leading cadres. The masses were exceedingly happy to see how their democratic rights were respected, and that they were given opportunity and places to appraise and supervise leading cadres. Leading cadres were also happy to be able to listen to the sincere opinions of the masses. Some leading cadres said: "For many years, we never had so clear a mirror held up to us, and never have we been so carefully gone over with a fine comb." They all hope the appraisal of cadres will become institutionalized and maintained in future. After concluding their democratic appraisals, the Bijie prefectural party committee and the Qingzhen county party committee, set up files recording the assessment of cadres in the democratic appraisals, and were determined to maintain democratic appraisals of cadres as an institution, to be maintained in the future. Fourth, Through democratic appraisals and democratic recommendations of cadres, many talents with ability and of political integrity were discovered and added to the contingent of cadre candidates. According to statistics from prefectures and autonomous prefectures of the areas of Bijie, South Guizhou, and southwest Guizhou a total of 3,980 candidates have been recommended for cadre positions.

9808

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