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# ***JPRS Report***

# **China**

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## NATIONAL AFFAIRS, POLICY

### State Office on Continuing Growth in Domestic Market

HK2711053792 Hong Kong ZHONGGUO TONGXUN  
SHE in Chinese 0835 GMT 26 Nov 92

[Report: "State Information Center Forecasts Continuation of Two-Digit Growth Rate for China's Market Over Next Two Years"]

[Text] Beijing, 26 Nov (ZHONGGUO TONGXUN SHE)—Reports from the forecasting department of China's State Information Center have stated that, if China can accelerate its economic structural readjustment over the next two years, then it will continue to maintain a two-digit growth rate in its retail market.

The latest forecast provided by this authoritative consultative body believed that the main factors affecting the Chinese market situation in the next two years will be the economic growth rate and popular demand. Two possibilities exist on the former: 1) The existing economic operational mechanism and industrial structure will remain largely unchanged, while economic growth will follow its own laws and will maintain its period of expansion until late this year or early next year. 2) The economic structural readjustment will be stepped up, and the period of economic expansion will be extended following the acceleration of reform.

On the demand side, the forecast stated that, even though the cash income of urban and rural residents will continue to rise along with economic growth over the next two years, it is estimated that the state will generally not give excessive preference to the individual, as in the 1980's. According to the forecast model, China's economic growth and cash income elasticity will decrease in the coming two years.

According to forecasts, the new "hot commodities" will gradually exhibit a trend toward polarization. If the economic growth rates of 1993 and 1994 are 9.5 percent and 9 percent, respectively, the total volume of retail sales in these two years is expected to grow by 14.1 percent and 13 percent, respectively.

### Enterprises Introduce Multiform Reforms

OW2711145292 Beijing XINHUA in English  
0559 GMT 27 Nov 92

[Text] Hefei, November 27 (XINHUA)—Many enterprises in east China are trying out various types of reforms along with the original exclusive managerial contract system, in line with their own conditions.

"Enterprises should seek their own ways for reform in order to suit their own development," said Yi Weili, director of Shandong Province's Jinan No. 1 machine tool plant, one of China's major machine exporters.

With 8,000 employees and an annual capacity of 6,000 machine tools, the factory exports half of its products to a dozen countries and regions. Yi said that the size and management standards of his factory are similar to those of some foreign-funded enterprises, but economic returns are not satisfactory.

Thus, with the approval of the Jinan City government, his factory began to introduce management methods adopted by foreign-funded enterprises.

This year the factory's economic efficiency improved remarkably after it was given management autonomy and operated according to international norms. In the first 10 months its sales income, pre-tax profits and export earnings increased by 42 percent, 118 percent and 37 percent, respectively, over the same period of last year.

According to Ma Shizhong, deputy governor of Shandong, in his province enterprises which are allowed to adopt foreign-funded enterprise management methods are those which have a great bearing on the national economy or are based on new- and high-technology and whose products are competitive on the market.

Such pilot enterprises amount to more than 100 out of the total 4,000 large and medium-sized enterprises in east China's Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian Provinces and Shanghai Municipality.

Since China adopted the reform and open policies in the late 1970s the director-responsibility managerial contract system has stimulated the development of enterprises. But the system has some shortcomings, including short-term outlook. Therefore, the central authorities have encouraged enterprises to improve the system and develop new methods.

This year the Nanjing No. 2 machine tool plant in Jiangsu province experimented with another kind of contract system, based on input and returns, which proved successful. In the first 10 months the enterprise's sales income and pre-tax profits jumped by 99 percent and 145.3 percent, respectively, over the corresponding period of 1991.

Qu Zhichao, director of the factory, explained that under this system, the state will be responsible for the allocation of loans to the enterprise while the enterprise will make sure it fulfils the profit target.

"We can retain one million yuan more every year under the new contract system," Qu said.

This year the enterprise will invest 40 million yuan to import a production line from Germany and co-operate with a Hong Kong company to produce new products in an attempt to double the factory's output value and sales income.

Currently, nearly 100 state-run large and medium-sized enterprises in east China are conducting similar experiments as Qu's.

Ding Shaomin, deputy research fellow of the Shandong Provincial Academy of Social Sciences, said, "since the sizes and products of enterprises are different, enterprises have to seek ways suitable for their development. This is a good beginning to lead enterprises to the market."

Hangzhou, capital of Zhejiang Province, selected 300 old enterprises and turned them totally or partially into Sino-foreign joint ventures. The assets of the old enterprises are used as shares from the Chinese side in the new joint ventures.

After co-operating with a Hong Kong firm, the Hangzhou rubber plant introduced new management methods, streamlined management bodies and laid off one-third of the management personnel. Fu Dongming, director of the plant, said, "we have not only renovated our equipment, but also borrowed advanced management expertise and competition from the Hong Kong partner and changed our factory's operation mechanism."

Though the enterprises have adopted different kinds of reforms, they have all seen an improvement in efficiency.

In March this year the Shanghai No. 2 textile machinery plant was transformed into a joint-stock company with both domestic and foreign shareholders. The company now has stock capital of 304 million yuan, 46.31 percent held by the state and 41.12 percent held by overseas investors.

This type of transformation has speeded up the enterprise's cooperation with foreign investors and enabled the enterprise to better face international competition.

Chen Jinhua, minister of the State Commission for Restructuring the Economy, said that the multi-form enterprise reform has helped expand enterprise autonomy, reduce government intervention in enterprise management and transform operation mechanism, thereby laying a foundation for push enterprises onto the market.

The multi-form reforms are still in the experimental stage and there is much room for improvement, economists say.

#### State Transfers Governmental Functions

*OW2711130692 Beijing XINHUA in English  
1242 GMT 27 Nov 92*

[Text] Beijing, November 27 (XINHUA)—China today reports substantial progress in transferring governmental functions and operational mechanism of state-owned enterprises, creating favorable conditions for development of market economy.

Chen Qingtai, deputy head of the Economic and Trade Office under the State Council, said that various governments at different levels and enterprises should have urgent need to quicken the pace of decentralization and revive the state-owned enterprises.

In transferring governmental functions, Jilin Provincial Government has given enterprises autonomy over 452 items covering nine aspects. Heilongjiang and Shandong Provinces have also made headway in decentralization, planning in particular.

The State Planning Commission decided to reduce the scope and quantity of the state directive planning quota, which will be cut 37 percent in the fields of agriculture, industry, materials and commerce.

The State Price Administration has revised management catalog of price for means of production and transport. The state-controlled prices will be reduced from 737 to 89 and enterprises have been empowered to set 571 prices.

The Economic and Trade Office, the State Commission for Restructuring Economy and other departments are jointly making related regulations in 25 aspects.

At the same time, various governments have abolished some outdated documents in line with enterprise law and the regulation on transferring operational mechanism of state-owned enterprises.

For instance, the State Price Administration has abolished 13 documents while the Ministry of Machinery and Electronics Industry got rid of 35 documents.

Despite the progress in transferring governmental functions and operational mechanism of enterprises, officials noted, problems and obstacles still exist. Some regions made very slow headway while some departments hold wait-and-see attitudes.

The Economic and Trade Office will continue to make efforts in implementing the regulation and studying important issues. Inspection groups will be dispatched to various regions.

#### Cities Try Out Reforms in Science, Technology, Economy

*HK2411133892 Beijing ZHONGGUO XINWEN SHE  
in Chinese 0946 GMT 10 Nov 92*

[Report by reporter Wang Jiabin (3769 0163 2430): "China Designates Shenyang and Seven Other Cities for Experimental Comprehensive and Coordinated Reform on Science and Technology and Economic Structures"]

[Text] Beijing, 10 Nov (ZHONGGUO XINWEN SHE)—The State Science and Technology Commission and the State Restructuring of the Economic System Commission recently decided to carry out comprehensive and coordinated reforms in the economic structure as well as in the management system for science and

technology on a trial basis in Shenyang, Nanjing, Harbin, Huangshi, Guangzhou, Dalian, Yantai, and Chongqing. The move was designed to follow the latest developments in deepened reforms in urban areas, to explore new experiences, and to discover new problems.

The relevant plans are being made. Some other cities have also applied to the State Science and Technology Commission and the State Restructuring of the Economic System Commission for permission to carry out similar experimental reforms.

It is reported that the experiment aims at liberating and developing productive forces to the maximum; nurturing and developing markets for commodities, services, technology, and other essential factors of production; setting up an unimpeded, orderly, open, and unified market system with complete rules and regulations; setting up a market system under which the law of value, the law of supply and demand, and the law governing competition will be brought into full play; and setting up a pattern which integrates science, technology, and the economy in urban and rural areas to promote comprehensive and coordinated scientific, technological, economic, and social development.

The main tasks of the experiment are: First, to set up a new operational mechanism which suits the needs of a socialist market economy, conforms with the law governing the development of modern sciences, integrates science and technology with the economy organically, and enables various sides to complement one another and to develop in a coordinated way; second, to advance the strategy of revitalizing cities through the application of science and technology; third, to open up a new situation in which science, technology, and the economy in urban areas will look toward modernization, the world, and the future; and fourth, to offer typical examples to other cities across the country in comprehensive and coordinated reforms in the economic structure and in the management system for science and technology.

It is learned that the State Science and Technology Commission and the State Restructuring of the Economic System Commission have jointly set up a pilot project work office which will be responsible for examining plans for experimental urban reforms submitted by various cities; giving guidance to the pilot project work; looking at and solving problems cropping up in the pilot project work; formulating new policies promoting reforms in accordance with actual needs; and creating favorable conditions for experimental cities. The pilot project work carried out by the eight cities will be assessed at the end of the Eighth Five-Year Plan and successful experiences will be disseminated. Those departments and people who have made important contributions to the pilot project work will be commended and will receive awards.

### Greater Efforts Urged To Cut Stockpiles

*OW2711092192 Beijing XINHUA in English  
0807 GMT 27 Nov 92*

[Text] Beijing, November 27 (XINHUA)—The economic and trade office under the State Council, China's highest governing body, has urged different localities to make greater efforts to combat stockpiling.

Today's RENMIN RIBAO reported that fulfilling the targeted quotas for 1992 will be a tough job, and the office urged local officials to adopt effective measures in the remaining one month, including stopping energy supplies, to help firms move more quickly in the work of limiting production and reducing stockpiles.

In the meantime, the office also urged local governments in different localities to actively help local firms enlarge the channels for marketing stockpiled goods.

### Article on Changing Price Mechanisms

*OW1511053492 Beijing QIUSHI in Chinese No 20,  
16 Oct 92 pp 30-34*

[Article by Ma Kai, deputy director of the State Commodity Prices General Administration: "On Several Questions Regarding the Transformation of Price-Forming Mechanisms"]

### [Text] The Transformation of Price-Forming Mechanisms Is Crucial to Price Reform

Price reform consists of two basic features—reform of the pricing system and that of the price management system. Reforms in these two areas restrain and complement each other; both are indispensable. The key to price reform lies in reforming the rigid price management system and in changing price-forming mechanisms. Here are the reasons:

**First, irrational price-forming mechanisms are an important cause of our country's chronically and heavily distorted price structure.** New China inherited an abnormal price structure; prices for farm products are too low, while those for industrial goods are too high. The same contrast exists between basic and processing industries. The state readjusted this price structure many times during the period immediately after the country's liberation and before the Third Plenary Session of the 11th CPC Central Committee. Nevertheless, our country has implemented an overly centralized and rigid price management system based on planning in compliance with the overly centralized economic management system. Prices are insensitive to changes in the market because of the unitary pricing format and the excessive centralization of policy-making powers regarding prices. Having remained "unchanged for many years," prices for quite a few products have failed to respond quickly to production costs, and to changes in supply and demand. This distorted price structure from the past has basically remained unchanged over the years; it has even worsened in some areas. Only a radical transformation of the

original price-forming mechanisms will help fundamentally resolve the problem of a distorted price structure.

**Second, the transformation of price-forming mechanisms is essential for rectifying the distorted price structure and for periodically introducing comparatively reasonable changes in the price structure.** Since the introduction of the reform policy, the state has adopted a strategy of combining regulation and decontrol in an effort to change the distorted price structure. The government's systematic approach to adjusting prices is crucial for rationalizing the price structure. Nevertheless, this approach can only produce limited results. Prices, which represent the monetary value of commodities, are formed amid changing market conditions. Factors affecting the formation of prices are numerous and complicated, and they keep changing. Even an herculean effort cannot rationalize the price structure if we use only administrative means to adjust prices. This is because our commodities come in a wide variety of categories and specifications, with the former totaling in the hundreds of thousands and the latter in the millions. Restricted by subjective and objective conditions, the government has invariably "added water when there is too much flour and vice versa" while adjusting prices. It has stressed readjustment in one area to the neglect of others, raised prices successively, or failed to introduce price changes in proper measure at the appropriate time. We can gradually adjust the distorted price structure only if we transform the price-forming mechanisms; lose no time in adjusting the prices of a few products that are necessarily subject to state control in accordance with the law of value; decontrol the prices of most products; and allow prices to respond quickly to changes in production (consumption of labor), and market (supply and demand) conditions amid fluctuations in supply and demand arising from market competition. Also, we can periodically introduce comparatively reasonable changes in the price structure through a sound self-regulatory mechanism.

**Third, forming a rational price-shaping mechanism is the basic task in price reform.** The task of price reform does not only include the need to straighten out the price structure to provide a set of accurate price indicators for economic operation. What is more important is that it is also an essential part of the entire economic restructuring. It is possible to pave the way for the market mechanism to exercise its proper regulatory role, promote the change of enterprise production and operating mechanisms, and encourage market development and competition, thereby instilling vitality into the economy and bringing about a rational allocation of resources, only by achieving a change in the price-shaping mechanism; by breaking out of the rigid price management system; and by widening the scope of price deregulation. Therefore, in a certain sense, without a change in the price-shaping mechanism, there will not be a change in the mechanism of overall economic operation. Of course, an eventual change in the price-shaping mechanism is also dependent on a change in the mechanism of overall economic operation.

### **The Objective of Changing the Price-Shaping Mechanism**

The general objective of economic restructuring in China is to bring about a change in the mechanism of overall economic operation, from that of an excessively centralized planning system to that of a socialist market economy. To this end, it is imperative for the price-shaping mechanism to be transformed from one in which the price is decided chiefly by the authorities in an excessively centralized manner, to one in which the price is determined mainly by the marketplace and regulated by the government. In specific terms, it is imperative to achieve five changes. First, achieving a change in the main body that decides prices. To change from prices being fixed mainly by the government to prices being fixed mainly by enterprises. Except for the price of a small number of commodities and labor services determined by the government, the price of most commodities and labor services will be independently decided by the producers and commodity dealers. Second, achieving a change in the form of prices. To change from an emphasis on planned prices to an emphasis on market prices. Except for the price of a small number of commodities and labor services subjected to planning, the price of most commodities will be deregulated and determined by the marketplace. Third, implementing a change in the method of price-shaping. To change from relying mainly on administrative procedures to fix prices to relying mainly on market competition to determine prices. Fourth, achieving a change in the price-shaping mechanism. To let the law of value, and the law of supply and demand emerge from their rejected or subordinate position to truly become the basic law of disposal. Not only must the shaping of market prices be essentially guided by supply and demand, but the shaping of planned prices must also be based on the law of value. Fifth, achieving a change in the method of regulating prices. To change from relying mainly on administrative means to control prices directly to relying mainly on economic and legal means to regulate prices indirectly.

As the price-shaping mechanism changes, prices will be separated administratively into two main categories. The price of a small number of commodities will be planned, decided by the government, and controlled directly. The price of most commodities will be market prices, determined by the market, and regulated indirectly. Whatever the form of prices, they are the fruit of both planning and market. To determine the scope for implementing planned or market prices for the numerous and complicated prices, it is necessary to comprehensively consider the following three factors: 1) The degree of monopoly. It is necessary to implement market prices and liberalize prices of products and labor services that are suitable for and capable of competition. The government should control prices and implement planned prices for products and labor services that are strongly monopolistic and unsuitable for or have difficulty in competition. 2) The degree of resource supply availability. It is necessary to liberalize prices and implement market prices for products that have relatively

lower resource supply problems and more flexibility in supply prices. The government should control prices and implement planned prices for products that have relatively higher resource supply problems and less flexibility in supply prices. 3) The degree of importance. The state should control prices and implement planned prices for a small number of the most vital products that concern the national economy and the people's livelihood. It is necessary to liberalize and implement market prices for a majority of general commodities and labor services.

For some specific products and labor services, the degree of monopoly, the degree of resource availability, and the degree of importance are not immutable. Therefore, in determining a specific scope for implementing planned and market prices, it is necessary to proceed in accordance with changes in commodity conditions, and to grasp the need of production, market growth, and political and economic situations in a timely and flexible manner.

#### **The Perfection of Mechanism for Planned Prices**

In the socialist pricing system with Chinese characteristics, planned prices are small in number but occupy a decisive position. The rationality of prices concerns the overall allocation of all national economic resources, the fundamental proportions of the entire price structure, and the fundamental trend of overall fluctuations in prices. In price reforms, we are not going to totally abolish planned prices but will perfect the establishment of a planned price mechanism while continuing to reduce the scope for planned prices. The key here is to establish a planned price mechanism based on the fundamentals of such economic laws as awareness, adherence, and value, as well as to upgrade such a mechanism in a scientific and flexible manner.

While planned prices are set by the government, they cannot be imposed arbitrarily. Planned prices under the socialist system consist of ordinary and special prices. Ordinary prices are formed in accordance with the general law of price formation; they are subject to laws governing value, currency circulation, supply and demand, and competition. Special prices are formed in accordance with the unique economic law of socialism; they reflect economic relations unique to socialism. If we set planned prices in violation of objective laws, we shall suffer sooner or later, ultimately finding ourselves forced to pay a price and institute remedial action.

In the course of setting planned prices, we should observe and conscientiously adopt economic laws in an effort to render these prices more scientific. We should primarily improve work in three areas: 1) We should correctly determine the costs involved in prices, so costs will reasonably negate expenses incurred in commodity production. 2) We should accurately determine price-induced profits on the basis of rational costs. This will help us equalize profits, properly coordinate interests among different departments, and promote a rational

distribution of resources. 3) We should reflect the law of supply and demand by rapidly raising to reasonable levels the prices of undersupplied commodities that deserve price hikes. This will stimulate supply and dampen demand. On the other hand, we should reduce, without delay, the prices of oversupplied commodities to reasonable levels. Moreover, we should consider political factors when setting certain planned prices. These factors include policies regarding resources, minority nationalities, population, development strategies, and social stability.

In the past, excessive control was the leading factor affecting the formation of planned prices. Some prices remained unchanged "for many years" or even "infinitely." Planned prices will always move toward or stay at comparatively reasonable levels only if we adjust them promptly in response to changes in production and in supply and demand, and only if we change "unresponsive" prices into "responsive" ones. This strategy is an important stage of the drive toward improving mechanisms for forming planned prices.

#### **Improving the Mechanisms for Forming Market Prices**

The mechanisms for forming market prices primarily consist of the following distinctive elements—enterprises, competition, and supply and demand, with the first serving as pricing policymakers, the second as the basic means for forming prices, and the third as the determinant of price levels. An endless cycle serves as the fundamental principle for the formation of market prices. According to this cycle, a shortage of commodities will sequentially lead to price hikes, increased profits of enterprises, an influx of production factors, an increase in supply, excess supply, a decrease in prices, reduced profits of enterprises, an outflow of production factors, and so on.

The above-mentioned characteristics of the mechanisms for forming market prices determine the two obvious advantages of high flexibility and automatic regulation for this price-forming mechanism. With the pricing power resting in the hands of people directly producing and dealing in commodities, market prices provide a more direct and timely reflection of the changes in such factors as production cost, supply and demand, and consumers' mentality, compared to prices set by the government. In the process of forming market prices, the two factors of supply and demand and prices interact with each other continuously to form a self-regulating return circuit in which market prices constantly move away and toward the equilibrium point of supply and demand; as a result, an internal, instead of external, automatically regulated mechanism for rationalizing prices is formed. This kind of highly flexible and automatically regulated price-forming mechanism is better suited to the complicated and changeable nature of social production and demand. Making full use of the advantages of this price-forming mechanism would help us provide prompt, correct price signals to commodity



producers, traders, and consumers and promote harmony between the production pattern and the structure of consumption, thereby attaining the goals of rational disposal of resources and proportional distribution of the collective labor of society.

**The above-mentioned characteristics of the mechanisms for forming market prices also determine the two obvious disadvantages of laggardness and blindness for this price-forming mechanism.** Prices produced by this price-forming mechanism are only a reflection of the state of supply and demand as well as the structure of supply and demand in the past, and of a prior appraisal of supply and demand as well as the structure of future demand. As such, they could only give a rough indication as to the direction of expansion or reduction for the scale of production without showing the specific extent of production expansion or reduction needed. Under such circumstances, entrepreneurs are prone to base their pricing policy-decisions on their partial interests, past situations, and a sketchy future trend of demand, instead of on the general interests and needs of long-term economic development and disposal of resources. This certainly would introduce a certain degree of blindness into both the forming of prices and the regulation by prices of the disposal of resources, thereby often resulting in cyclical fluctuation of prices and production as well as a certain extent of wasted labor. For this reason, it is necessary to appropriately regulate the forming of market prices. In its efforts to regulate the forming of market prices, the government focuses mainly on the market and emphatically employs economic and legal means to influence the forming and variations of prices by balancing the overall circulation volume, regulating the supply and demand of commodities, and promoting market competition. In other words: "The government regulates and controls the market while the market forms the prices." It is a new system in which indirect regulation and control play a major role.

**The above-mentioned features of mechanisms involved in forming market prices determine whether these mechanisms can function normally and effectively. For our part, we must create favorable conditions for these mechanisms.** The lifting of price controls does not mean the completion of changing price-forming mechanisms. The government's move to decontrol prices signifies the abolition of direct administrative controls on prices and a change in pricing policy makers, thus paving the way for forming market prices. Nevertheless, the soundness of internal price-forming mechanisms depends on "qualified market entities" and a "full-fledged market system." To ensure the normal functioning of mechanisms involved in forming market prices, market entities in the form of enterprises must become true commodity producers and dealers who are "financially and operationally independent." Only "financially independent" enterprises will respond quickly to changing prices, because they have direct interests in the rise and fall of prices. Only "operationally independent" enterprises can respond

quickly to changing prices—by deciding upon the type of product to be manufactured, the quantity to be produced, and the method of production—because they enjoy autonomy in property management, investment, and employment. These are the basic elements that are crucial to the normal functioning of mechanisms involved in forming market prices. A full-fledged market system is also essential for the normal functioning of such mechanisms. In the absence of a full-fledged market for production factors, changing prices cannot promote the free circulation of funds, labor, materials, technology, and other production factors even if price controls are lifted. This will cripple the automatic regulatory mechanism developed during the formation of market prices. This mechanism "regulates supply and demand through price adjustments and adjusts prices in accordance with supply and demand." Reasonable market prices cannot develop in such circumstances. In the absence of fair market competition and sound market operational rules, some enterprises may monopolize the price-setting process after price controls are lifted. Moreover, the price war may get out of hand and become chaotic. This situation will similarly discourage the formation of reasonable market prices. We can lift price controls with relative ease; it is in the area of creating qualified market entities and a full-fledged market system that we face substantial difficulties. Therefore, we must reform prices through the transformation of price-forming mechanisms in conjunction with our efforts to change the operational mechanisms of enterprises and to institute a market system. Work in these two areas should reinforce each other.

#### **Duly Accelerating the Transformation of Price-Forming Mechanisms**

Thirteen years of price reform have significantly changed our country's price-forming mechanisms and fundamentally altered the overly centralized price management system. The government directly set the prices of 20.9 percent of all retail commodities sold in 1991, compared to 97 percent in 1978. Market prices accounted for 68.8 percent, compared to 3 percent in 1978. The remaining 10.3 percent were priced under government guidance. Of the total volume of farm purchases, the government directly set the prices of 22.2 percent of them, down from 92.6 percent in 1978. Market prices accounted for 57.8 percent, up from 5.6 percent in 1978. The remaining 20 percent were priced under government guidance. The government directly set the ex-factory prices of 36 percent of capital goods for industrial production, down from almost 100 percent in 1978. Market prices accounted for 45.7 percent, while 18.3 percent were priced under government guidance. Over 95 percent of commodities imported with foreign exchange were priced by agents under the price liberalization policy. We have expanded the functions of flexible market mechanisms—which have played a leading role in changing market prices—in government pricing and in the formulation and readjustment of government-guided prices.

Despite the fact that reform in price-forming mechanisms has achieved great progress, many problems still remain: 1) The scope of planned prices still looms large in certain spheres, and controls on prices of some products that should have been lifted are still in place. 2) The relative rigidity of planned prices is not conducive to forming a rational mechanism that can timely reflect production conditions and changes in supply and demand. 3) A double-track price system in means of production and its apparent defects still exist. 4) Enterprises inconsistently set prices, which quite often triggers major price upheavals of some important commodities.

Objectively, to push the enterprises into market competition, enhance their vitality, promote the maturity of the market, and develop a socialist market economy, there is an urgent need to bring about a further quickening of the process of the transformation of the price-forming mechanisms. The current macroeconomic environment also provides conditions for quickening the process of the transformation of the price-forming mechanisms. At a time when overall supply and demand has achieved a basic balance and when the supply and demand of a fairly large number of products has achieved a rough balance, or even when supply is outstripping demand—a phenomenon that is rarely seen in recent years—a bolder move to further free some products from price controls will not give rise to a general rise or a sharp rise in prices if the freeing of prices is reined in by powerful market forces. It is necessary to seize the opportunity and appropriately quicken the pace of transforming price-forming mechanisms. 1) To achieve that end, firmness and decisiveness are needed to free prices; the ratio of government-set prices should be further reduced, and the scope of market prices should be further enlarged. This year has seen further freeing of a number of prices. The number of products whose prices are controlled by the State Administration of Commodity Prices and by relevant departments of the State Council and prices of means for industrial production and transport charges has been reduced from 737 at the end of 1991 to 89, with prices of crude oil, coal, and rail transport charges still under control; in short, nearly 600 prices have been set free simultaneously. The number of controlled agricultural product prices has been reduced from 40 to 10, with only prices of grain, cotton, flue-cured tobacco, and other products still under control. Only prices of edible salt and some pharmaceutical products are among the industrial consumption products that are still under control. Conditions permitting, the scope of prices that are under the state control will be further scaled down. 2) It is necessary to explore and establish a sound automatic price-regulation mechanism and a corresponding regular price-review and price-regulation system for a small number of commodities whose prices still require state control; the ratio of government-guided prices should be raised, and the role of market regulation in the forming of planned prices should be enhanced. 3) It is necessary to increase the work of nurturing the market, perfect market organization, promote market competition, improve and devise market rules and regulations, and

assist enterprises to standardize price-setting behavior so as to influence the forming and changing of prices. 4) Efforts should be increased to establish and perfect a fund system for price regulation; perfect the government's materials reserve system for grain, cotton, sugar, and important metals; and enhance the state's ability to use economic means to regulate prices in the market.

#### Article on Opening of Inland Provinces

*OW1211123192 Beijing QIUSHI in Chinese No 20, 16 Oct 92 pp 2-6*

[Article by Qingcai (4101 3237 2088): "Take the Road of Opening Up With Inland Characteristics"]

[Excerpt] The world today is an open one with deepening interacting and interdependent economic relations among countries and regions; a world where the level of internationalization, socialization, and modernization of its economic activities is constantly rising. Any country or region that wants faster and better socio-economic development needs, without exception, greater and deeper participation in international competition and to carry out the policy of opening up to the outside world.

#### I.

Since the founding of the PRC, during the periods of the First and Second Five-Year Plans, periods for construction of inland provinces, inland areas in particular were a strategic rear area on the priority list of state construction investment. After decades of hard work, a number of new industrial bases and key enterprises were completed, laying a solid material and technological foundation. Generally, inland areas are endowed with abundant natural resources and they constitute a considerable segment of the country in terms of both area and population. Therefore, how much inland provinces' resources are being used, how much of their economic potential is being tapped, and how well their economies develop will have an impact—one that is not to be underestimated—on how well the national economy develops and whether the development is well-balanced.

In the past decade or so, the growth rate of the inland areas has clearly been behind that of the coastal areas. The gaps between inland and coastal areas in economic development has somewhat widened. Problems such as enterprises' outdated equipment, antiquated products, rigid mechanisms, and low efficiency are noticeable. There are many causes for this situation. A major one is that the inland areas have lagged behind the coastal regions in terms of the pace and scale of opening up. Therefore, to extricate ourselves from this predicament, we urgently need to introduce advanced equipment and technology from abroad, and speed up technological innovation and structural adjustment to upgrade our equipment, technology, and products; we urgently need to boldly absorb and learn all advanced methods of operation and management techniques from the developed capitalist countries to help transform enterprise

mechanisms. If this work is carried out well, we will be able to inject vitality into, and rejuvenate existing industrial bases in inland areas. In the face of the pressing situation—that is, explosive economic growth in coastal areas and the all-out development of border regions—if inland provinces do not have the spirit to catchup, and instead of making great strides in opening up are content with “making paltry progress year after year,” then their gaps with the coastal areas will widen instead of narrowing. The aforementioned problems will not be resolved; instead they will only get worse.

What with poor transport, communications facilities, and fund shortages, the inland provinces indeed face greater difficulties in carrying out the policy of opening up. However, this does not mean that there is nothing for them to do when it comes to opening up. First, geographical conditions are indeed very important; the decisive factor is, however, people's subjective efforts. It is a metaphysical—and therefore unacceptable—approach to view geographical conditions in absolute and static terms. This is particularly true of the present-day world where the modern means of transportation and communications greatly shorten the distance of time and space in their natural status, and make up the geographical disadvantages of inland areas. As opening up develops in width and depth, and the inland provinces become more competitive in terms of wages, costs, resource development, and investment environment, foreign companies with foresight will gradually turn their attention from the coastal areas to the inland areas that have huge potential for development and promise good returns on investment. Herein lies a rare opportunity for us to open up wider. The coastal areas, with ever greater participation in international economic division and competition, will have an ever increasing need for the raw materials, energy, and advanced technologies of the inland areas. This will provide us with a vast opportunity to introduce investment from abroad and establish lateral ties at home. Moreover, each and every one of the inland provinces has its own unique strengths and this makes it entirely possible for everyone of them to accomplish something in opening up. Take Shaanxi for example, it is far from the sea in the east, and the border in the west. Its location—at the juncture of east and west—however, has provided it with the geographical advantages of conducting economic exchanges over wide areas and carrying out the policy of opening up in all directions. In particular, the operation of the second Eurasian Continental Bridge has provided Shaanxi with good conditions to participate in international economic competition. Since the Third Plenary Session of the 11th CPC Central Committee, Shaanxi has made great advances in opening up to the outside. Its foreign trade has grown at an annual rate of 47 percent. The volume of imports and exports has grown from 1 to over 10 percent of the province's gross product. It has used \$1.7 billion of foreign funds; and has completed a number of transport, telecommunications, and other infrastructural projects. More than 400 foreign-funded enterprises have been established, among the advanced enterprises is the

Yangsen Pharmaceutical Company in Xian which has been named one of China's 10 best joint-venture enterprises. A number of cultural monuments with an international fame have been opened. In recent years the number of foreign tourists has increased to more than 300,000 and foreign exchange income from tourism has risen to 300 million yuan. The tourism industry has become a new pillar industry and the leading foreign exchange earner. Interrelations between the provincial economy and the international market have enhanced markedly; and opening up has played an increasingly indispensable role in economic growth. This shows that as long as we fully utilize these favorable conditions and seize the historical opportunity, we can lift ourselves out of the closed and backward status, make big strides toward the world, usher in a new phase of opening up, and enable the inland economy to develop by leaps and bounds.

## II.

Inland provinces should not copy coastal and border regions in an over-simplified way. Rather, we should proceed from reality; make the best possible use of favorable conditions and avoid the effects of unfavorable ones; and take into account our relatively abundant natural resources, and existing economic and technological foundations in formulating development strategies so that we can better utilize the strong points and turn them into real industrial and economic strength. Shaanxi's strong points are its abundant natural resources, well-trained scientific and technological forces, its numerous cultural monuments and historical sites, and many large and medium-sized enterprises. Proceeding from this reality, Shaanxi should give priority to the following points in opening up to the outside world:

**(1) Persist in the policy of developing through opening up and quicken the pace in transforming resource strength into economic strength.** Inland regions have a vast territory and relatively abundant natural resources. However, these resources are often insufficiently used due to inadequate transport and communications facilities. For example, Shaanxi's reserves of high-quality coal for power generation are among the world's largest; it has world-class natural gas fields and sizable nonferrous metal and precious metal reserves. To turn our resource strength into economic strength, we must, first of all, improve transport and communications facilities. To exploit these resources, in addition to raising funds at home, Shaanxi is planning to actively use foreign funds to build a modern, comprehensive, three-dimensional transport network, speed up the construction of local railways in northern Shaanxi, and top-grade highways and telecommunications networks with Xian as its center. With regard to basic industries, we should try in every possible way to use foreign capital and accelerate development through opening up to alleviate capital shortages. We should implement policies that encourage foreign investment to exploit resources and the manufacturing of intensively processed products; set up power

stations near coal mines; develop the coal-chemical, petro-chemical, natural gas-chemical industries, and industries with high energy consumption; and develop industrial groups that cover a full range from development of resources to processing of materials and comprehensive use. We should designate some areas with abundant energy resources as economic development zones and attract foreign capital to develop them. These zones would serve as bases for opening up wider, setting an example for other areas and enabling them to benefit from their prosperity.

**(2) Expanding Opening Up by Relying on Science and Technology.** Application of high- and new-technology in production is the key link in giving full rein to science and technology, which are part of the primary productive forces. With dozens of institutes of higher learning and a large number of scientific and technological personnel employed in the war industry, Shaanxi is ahead of many provinces in terms of overall scientific and technological strength. However, many of its scientific and technological advances, instead of being turned into productive forces, remain as "samples, exhibit items, and presents." In the future, we should, through the policy of reform and opening up, encourage enterprises to participate in international competition, make inroads into the international market, take greater advantage of advanced science and technology, and turn scientific and technological advances into productive forces. We should do our best in organizing scientific and technological personnel to carry out research, pay more attention to pilot projects, and make full use of outside capital and advanced technology in developing new- and high-tech industries with a fairly large production capacity. We should raise the quality and grade of export goods; develop high-quality products that yield a high added value, earn foreign exchange, are produced with advanced technology and an efficient use of raw and semi-finished materials, and do not take up too much freight volume; and improve our international competitiveness. Meanwhile, we should expand technological exports and use them to promote economic exchanges, trade, export of products and labor services, and to bring about an efficient economic cycle in opening up to the outside world.

Developing new- and high-technology industrial zones is an effective way to integrate science and technology with economic development, and to promote commercialization, industrialization, and internationalization of new and high technology. The State Council has approved the development of the Xian New- and High-tech Industrial Zones. About 130 high-tech enterprises have been set up there. Along with implementation of policies and the spread of the zone's economic impact, a high-tech industrial belt has taken shape in the central Shaanxi plain along the Longhai railway. Some 20-30 high-tech projects—each with an annual output of over 10 million yuan, and which turn out products that yield a high added value and are produced with advanced technology—have emerged yearly in the belt. In developing

new- and high-tech industrial zones, we should particularly support export-oriented enterprises that operate on a fairly large scale, lure foreign businessmen to set up foreign-funded high-tech enterprises, and attract science institutes and colleges to found joint-venture technology development entities with enterprises, and bring about a number of new industries and high-tech industrial groups. **(3) Develop the tourist industry as a point of breakthrough for opening up wider, take full advantage of our cultural monuments and historical sites to attract foreign capital and promote trade.** The tourist industry is the fastest developing industry in the world today; it is a "medium" and "bridge" of opening up wider. Shaanxi is the place where the Zhou, Qin, Han, and Tang Dynasties founded their capitals and it boasts many precious cultural monuments and historical sites. In the past decade or so, the province has built cultural attractions such as the Museum of the Emperor Qin's terracotta soldiers, the Shaanxi Museum of History, and the Famen Temple—a sacred place of Buddhism. Moreover, the Xianyang International Airport, the Xilin and the Xisan top-grade highways, and a number of international hotels have been completed, greatly boosting our overall capacity to accommodate visitors who are being attracted to our province in large numbers. In the 1990's, with the rapid economic development in the Asian-Pacific region, the center of international tourism is moving eastward. Shaanxi Province must seize this opportune time by focusing on improving the quality of overall services; and integrate, in an organic way, sight-seeing with catering, accommodation, transport, entertainment, and shopping, thereby raising the overall economic returns of the tourist industry. To develop the tourist industry in the inland provinces, we must first surmount the restraints of poor transportation facilities, establish an "air corridor" with the outside world, and solve the problem of tourists "having difficulties in getting in and out." We are now making the most of the three airports in Xian by launching direct international flights from the Xianyang International Airport to countries and regions that are the main source of tourists, and operating the Yanliang and Yiaocun Airports on a regular basis so that we will have more gateways to the outside world. Second, we should thoroughly strengthen the production and marketing of tourist commodities, which is one of our weaknesses, and develop and manufacture decorative tourist commodities with local flavor that are worth preserving and produce better art reproductions. We should explore the palace banquets and delicate cuisine of ancient times and build shopping malls to make tourism flourish. Third, we should actively develop new, highly attractive cultural and natural spectacles to draw more tourists. Construction of the museum for the No. 2 tunnel of the Qin Dynasty terracotta soldiers is well under way, as are museums for the Zhou, Qin, Han, and Tang Dynasties. We must also preserve, study, and develop emperors' tombs, open up new scenic spots with unique characteristics, and develop tourism with the highlight on academic learning, folk culture, or exploration, thus creating a tourist program that features cultural as well as natural attractions,

and sightseeing as well as entertainment. Fourth, we should establish holiday resorts and other entertainment facilities. Fifth, we should fully exploit the role of tourism as a "medium" and integrate it with economic development at an even higher level. We should sponsor tourist and cultural festivals and memorials, and create opportunities for developing foreign economic relations and trade by drawing in tourists. We should develop various business trip packages so that overseas businessmen can come here to admire our historical sites, and at the same time carry out business negotiations and discuss cooperation.

**(4) Speed up the transformation of large and medium-sized enterprises through "grafting" and encourage enterprises in a position to do so to carry out transnational operations.** There are many large and medium-sized enterprises with substantial strength in the inland areas. However, a considerable portion of them have become "old and senile" and are in urgent need of large-scale transformation. Since we began implementing reform and opening up, Shaanxi has invested about 2.5 billion yuan in 421 projects, renovating a number of large and medium-sized enterprises with imported technology and equipment, and sharply raising their technology level and product quality. In particular, the 41 enterprises that used foreign investment to carry out "grafting" transformation have separated production lines that have been upgraded through "grafting" and subjected them to the policy of "one factory, two systems." These production lines, which employ not only foreign technology and equipment of the 1980's international level, but also the flexible mechanisms and management techniques used in "foreign-funded" enterprises, have seen a marked increase in economic returns. Facts show that transformation through "grafting" with advanced technology has been successful in integrating technological transformation, structural adjustment, and transformation of mechanisms, and is effective in enhancing the vitality and vigor of large and medium-sized enterprises. Enterprises that have undergone "grafting" should, in addition to preferential policies for "foreign-funded" enterprises, be granted other special preferential treatment so that they develop joint-ventures and other cooperative relations with foreign companies. On this basis, we should actively push forward large and medium-sized enterprises that are in a position to do so to make direct inroads into the international market, set up transnational operations, or jointly establish an integrated enterprises group with research units and foreign enterprises to open up foreign markets and bring about transnational flows of production factors such as capital, technology, and labor. We must grant, as early as possible, large and medium-sized enterprises qualified for transnational operations the rights to import and export, and to invest overseas so that they can expand their space for survival and development in international competition.

### III.

To ensure the smooth opening up of the inland areas, it is necessary to create favorable conditions for opening

up to the outside world, and to surmount the various obstacles impeding the process of opening wider to the outside world. Toward this end, efforts must be made in the following areas:

First, it is necessary to emancipate minds. The important cause of the relatively large disparity between the inland provinces and coastal areas in their opening to the outside world lies in the limited extent of mental emancipation and the outmoded concepts on the part of the inland provinces. Hence, to open wider to the outside world, the first prerequisite is to emancipate minds and change concepts. Based on this kind of understanding, we have, over the past 10 years, repeatedly organized major discussions on mental emancipation, centering on the outstanding problems that have fettered the minds and chained the feet of the people. Since the beginning of the year, while integrating Comrade Deng Xiaoping's speeches made during his southern inspection, we have launched further discussions and mobilizations to guide cadres and the masses in correctly understanding Marxism and socialism, in obviating "leftist" interference, and in adopting the correct approach to understanding, treating and dealing with the new situations and the new problems that have emerged in opening to the outside world, in upholding the "three favorable standards," and bravely importing and absorbing all advanced and useful things from capitalist countries and drawing on their experiences. We have done away with our ideas about a natural economy and a commodity economy, and have turned our attention in both domestic and foreign markets to organizing production management activities and going all out to develop a socialist market economy. We have also attempted to break through sealed-up and conservative concepts, to move away from the small world of regional economies, and actively participate in international economic competition. Following our opening wider to the outside world, we have continuously increased our contacts with the outside world. In activities involving dealing with foreign affairs and people, it is necessary to overcome the psychological obstacles formed through the influence of "leftist" ideology. We must have the courage to make contacts with countries and regions with different social systems, ideologies, concepts of value, and do business with capitalists. Of course, in our economic cooperation with foreigners, we must first of all see that it is of benefit to ourselves, but we must also not be afraid of letting others make money; we must let foreign businessmen see what they will stand to gain, and practically safeguard the interests of our partners, and build up cooperative relations on an equal, mutually beneficial, stable and long term basis. We must not be unduly worried about sending personnel overseas; we should have trust in the majority of people, and let a larger number of people go abroad whenever necessary and wherever circumstances permit to enable them to understand the world, be familiar with the world and take part in international economic exchanges. Owing to the relatively deep-rooted influence of outmoded ideas, concepts and conventional forces, people who are more reform-minded and dare to

blaze a new trail will always become the focus of contradiction, and will be subject to criticism and attack. Therefore, we must take the utmost care to protect and support our "frontline soldiers" and "trailblazers." There are two major cordons for cadres: First, they must not be involved in malfeasance and dereliction of duty. Second, they must not seek to swell their own pockets. In addition, if they slip or make mistakes in their work, we must give them a helping hand; let them sum up their experiences, and let them steel and elevate themselves in the process of reform and opening to the outside world. Leading comrades must dare to step forward and speak up for justice's sake, and back up the reformers and protect their enthusiasm.

In order to give impetus to the smooth implementation of the opening policy in the inland areas, efforts must also be made to eliminate the influence of all unfavorable factors such as a closed environment, deficiencies in access to information, and an imperfect infrastructure. First, we must make full use of the media and all windows on foreign affairs, adopt popular styles and methods to publicize our own superiority, and display our own merits to promote our prestige and enhance our appeal. Second, it is necessary to build an international information network, a marketing network, and a service network to create a bridge that connects directly with the international market. It is necessary to organize a strong force of international trade promoters to work abroad and develop trade directly with foreign countries. Under a pluralist trade strategy, we should establish more trade offices and outlets in the countries and regions which are our major trade partners; we should develop stable relations with foreign trade organizations, joint marketing groups, and large firms; and we should gradually build a rationally organized and sensitive worldwide information network and marketing system. Third, we should establish lateral ties at home and introduce investment from abroad simultaneously, and achieve more domestic economic successes to attract more foreign investment. Coastal and border regions, closer to the international market, are more active in economic activities and have greater access to market information. While developing direct overseas relations to open up further, inland provinces should enhance cooperation with coastal and border regions and conduct trade through them. Inland provinces should also run factories and firms in coastal and border open cities and make these factories and firms their outposts for developing an export-oriented economy. At the same time, when fraternal provinces and regions come to set up factories and firms in inland provinces, the latter should provide conveniences to the former so as to promote cooperation, with each supplying the other's needs. Fourth, we should deem it an important work to select and train qualified personnel for an export-oriented economy. The department of foreign economic relations and trade should be strengthened with a large number of personnel who are proficient in foreign languages and know foreign

trade management and operation, selected from universities, colleges and scientific research organizations. [passage omitted]

## PROVINCIAL

### Yichang Prepares for Three Gorges Project

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OVERSEAS EDITION in Chinese No 35, 31 Aug 92  
pp 11-12

[Article by Liu Zhaokui (0491 0340 1145) and Zhang Yipin (1728 0001 0756): "Yichang Prepares for the Three Gorges Project"]

[Text] After the National People's Congress in April this year officially debated and approved the resolution to go ahead with the Three Gorges Project [TGP] on the Changjiang, Yichang City in Hubei Province, where the TGP is going to be carried out, suddenly experienced an upsurge of "Three Gorges fever." At present, all the better hotels in Yichang are full; a nationwide trade meeting with delegates from all parts of the country had to be postponed to the end of the year, and long lines form at ticket counters for bus or boat trips to the Three Gorges. There is a continuous stream of people looking for jobs, giving the personnel departments no end of work...The authorities in Yichang have become well aware that the opportunity, presenting itself in the construction of the TGP, must be grasped, that active preparations must be made for the TGP, so as to derive from it a speedy development of Yichang's economy.

### Providing Services Must Be Fundamental

Yichang, which was commonly known as the "throat to Sichuan and Hubei," has an area of 21,000 square km and is in center of the mainland, a link between east and west, and an axis in the intercourse between north and south, as the large artery of the Changjiang passes right through the city. Yichang has the advantage of a hydropower reserve of up to 330 million kw, abundant mineral resources, known deposits of 53 kinds of minerals, among them phosphate, iron ore, coal, gypsum, barite, silica, and granite, all of considerable value for industrial extraction. Yichang is the foremost production area in the Changjiang orange and tangerine belt. The tourist attractions of Yichang are well known throughout the world, and the "picture gallery" of the Three Gorges top all the 40 scenic tourist sights of the country.

Whenever high-ranking leading personnel of the central authorities and the province come here, they are apt to ask: "The static investment in the Three Gorges dam will be over 57 billion yuan, the dynamic investment will be over 120 billion yuan, and bids for many items involved will be invited from all over the country. To what extent is Yichang capable of providing services to the TGP? To what extent will it be able to absorb investments in the engineering project?"

Favorable opportunity and providing services are closely interwoven. The authorities in Yichang soberly realize these facts: Yichang's mineral resources and touristic resources are very abundant, but it will only be by taking advantage of the opportunity presented by the construction of the TGP that these resources will be fully exploited. Yichang's location is very important indeed, but only by providing services to the TGP will it become possible to bring this latent potential into play and have its influence extend to far beyond.

During the 10 years of reform and opening up, the gross value of Yichang's production has increased at the rate of 16 percent per year, and industrial production has increased at the rate of 18 percent per year. Experts in this field have pointed out that the construction in Yichang of the Gezhouba engineering project had been a major cause for the substantial economic development of Yichang. However, the potential of the whole range of industries available in Yichang has by far not been brought into play as capable of absorbing all offerings, so that all supporting services to the said engineering project have accounted for not even 5 percent of the total investment in the construction project.

In view of this, the party committee and the government of Yichang have decided: In the construction of the TGP, our fundamental consideration must be to provide more services, and in the course of rendering these services, we must strive to advance our own economic development.

The most vexing problem in the pursuit of the TGP is the problem of population resettlement. The transfer of 19 thousand people away from the great dam is imminent; it is called "the first battle of the TGP."

"In providing services to the TGP, our foremost local task is the successful resettlement of the people living in the dam area." For this purpose, the resettlement department of Yichang City, in cooperation with the Changjiang Water Conservancy Commission, worked out a resettlement plan, and quickly initiated experimental action. The military stationed in Yichang and the local governments volunteered to accept transferees. Yichang also allocated funds to provide some of the infrastructure and also commercial and cultural facilities, in an organic integration of the needs of the transferees in the dam area, to provide opportunities for their placement in tertiary industries.

Proper preparations should be made in advance. Yichang has in good time mapped out an overall plan. Its main content is: allocation of a new plot of 40,000 mu of land as vegetable-growing base, 510,000 mu of land for "Zhongshan" corn, 80,000 mu for high-grade green tea, there will also be 30,000 lean hogs, and 500,000 chickens. A local official said: "Some items of the overall plan have already been started. One of its characteristics is that it not only satisfies the needs for nonstaple food

for an additional population of 170,000 to 350,000 persons, but that it could also accommodate another up to 10,000 people."

According to those informed Yichang has initially picked 137 entities in industry, agriculture, postal and telegraph services, communications, and commerce, to provide services for the TGP, with total investments amounting to 8 billion yuan. Up to now, 40 of these have been approved for certain items and started work; total investments of these amount to 3.5 billion yuan.

A leading member of the Yichang TGP work commission said that the key item of these supporting services is resettlement work of a developmental nature and work in connection with the tertiary industries. Resettlement work of a developmental nature is: 1) Using local resources in setting up construction material enterprises; and 2) creating opportunities for placement of transferees in tertiary industries, such as commerce, tourism, etc.

We were informed that at Sandouping Town in the dam area, somewhat over 2,000 transferees have started roadside inns, restaurants, barber shops, and various repair shops. The town government has furthermore allocated almost 100 billion yuan for the development of the new scenic tourist attraction, the "Xuanyuan Cave," and for some large-scale service projects, such as the establishment of a "Three Gorges tourism and recreational ground" and of a "Three Gorges market," creating a veritable chain for eating, lodging, playing, walking, and shopping places.

#### Structure of the Large-Scale Opening Up

Presently, the Yichang party secretary is proposing to pursue opening up and development with the idea of considering this a special zone, to work with the efficiency of a special zone, and to have all such efforts organically linked to the services that will be supplied to the TGP.

Within a short time, the self-financed economic development zone set up over the large area of Yichang has developed very rapidly. For instance, the land along the river from the dam area to the large Zhihcheng bridge, an area of 400 square km, has already been mapped out by the municipality as large-scale economic development zone, while various counties and cities within Yichang City have established 31 mini-development zones of different types for chemical engineering, construction materials, metallurgy, machine construction, tourism, etc. Foreign firms eager to invest are gradually shifting their attention away from the coastal region to the development zones in this area, as places "beckoning the fortune-seeker," thus attracting their investments.

The Cheng Ta group of Thailand had become enamored with Yichang and has signed letters of intent regarding six projects, involving investments of 1.5 billion yuan. The Ludanlan Company of France, the Xiushi Company of the United States, the Yisha Company of Sweden, and

other internationally well known companies have one after another come here. Expansion of the cement production at Zhiheng with an annual production of 1.5 million tons of cement for the large dam, expansion of the production of float glass at Dangyang with an annual production of 2.73 million heavy cases, and other projects of supportive services to the TGP, in the area of construction materials, communications equipment, real estate development, have been able to find foreign partners for joint ventures.

Since the start of this year, there has been on the average one foreign-funded enterprise newly set up every six days, and foreign capital has accounted for 35 percent of total investments.

Domestic investors have shown even greater eagerness. Following the signing of a contract by the Lande Company of Beijing, investing over 100 million yuan for the Huanglongsi airport project, the Zhengzhou Railway Administration invested 60 million yuan for the construction of the Lianyun Building, a Shanxi group of four firms has favored a real estate development project, Asia's largest transformer factory, the Shenyang Transformer Plant, has started joint operations at Yichang, Liu Qiyi [0491 3217 0001], general manager of the Wuhan Iron and Steel Corporation, recently came with his entourage to Yichang to sign an agreement for the organization of the Gaoxia Company, Ltd.

#### A First-Class City

An official of the Yichang City construction department said: "The overall plan for the said city is now being mapped out. To be in line with the TGP, which will erect a first-class dam, famous specialists have been hired from Qinghua University to revamp the city."

At present, a "real estate fever" has rapidly sprung up. According to statistics, 15 companies have already been registered as real estate development companies, four among these are Sino-foreign joint ventures. The Kowloon Warehouse Company, Hengchi, Chaoyeh, and another company from Hong Kong have this year signed a contract for joint operation with Yichang City for the development of "commodity houses," when the Hong Kong side will invest 300 million yuan. Someone in the municipal housing administration has counted up the real estate development companies that have not yet been registered, but have been issued number plates, and of these there have been at least somewhat over 20 firms.

Since the TGP will be built within Yichang City, land here has been eagerly snatched up. Of all land along the river from Gezhouba to Sanyoudong, with its charming scenery of gorges and river, all waterfront lots have been grabbed up in one big rush, and vacation villages, waterfront hotels, and garden villas have been built one next to the other. From the waterfront section of the Binjiang Park, reputed to be "Yichang's Bund," toward down river up to Xiaotingyun Lake, the whole length of 20 km has by now become an arena of fierce competition between investors. In accordance with its overall city

plan, the Yichang government has declared; in this section, land will not be sold unless the proposed building to be built on it will be 20 or more stories high. Some boss from Hong Kong, eager to outpace anyone else, has already invested 150 million yuan with the intention of building a large mansion here.

As real estate is now being developed as a mainstay industry for Yichang, a leading cadre of the municipal construction committee emphasized, that because Yichang is in the interior of the country, it has to have a more favorable policy than Shenzhen with regard to foreign capital investing in real estate, as this only will increase its attractiveness.

This leading cadre concluded as follows: "Only another three, five years and Yichang will have shed its old appearance and present a new face. The speed of its city building will not lag behind that of Shenzhen."

## FINANCE, BANKING

### Developments in Stock Market Reported

93CE0082A Beijing JINGJI LILUN YU JINGJI  
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MANAGEMENT] in Chinese No 4, 28 Jul 92 pp 16-20

[Article by Share System Problems Task Force, State Planning Commission: "Thoughts on the Development of China's Stock Market"]

#### [Text] 1. China's Stock Market and Its Functions

Stocks are a product of the share system evidencing equity rights resulting from share investment; thus, they are a negotiable security or a financial commodity.

Financial markets are places in which various kinds of financial commodities, including stocks, are traded or circulate. Financial markets may be divided in terms of the securities maturity period into the capital market (termed the long-term funds market in China), and the currency market (short-term funds market). In the former, trading is in negotiable securities such as government bonds, stocks, debentures, and mortgages. In the latter, trading is in short-term negotiable securities such as treasury bonds, commercial paper, bank notes, transferable large amount certificates of deposit, and short-term loan agreements. China's stock markets are a part of the capital market; they are a direct market for finance capital that augment the credit system in important ways.

Stock markets perform many different functions. In China, they function in the following ways:

First, development of the stock market has genuinely spurred China's state-owned enterprises to move toward markets. The stock market spurs enterprises to get capital from society and from securities, thereby enabling them to rely on the market rather than on the governments for their most important element of production:



capital. At the same time, once a stock market has been established, the financial reports and operating activities of business concerns are freely available in the market. The activities of business concerns are subject to scrutiny from society, thereby increasing business concerns responsibilities and risks. Finally, the stock market lets market institutions such as security companies and exchanges take responsibility for raising funds for business enterprises. Such open market activity means lower costs for enterprises in raising capital, and it also widens the domain from which funds can be raised. So long as the concern's reputation is good, capital will be automatically attracted.

Second, the opening of financial markets, particularly stock markets, permits more pervasive development of China's commodity economy. On the one hand, development of financial markets is an important step in the strengthening of the market system. Without financial markets, the industrial capital cycle cannot continue. On the other hand, financial markets promote development of a currency economy and a credit economy, which are most important marks of a modern commodity economy. Furthermore, removal of restraints on financial markets means that capital becomes the force driving the operation of the economy. It makes goods follow money. Materials flow to wherever capital is invested, and wherever capital is plentiful, development of the commodity economy is rapid.

Third, one important function of the stock market is to stimulate improvement of economic efficiency. By promoting capital transfers, it optimizes the allocation of social resources. Second, the stock market can accelerate the circulation of funds, thereby improving the funds utilization rate. Third, the stock market promotes a rational ratio between social accumulation and consumption; it automatically regulates the transfer of social consumption funds into investment, thereby changing "dead" money into "live" money. Fourth, the stock market hastens enterprises' capital accumulation; it spurs high profit rate enterprises or industries practice the economies of scale.

Fourth, the stock market is a sensitive regulator of the society and the economy. It is an "invisible hand" that sensitively regulates the supply and demand for funds in society through changes in profit rates, market profit rates, or the stock price index, thereby guiding the direction of flow of capital, promoting lateral economic ties, regulating investor behavior, and making enterprises behavior as legal entities more rational.

Fifth, the stock market also provides an important foundation for national macroregulation and control. The experiences of western countries in their development show that a stock market provides conditions for the central bank's stabilization of the economy and conduct of macroregulation and control. The three great magic weapons of the central bank are applied through financial markets. Central bank regulation of the ratio of savings account reserves requires commercial banks to

change their reserve ratios through the buying or selling of negotiable securities. Rediscount rate readjustments directly affect the market profit rate. Open market operations, meaning the direct buying and selling of securities, are an important means for curbing inflation or for retrenchment to stabilize the economy. One might say that without financial markets, both indirect or direct macroeconomic economic control would be difficult.

## 2. Development of China's Stock Market and the Status of Its Control

China's securities markets have gradually developed since reform. Statistics show that between 1981 and 1990, China issued a total of 182.3 billion yuan in securities of all kinds having a maturation period of one year or more. Total securities traded totaled 18.7 billion yuan in value. 1990 marked the historical beginning of the meteoric development of China's securities markets when 93.8 billion yuan worth of negotiable securities of all kinds were issued, up 68 percent from 1988. Value of all kinds of securities traded totaled 13.6 billion yuan, 4.2 times the 1988 amount. In 1991, another tremendous increase over 1990 occurred. Securities markets have become the main channel whereby business enterprises and government raise funds. A "securities market craze" has taken hold throughout the country.

Between 1984, when China ran its first stock market pilot project, and 1990, a total of 4.5 billion yuan worth of shares have been issued, and share system enterprises issuing shares number somewhat more than 6,000; nevertheless, the volume of shares issued accounts for only 3 percent of all negotiable securities having a maturity date of one year or more. Decontrol of the stock market is currently limited to the Shanghai and Shenzhen pilot projects. As of the end of 1990, the value of shares of 11 relatively normal share system pilot project enterprises totaled 887 million yuan, of which 663 million, or 74.77 percent, are held by the state; 158 million yuan worth, or 17.7 percent, are held by legal entities, and 66.6 million yuan, or 7.48 percent are held by individuals. The shares of seven of the 11 companies are openly traded on the market. During the same period, there were more than 200 share system pilot project enterprises in Shenzhen, six of which marketed shares, the openly issued shares totaling 270 million yuan renminbi in value. In 1990, trading volume was 1.765 billion yuan. Shenzhen has approved the establishment of 12 securities exchange institutions. As of the first half of 1992, 89 enterprises in China were publicly issuing shares, and nearly 30 securities companies were marketing them, the stock market coming into full flower. At the present time, policies limit open stock markets to only a few places. Share system pilot projects for the open issuance of shares to society at large, but without market trading, exist only in Guangdong, Fujian, and Hainan provinces. Pilot projects for the open issuance and market trading of shares are currently limited to Shanghai and Shenzhen. Following ratification by the Share Marketing Office of the State Council, share system enterprises in other areas

that meet marketing requirements may market and trade them on either the Shanghai or the Shenzhen securities exchange.

China currently controls securities markets in the following ways:

First, following State Council approval, a stock market administrative conference system headed by Li Guixian [2621 6311 7639], a State Council councilor who is concurrently president of the Chinese People's Bank, and made up of leaders of eight ministries and commissions was established. The main responsibility of this administrative conference is to draw up major plans and policies for development of a stock market, to examine and approve the size of share issues and the enterprises issuing shares, and to coordinate relations among all departments. This administrative conference has examined the size of the 1991 share issue for Shanghai and Shenzhen, the provisions of "Provisional Measures for the Control of Shanghai City Renminbi Special Shares," and the size of the Shanghai and Shenzhen special renminbi share issue.

Second, a securities market agency and a securities market exchange agency were established. Following approval, China set up the Shanghai Securities Exchange followed by the Shenzhen Securities Exchange for centralized trading in securities. It also set up a nationwide financial markets price reporting, information, and exchange system for centralized reporting of prices on securities markets nationwide. In addition, a number of securities dealing agencies were either revived or newly established. Today, China has 59 specialized securities companies dealing in securities, and more than 300 credit investment corporations have established securities departments. In addition, the Chinese Securities Association was founded, and a self-governing control system for all firms dealing in securities was established.

Third, securities market legislation and a control system have been gradually built. Now Shanghai and Shenzhen have promulgated "Shanghai Municipal Securities Control Measures," and "Shenzhen City Provisional Measures for Share Issue and Trading Control." The Chinese People's Bank has promulgated "Temporary Measures for Securities Corporation Control," and associated securities control regulations.

### 3. Principal Problems in the Early Development of China's Stock Market

First is a lack of unified planning for the development of stock markets. China's stock markets share a common problem in their development, namely that the stock markets lag behind the development of a commodity economy. Most of the country's securities markets—particularly its bond and stock markets—were passively decontrolled only after the advent of "illegal" trading. Once the share system began to be tried out, the exchange or circulation of shares became an objective necessity, but it was constrained by closed minds. It was not until after the advent of the 1980's that the Shenzhen

and Shanghai markets were opened. Attracted by these two markets, demand for the opening of inland markets became intense, so in 1992, we approved in principle the marketing of inland shares on these two markets. As to what extent China's stock markets will develop, what the long-term thinking is, and the strategic pattern and steps for its implementation remain unanswered.

Second is a lack of standards for macroeconomic control of the stock markets. Looked at in terms of the way that the Shenzhen and Shanghai stock markets are controlled, the division of labor among the main entities in controlling the stock markets is not very clear right now. The department in charge of evaluating publicly owned assets, namely the Industrial and Commercial Administration and Control Department, exercises control; the department in charge of reforming the state-owned enterprise system, namely the State Commission for Restructuring the Economic System, exercises control; the department in charge of market behavior and activities, namely the Industrial and Commercial Administration and Control Department, exercises control; and the department in direct charge of financial markets is the People's Bank. At the present time, the division of labor among the macroeconomic control departments is unclear; control of the market is not standardized.

Third is a conspicuous clash between supply and demand on the stock market. Space is very limited on China's stock market—particularly in the secondary market. Market capacity is too small; it cannot satisfy the financing needs of business concerns and individuals.

Fourth, market rules and regulations are incomplete; market operating procedures are abnormal. Both the Shenzhen and the Shanghai markets rise and fall suddenly as indifference is reflected on the markets. These great rises and falls in the stock market impair normal socio-economic operation. Because of the incompleteness of regulations, artificial interference with prices occurs, and administrative means are used to manipulate market trading, causing grievances all around. In addition, because of the limited market and the poor trading order, black market trading has broken out leading to a distortion of the market.

Fifth, development of the stock market's issue market and trading market is uncoordinated, the trading market markedly lagging. As a result, trading market prices rise wildly, market quotations being made but no trading taking place. This also impedes increase in share issues. Quite a few units do not hesitate to distort shares in order to expand issues. They become bonds in disguise for which issue costs are overly high.

Sixth, public shares are not marketed and transfer of possession of the shares of legal entities is not smooth making improvement and perfection of the stock market difficult. Today, both in theory and practice, no planning exists in the marketing of public shares or the shares of

legal entities. This both limits market development and impairs the preservation of value and increase in value of public shares.

Seventh, the advent of the market has generated an excessive gap in income levels. Investment or trading in shares has given rise to speculation, and speculation requires the taking of enormous risks. Consequently, numerous units and individuals have benefitted greatly to become rich overnight, while other speculators have suffered ruinous losses. For such a situation to arise is natural, but it is not entirely in keeping with the principles of socialist equality. How to use macroeconomic regulation and control to ease this contradiction between principles and practice has become a new problem.

Eighth, a serious collision has occurred between the prevailing system and stock market operation. This clash shows up in numerous regards, the most outstanding of which is splintering among sectors and regional blockading, which impedes the lateral flow of capital and seriously hampers share issue and trading. The Shenzhen and Shanghai stock markets can only develop locally; formation of a nationwide unified market is difficult.

#### 4. Thoughts About Further Development of China's Stock Market

##### (1) On the Stock Issue Market

The stock issue market is also known as the elementary or primary market. Formation of the stock market's issue market was necessitated by the need to practice the share system or develop share corporations. Share issue may be divided into nonopen and open issues. Nonopen issues are usually sold directly, i.e., the market for the shares consists of the share issuers and subscribers. In some cases, the distribution of the issue to shareholders is decided in advance, and in other cases the sale of an issue is rationed on the basis of the relationship among the shareholders. In China's share system pilot projects, large numbers of shares were issued to staff members and workers in addition to which enterprises, as legal entities, purchased each other's shares. Proprietary shares are nonopen issues. In some cases, purchase of such shares consists only of recording the owners name in testimony to equity ownership without issuance of the standard share certificate. Open issues are issues that are openly sold to the public at large. Usually, open issues go through an intermediary agency.

China's share system is still in the pilot project stage; nevertheless, better planning must be done for development of the stock market; we cannot run the project mindlessly. Open issue shares must be strictly controlled; and the size and make-up of share issues must be regulated and controlled in a planned way. Moreover, nonopen share issue methods, including the share cooperation system that practice has shown to possess vitality, the holding of shares by the staff members and workers in an enterprise, and legal entities holding each

other's shares should be further developed and tried out in pilot projects even before evaluation of enterprise assets.

##### (2) On the Share Certificate Exchange Market

The share market is a market for the circulation among investors of already issued shares; thus, it is also called the share circulation market or the secondary market. Existence of the share circulation market ensures the fluidity and open trading of shares. The share circulation market is divided into a formally organized exchange and an informally organized off-board exchange. The former is called the formally organized exchange, i.e., the share exchange. In this exchange, listed shares are traded through auction by an agent acting as an agent of customers. Most trades are spot transactions, futures transactions, credit transactions, and options transactions. The off-board exchange deals in unlisted shares, trading being done over the counter by securities professionals at the off-board exchange. In addition are the so-called third market and fourth market. The third market means off-board trading by nonstock exchange members of ordinary shares registered in the stock exchange. This market enables the buying and selling of shares at the same time, thereby saving a large amount of commissions and fees. In foreign countries, such trading is rather lively. The fourth market is where some large financial institutions directly buy and sell or exchange shares among themselves, trading shares without registering them in advance with either the stock exchange or the exchange commission.

The share exchange market and the issue market are dependent on each other, influence each other, and limit each other. The primary market limits the make-up and size of the secondary market. If the amount of shares issued exceeds investors' needs, a crisis occurs in the circulation market. The share trading market also affects development of the issue market. Without a secondary market, the shares that the primary market issues cannot circulate or be transferred. Shareholders can only hold on to their shares indefinitely; they have no way to transfer risk. Their shares or negotiable securities cannot be changed; "live" money becomes "dead" money, and further share issues cannot continue. At the same time, the circulation market limits share price, thereby determining the share issue price and issue capacity. In this sense, the writers feels that decontrol of the country's share exchange market has become a necessary choice for further advance of the share system.

China must permit the existence of different kinds of exchange markets. Generally speaking, four possibilities exist: One is steady development and improvement of the country's stock exchange, mostly improving the Shenzhen and Shanghai exchanges, summarizing experiences to enable their healthy development. Second is active creation of conditions to promote as quickly as possible the listing on the Shenzhen and Shanghai stock exchanges of rather mature share system enterprises in inland China. Third is to permit off-board trading in

shares that cannot be traded in the exchange, and legalization of "over the counter" trading. However, the state must provide off-board trading regulations as quickly as possible to avoid chaotic development of the market. Fourth is encouragement to the development of trading within corporations. Trading of all internally issued shares or equity certificates must be permitted.

### **(3) On the Circulation of Public Shares and Enterprise Legal Entity Shares**

The circulation of public shares must be the main focus in development of China's stock market. The main entity in China's economy is public ownership, shares in state-owned assets accounting for approximately 60 percent of the total, and shares in collective assets accounting for approximately 20 percent. If public shares are not traded, healthy development of the stock market is bound to be adversely affected; the private share market possibly impacting on public shares. Public shares, particularly the circulation of shares in state-owned assets, provide an important means for realization of state industrial policies. Prompt state investment in or withdrawal of shares from a certain field for industrial policy reasons can be effective in indirectly regulating and controlling the operation of the economy.

The question is how public shares should be put on the market. If the state-owned assets management system is not reformed and state-owned assets continue to be operated directly by government departments for the most part, this is bound to be conflict with market circulation. The key lies in fostering an intermediary institution for the administration and management of state-owned assets. One might say that the establishment and development of a state-owned assets management system is an important link in the development of China's publicly-owned share economy. However, it requires that revenues from state-owned assets be dedicated to investment in shares; the loss of revenues from state-owned assets cannot be permitted, because this would inevitably result in a shriveling of state-owned assets.

One concept is prone to confusion, namely what constitutes a legal entity share. Generally speaking, legal entity shares are of two kinds. One is the shares accrued by an enterprise as a legal entity through investment in share system enterprises using the assets it controls. The second is the shares produced from investment in share enterprises by public institutions and social groups using the assets that the state permits to be used in the enterprise operation. If the equity rights of shares belonging to enterprises as legal entities come from things that the state mandates exclusively for enterprise operation, such as the equity rights of some state-owned assets operating companies, the shares belong to the state. If they are participating shares or bearer shares that a share system enterprise uses in its operation, equity rights belong to the original shareholder. If the state holds a controlling number of shares, the state's equity rights are paramount. If the shareholding public

institutions or groups that are legal entities are under ownership by the whole people, then the share equity belongs to the state. The shares are to be regarded as shares for state assets. If the legal entity is not under ownership of the whole people, then the share equity belongs to the collective; the shares are to be regarded as shares for collective assets. It must be said that only the shareholders can limit the circulation of legal entity shares. In accordance with the principle of the separation of ownership and operating rights, enterprise legal entities may use shareholder assets for investment of a productive nature. There is no difference between the circulation of their equity rights and the circulation of individual shares. The circulation of public shares is expressed in assets operating companies independently engaging in trading activity in accordance with the owners desires and within the limits of authority granted to it. When public shares enter circulation, they are the same as ordinary shares; they do not bear the labels public and private.

## **5. Views on Several Other Problems Pertaining to the Stock Market**

### **(1) The Problem of Stock Market Speculation**

Investment in shares carries risks, and speculation is a companion to investment. Like the commodity economy, speculation is neutral; it can play a negative role in upsetting the stock market and distorting market information, or it can have a positive effect in making the market prosper. In the development of the stock market, speculation is unavoidable. However, it is also necessary to channel speculation properly in order to prevent excessive speculation from damaging the market. For example, we must try to avoid a situation in which a small number of people monopolize or control the stock market, and we must prevent sudden gyrations in the market resulting from a small number of people jacking up market prices. This is also a fundamental guarantee in supporting the rights and interests of investors.

### **(2) On the Problem of Premium Price Share Issues**

Premium price share issues are shares issued at more than their face value. Shenzhen's experience shows that premium price issues can play a role both in balancing supply and demand and curbing speculation. Premium price issues can yield premium price revenues or impressive profits for business enterprises. According to regular practice, income from premium price shares belongs to the shareholders as a whole. In China, where state-owned assets predominate, the issuance of premium price shares helps increase the value of state-owned assets. In his sense, we can permit the existence of a certain amount of premium price share issues as market and supply and demand permits. Whether shares are issued at face value or at a premium price depends on the enterprise's anticipated earnings and the supply and demand for the shares. Issuance of premium price shares increases the investors' risks, and it also increases the

enterprise's difficulties in selling its shares. Therefore, the premium pricing of shares high or low is determined by the enterprises' market policy. However, during the early stage of stock market development in China, the issuance of premium price shares must be better regulated and controlled macroeconomically. Enterprises should not be allowed to sell shares at a premium price willy-nilly.

### (3) The Correlation Between the Stock Market and Inflation

Stocks are a form of negotiable security for which currency inflation can reduce actual returns. Since currency stability is the main environmental factor controlling the securities market, when an inflationary environment exists, the longer one holds shares, the lower the actual return, the greater the loss of returns, and the higher the opportunity costs. Furthermore, the currency nightmares that currency inflation spawns make people cautious in their selection of financial commodities such as stocks, and this is bound to impede development of the stock market. For this reason, to promote healthy development of the stock market, government must pursue macroeconomic policies to counter currency inflation to create a fairly relaxed environment for operation of the stock market. Another aspect of this problem is that with the existence of a stock market, the central bank can restrain the outbreak of currency inflation by conducting open market trading.

### Benefits, Threats of Savings to Economic Growth

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pp 54-58

[Article by Cheng Manjiang (4453 3355 3068), Economic Research Institute, Chinese Academy of Social Sciences: "A Positive Study of Private Citizen Savings in China"]

[Text] One of the most remarkable and profound changes in the country's economic life since reform has been the dramatic increase in private citizens' savings. Economic development itself has long since gone beyond the traditional view of savings as a "tiger caged in a basket" that is likely to break out at any moment. This necessitates a profound analysis of the inherent connection between savings and consumption, income and investment in economic theory to establish a benign cycle mechanism between savings and investment.

### I. Path of Change in Private Citizens' Savings in China in Recent Years

1. Mode of private savings in China. In macroeconomics, savings (S) are an independent integral part of GNP:  $GNP = C + S + T$  (C stands for consumption and T stands for government expenditures). Here S means the total of private citizens' savings and business enterprise savings, but it does not include public savings or government savings. Later on we shall see that in China's

economy, private savings account for a very large part of S. However, theoretically speaking, private savings stem from economizing on consumption in the national economy; thus, in a real sense, savings are conceptually opposite consumption. This article will mostly study the private savings issue.

Savings constitute a flow in terms of national income. However, in the operation of the real economy, savings always exist in a certain monetary form; therefore, at any time, savings are always a concrete amount in being. In China today, for example, the main forms of private savings may be divided as follows: saving accounts and debentures (including treasury bonds, all kinds of government bonds, and a small number of business enterprise shares). Since the monetarization of China's economy is in an initial stage, saving accounts make up an overwhelming majority of private savings, debentures accounting for only an extremely small percentage of private savings. As of 1991, the total amount of individually subscribed treasury bonds nationwide was 68.4 billion yuan, and individually subscribed national construction bonds, key construction bonds, and bank financial bonds totaled 29.2 billion yuan for a grand total of 97.6 billion yuan. Meanwhile, in that same year savings in saving accounts exceeded 800 billion yuan. In addition, private citizens held approximately 200 billion yuan in cash. (Footnote: It should be explained here that China's commodity economy is not developed, so a very substantial portion of cash on hand is actually a part of private savings. Since this is a fairly complex problem, we will not go into it deeply here.) This characteristic of private savings distribution in China permits us to understand to a very great degree the status of private savings by watching changes in private citizen saving accounts. Naturally, this point itself also shows that the mechanism for translating savings into investment is not well developed in China.

2. Scale of private savings in China. The scale of private savings in China has increased sharply during the past 12 years of reform. Between 1979 and 1990, the annual rate of increase was approximately 34 percent. Except for 1982 and 1988, the annual amount of increase was fairly even, generally at between 32 and 42 percent. In 1991, private citizens' saving accounts broke the 800 billion yuan mark, 1000 times the 1952 amount and between six and seven times the 1984 amount. During this period, the rate of increase in private citizens' saving accounts was about 20 percentage points higher than the GNP growth rate, and about 30 percentage points higher than the annual all personnel labor productivity rate. In 1990, per capita GNP was 1,262 yuan, and saving accounts contained 615.24 yuan per capita. In 1991, citizens' saving accounts accounted for more than 70 percent of all bank credit. All this shows the crucial importance of citizens' saving accounts in the operation of the national economy.

3. Private savings spread. Pertinent data reveal that 80 percent of the money in saving accounts nationwide in 1991 came from the high income 20 percent of the

population. Results of our study differ from this conclusion. Table 1 provides results of a random sampling that shows that 58.83 percent of the people having saving accounts came from 79.2 percent of the total number of households surveyed, meaning that approximately 40 percent of private savings came from the approximately 20 percent of high income households. A further look shows that 66.28 percent of private savings came from 69.23 percent of the medium income households having an income of between 3,000 and 6,500 yuan. I feel that

these results pretty well approximate the actual situation in China, namely that the high income stratum holds a very large percentage of private savings. This is similar to the situation in other countries. At the same time, however, middle income households (including medium to low, medium, and medium to high ones) are also an important source of private savings in China. Actually, it is the fairly high propensity to save of the tremendous numbers of people having medium size incomes that is one of the main reasons for the rapid growth of savings in China in recent years.

**Table 1. Saving Accounts Spread by Income Level in 1990**

Annual Income Level	2000	2000-2500	2500-3000	3000-3500	3500-4000	4000-4500	4500-5000	5000-5500	5500-6000
Per Capita Savings (yuan)	64.39	94.45	134.21	156.66	177.12	189.89	214.35	255.68	263.05
Percent of Total Population	3.43	4.11	7.30	10.36	12.66	12.68	11.80	9.75	7.11
Total Savings for That Level	545.52	1183.98	3184.13	5355.89	7511.84	8053.43	8700.90	8849.72	6676.92

Source of Data: Extrapolation from *China Statistical Yearbook* (1991)

**Table 1 (continued) Savings Account Spread by Income Level in 1990**

Annual Income Level (yuan)	6000-6500	6500-7000	7000-7500	7500-8000	8000-8500	8500-9000	9000-9500	9500-10,000	More than 10,000
Per Capita Savings (yuan)	308.91	385.95	363.47	410.94	452.02	477.16	522.04	468.52	721.55
Percent of Total Population	4.87	3.80	2.83	2.00	1.77	1.16	0.91	0.69	2.76
Total Savings for That Level (yuan)	5656.51	5602.45	4063.05	3213.55	2197.00	2319.19	1933.48	1409.50	8643.02

## II. Movement of Income, Consumption and Savings

The rise in income is the most important readily observable factor in explaining the dramatic increase in savings in recent years. What we must look into is the macro-economic pattern of correlation between income and savings. Since the average propensity to consume (APC) plus the average propensity to save (APS) equals 1, and the marginal propensity to consume (MPC) plus the marginal propensity to save (MPS) equals 1, income and consumption and income and savings are two aspects of the same issue; thus, they cannot be readily separated completely.

1. Income level determines savings level. In an absolute sense and looked at overall, a fairly high income level is bound to produce a correspondingly fairly high savings

level. Our concern about this conclusion is whether a division between consumption and savings is valid in studying families having different income levels at different times. Tables 2 and 3 divide different income levels and different consumption levels according to different standards. Table 3 correctly verifies the point that as income rises, APS also becomes higher. In Table 4 [sic presumably Table 3 is meant], although no complete pattern of change in APS is evident, the general tendency still exists, i.e., APC tends to decline and APS tends to rise as income rises. Jumps among them may have to be explained through factors other than income.

Clearly, the fairly high propensity to save during fairly high income at different periods is in keeping with the private savings behavior demonstrated in China.

**Table 2. Breakdown of APS and MPS by Income Level (1990)**

Breakdown by Group	Per Capita Income (yuan)	Per Capita Expenditures (yuan)	APC	MPC	APS	MPS
Needy Households	782.93	724.80	0.926		0.074	0
Lowest Income Households	859.92	782.28	0.91	0.747	0.09	0.253

Table 2. Breakdown of APS and MPS by Income Level (1990) (Continued)

Breakdown by Group	Per Capita Income (yuan)	Per Capita Expenditures (yuan)	APC	MPC	APS	MPS
Low Income Households	1077.12	960.72	0.892	0.822	0.108	0.1 78
Medium to Low Income Households	1266.60	1097.76	0.867	0.723	0.133	0. 277
Medium Income Households	1489.08	1275.12	0.857	0.797	0.144	0. 213
Medium to High Income Households	1756.56	1456.68	0.83	0.679	0.17	0.32 1
High Income Households	2071.92	1685.28	0.813	0.725	0.187	0. 275
Highest Income Households	2675.64	2039.76	0.762	0.587	0.238	0.413
Total Average	1522.79	1278.89	0.84		0.16	

Source of Data: Extrapolation from *China Statistical Yearbook*

Table 3. City and Town Residents APS and MPS Broken Down by Income Group (1990)

Income Group	Per Capita Income (yuan)	Per Capita Outlays (yuan)	APC	MPC	APS	MPS
2000 yuan and below	777.23	712.84	0.917	0.712	0.083	0.298
2000-2500	881.68	787.23	0.893	0.625	0.107	0.375
2500-3000	987.69	853.48	0.864	0.846	0.136	0.154
3000-3500	1133.21	976.55	0.862	0.84	0.138	0.16
3500-4000	1261.32	1084.20	0.86	0.906	0.14	0.094
4000-4500	1397.14	1207.25	0.864	0.807	0.136	0.192
4500-5000	1524.17	1309.82	0.86	0.573	0.14	0.426
5000-5500	1621.06	1365.38	0.842	0.947	0.157	0.053
5500-6000	1760.32	1497.27	0.851	0.129	0.149	0.871
6000-6500	1812.99	1504.08				
6500-7000	1921.26	1530.31	0.83	0.288	0.17	0.712
7000-7500	1978.69	1615.22	0.816	1.391	0.184	-0.391
7500-8000	2140.67	1729.73	0.808	0.707	0.191	0.293
8000-8500	2127.52	1675.50	0.788	4.124	0.212	
8500-9000	2247.44	1770.28	0.788	0.79	0.212	0.21
9000-9500	2511.52	1989.48	0.792	0.83	0.208	0.17
9500-10000	2386.89	1918.37	0.804	0.571	0.196	0.429
More than 10,000	3201.00	2479.45	0.775	0.69	0.225	0.31

Source of Data: Extrapolation from *China Statistical Yearbook*

2. Relation among the three over a long period of time. Yet another matter about which we are interested is how the percentage relationship between S and C changes as income levels steadily rise. Lack of statistical data prevented receipt of details for the 40 year period 1952-1991. However, data that we do have show substantial changes in income. (Footnote: Space limitations prevent publication of the figures and tables in the original document—editor.) This includes a more than six fold

increase over 1957 and 1964 in city and town residents' earnings in 1990, a three fold rise over 1981, and a more than twofold rise over 1987. Peasant income in 1990 was 4.7 times the 1978 figure, and 2.8 times the 1981 figure. Despite such large changes in income, APS remained relatively stable. Except for 1964, 1981, and 1988, APC remained at between 0.84 and 0.899 for all other years, and between 0.87 and 0.88 for most years. The situation during the three years that were the exception was as

follows: The country was just coming out of the three years of hardship in 1964. During this period almost everybody inclined toward getting enough to fill their bellies. In 1981, the first comprehensive price readjustments occurred; the fairly high price levels brought on a certain amount of panic buying; and 1988 was, as everyone knows, a panic buying year. It is not strange at all that the fairly high APC of these two years caused a decline in APS. In the case of the peasants, the stability of APS seemed stronger. Our data show an APC of between 0.771 and 0.89, only 1984 being 0.771. In 1985, it was 0.798. This was certainly related to the rise in peasant income resulting from the tremendous upward readjustment of agricultural byproducts prices during 1984. During the other years, APC was substantially between 0.84 and 0.86. From a comparison of the peasants' situation with that of city and urban residents, we discovered that although the income level of city and town residents was double or more than double that of the peasants every day, peasant and city and town resident APC and APS values were substantially the same. However, overall, the APS of the generally higher income city and town residents was still lower than that of the lower income peasants. Naturally, this requires an explanation from factors other than income.

To summarize the foregoing, existing data do not show a trend toward steady rise in APS as income rises. On the contrary, as the income level steadily rises, APC and APS exhibit relatively high stability. On this basis we can assert about China that when per capita GNP is within a certain area, APC and APS are relatively stable. Since the difference in per capita income in China is steadily widening, this conclusion may not apply within a certain income level; however, overall, this relative stability of APS seems unlikely to change during the next several years.

### III. Several Conclusions About Income, Consumption, and Savings in China

1. The average propensity to save is fairly high in China. This relatively high propensity is in contrast to other countries, particularly in terms of the propensity to save among people having a similar income level in developed countries. This phenomenon not only includes the behavior that consumers in China exhibit about consumption, but is also closely related to China's prevailing distribution system. We can capsule these factors in the following ways:

(1) Relatively equal income. Generally speaking, family consumption is regulated to a very great degree by the desire to keep up with the Joneses. However, the relatively equal distribution of income reduces the stimulus to consumption that keeping up with the Joneses entails. Therefore, the income of most families is fairly close to the income of the families with which they want to compete and imitate. Thus the smaller the amount of money they have to imitate consumption, the more family APC declines for a corresponding rise in APS. Average annual income for China's medium to low

income households, medium income households, and medium to high income households is 1266.60, 1489.08, and 1756.56 yuan respectively. Their propensity to save is 0.133, 0.143, and 0.17 respectively. These three groups account for more than 60 percent of the total city and town residents in the country. Their level of consumption is higher than that of the more than 20 percent of the population at a low income level, and overall it scarcely rivals that of the less than 20 percent of the population at a high income level. This determines the relatively high average propensity to save of the overwhelming majority of the population.

(2) Mode of special consumption behavior. Pertinent data show that some of the consumption of city and town residents in China today is far higher than that of people at the same per capita GNP level in other countries, and that simultaneously the APS level of China's city and town residents is higher than that of people at the same GNP level in other countries. Why is this so? Actually, this stems directly from the special mode of consumption in China. Since reform and opening to the outside world, the consumption of China's city and town residents has been driven constantly by one consumption hot spot after another. Limited by their current level of income, when people spent freely on some consumption hot spot, they had to cut back in other ways, such as on food and clothing, supposing that they would be able to save sufficient money before the next consumption hot spot arrived. However, once the consumption hot spot passed, most people reverted to their original mode of consumption, and they also became accustomed to being thrifty. In addition, for other reasons, including the system, consumption expenditures of China's city and town residents on things such as medical treatment, insurance, housing, transportation, entertainment, and sports is far less both relatively and absolutely. All these factors result in a substantial portion of the savings of China's city and town residents coming about through the sacrifice of current consumption, or by distorting the makeup of family consumption. In value judgment terms, this situation has its good and bad side, but that it serves to increase APS is certain.

(3) Lack of a developed commodity economy is the main reason for the fairly high peasant propensity to save. The undeveloped commodity economy keeps the level of rural consumption relatively low, and even at this relatively low level, a very large portion of consumption is self-provided. This makes it possible for peasants' APS to be relatively high even though their income is relatively low. At the same time, most peasants are under a great deal of pressure and are very greatly motivated to build houses. The desire of China's peasants to build houses seems limitless. As their wealth increases, this desire to build becomes greater, and they want to build bigger houses. To a very large extent, the desire to build houses is the main motivation for peasant savings. In addition, peasant desire to expand reproduction is also a very conspicuous motivation for saving. Both these points may explain why peasant APS is fairly high despite their relatively low income level.



2. Clues to the cyclical nature that private savings exhibit in China. In countries having a market economy, savings also fluctuate with the economic cycle. Generally speaking, just before a recession, even though people's incomes tend to decline, they frequently tend to increase their APC and correspondingly decrease their savings in order to maintain the existing level of consumption. However, when their income declines to a certain level, people give up their former consumption habits; thus APS stays at a certain level. When recovery begins, although people's incomes tend to increase, they usually do not increase consumption greatly all of a sudden. Instead they like to increase their savings first to remedy the shortfall during the recession period. However, once income increases to a certain degree, they begin to expand consumption. As a result, APS halts at a new fairly high level. This cyclical movement is also one of the reasons why income and savings remain at a certain ratio over a long period of time.

Of course, under the traditional system, no cyclical character of savings was possible in China. A review of the 40 years that have passed since founding of the People's Republic shows a year-end decline in savings over the previous year as having occurred in the four years 1960, 1961, 1962, and 1969, when they declined by 3, 16.5, 25.8, and 3.1 percent respectively. Fluctuations in savings accounts occurred in 1958, the first five years of the Great Cultural Revolution, and in 1988. This shows the main reason for fluctuations in savings prior to reform as the effect of the economic and political situations.

During the 12 years of reform, no cyclical movement in private savings occurred overall; however, the correlation between fluctuations in savings and people's economic expectations have been extremely marked. Despite the straight line rise in the total amount of city and town residents' savings during these 12 years, the marginal propensity to save has not been completely the same. In 1985 and 1988, MPS was a negative. This was definitely related to the income expectations of people during those years. In 1985, total wages increased 22 percent over the previous year, and the overall price index for the year was 11.9 percent. In 1988, total wages increased 23.1 percent over the previous year, and the overall price index for the year was 16.3 percent. During those years, people could not be sure that their increase in income would continue yet they felt pressure from a high rate of inflation and the panic buying increase. They universally anticipated that prices would continue to rise. Controlled by these expectations, most city and town residents began to expand consumption sharply. This resulted not only in a negative value for MPS for the year, but an APS that was markedly lower than in previous years. At the same time, total savings increased 33 percent in 1985, and 23 percent in 1988. Both were years of relatively low increase. The marked influence of economic expectations on savings foreshadowed cyclical fluctuations in savings.

After the market slump of 1989, clues to cyclical fluctuations in savings became more evident. In every month after February 1989, steady increase in savings occurred; however, currency issuance for the year revealed a net removal of money from circulation and a decrease in the amount of cash on hand during the first half of the year, and a net increase in currency issuance and an increase in the amount of cash on hand during the second half of the year. This meant a real decline during the first half of the year and an increase during the second half of the year in individual savings. Related to the income situation for that year was a 12 percent increase in city and town per capita income used specifically for living expenses, and a 10 percent net increase in peasant income for the same purpose. During the same period, the retail price index rose to 17.8 percent occasioning an actual decline in the income level of city and town residents. It was during this period that the cyclical fluctuations in city and town residents' savings became readily apparent. When real income began to decline, the increase in individual savings also declined. This was the situation during the first half of 1989. During the second half of the year, the wage growth rate continued to decline reaching the lowest point in October when it increased only 3.7 percent over the same period in the previous year. Despite a fourth quarter decline to below 10 percent in the rate of price rises, real income showed negative growth. The steady decline in income made people strive to curb consumption once again; thus, the savings level began an upturn with the result that during the second half of year the growth in savings began to be greater than during the first half of the year. In 1990, the growth of individual real income quickened further, per capita income to meet living expenses increasing 10 percent, or 8.6 percent after deducting for price rises. Consequently, the savings level rose rapidly (naturally, the high speed increase in savings of 1990 was very much related to the actual interest rate).

In short, in addition to their relationship to the economic cycle itself, cyclical fluctuations in savings also depend on people's economic and financial expectations, which further complicates the issue. Nevertheless, the theory of cyclical fluctuations and its validation at least provides us with another avenue of thought for analyzing the savings question.

3. Whether private savings have grown abnormally. The answer to this question depends, first of all, on the frame of reference. If compared with the situation before reform, the speed of increase in savings has truly been "abnormal." If judged in terms of indices such as "total sales of social commodities," this "surplus purchasing power" really gives people the feeling of a "tiger in a rattan basket" that is just waiting to spring forth. During the 1990 business year, the total value of goods in inventory was only 408.76 billion yuan, and city and town resident's saving accounts for that same year contained 703.42 billion yuan. However, as this article demonstrates, not only is there an inherent relationship of savings to income and consumption, but savings also

move in an orbit of their own. During the 12 years of reform, the development of private savings in China have not violated these laws; therefore, I believed that savings are basically normal. However, we are concerned with a different problem, namely the too vigorous increase in "household savings." Private savings in this form alone really do pose serious problems for our economic life. The greatest problem is that the fairly high savings rate not only cannot become a fulcrum for high economic growth, but rather becomes a crucial link in low economic growth.

## INDUSTRY

### Light Industry Maintains Steady Development

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[Text] Beijing, November 27 (XINHUA)—China's light industry is predicted to have an output value of 385.5 billion yuan (about 67.6 billion U.S. dollars) this year—a 15 percent increase on last year.

Yu Zhen, deputy minister of light industry, said at a press conference today that from January to September the sales income of light industry enterprises was 201 billion yuan, up 17.6 percent over the same period of last year. During the same period the export income amounted to 17.9 billion U.S. dollars, up 33.8 percent.

Since the commencement of reform some 14 years ago, China's light industry system had achieved 5,835 scientific and technological developments, gaining economic returns of 26 billion yuan and an export income of some two billion U.S. dollars. These results involved farm plastics, technological remolding of the leather industry, adoption of biological technologies in food production, the extensive application of micro-electronic technology and new energy-saving technology in practical production.

Yu said that to upgrade light industry products in quality, variety, economic efficiency and other aspects, the ministry is designing and issuing directions for technological re-modeling and investment in light industry enterprises. So far 12 technological transformation projects have been carried out in the industries of ceramics, cycle making, electrical equipment, beverage and refrigeration compressors.

### Proposals To Upgrade Steel Industry

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[Article by Dong Yizheng (5516 6318 2973): "On Upgrading the Iron and Steel Industry"]

[Text] When Comrade Deng Xiaoping inspected the south, he said in an important speech that developing the

economy holds the key to grasping the favorable opportunity and developing China. "Strive to upgrade the iron and steel industry once every few years." His speech has pointed up a direction for China's iron and steel industry as well.

### The Need for Iron and Steel Industry To Be Upgraded

First, upgrading the iron and steel industry is an objective requirement of China's developing economy. Upgrading the national economy means more than increasing the GNP. It also means something more specific, such as adjusting the industrial structure, improving product quality, raising the standard of imported technology, increasing the percentage of Chinese-made contents in products, and lowering the consumption of all raw materials and energy. All this requires the iron and steel industry as a basic industry to upgrade itself concomitantly so that it can meet the needs of the development of all sectors of the national economy in both quality and quantity. If we hope to achieve a reasonable increase in output even as we reduce material consumption, we must adjust the internal structure of the industry as appropriate. We can therefore see that should the iron and steel industry fail to upgrade itself once every few years, it would be exceedingly hard for the national economy to do likewise.

Second, reform and the open policy also require the iron and steel industry to upgrade itself. With China accelerating the pace of reform and openness in the 1990's, the iron and steel industry will be presented with both new challenges and new opportunities. In the future the industry must orient itself to the market and iron and steel products must come under more market scrutiny and be tested by ferocious market competition. This makes it imperative that iron and steel enterprises turn out competitive, high-quality, and low-priced products that meet market needs, upgrade themselves by improving internal management, rely on technical progress, and vastly improve product quality and lower costs. China is in the process of applying to have its membership in the General Agreement on Tariffs and Trade [GATT] restored. Once it rejoins GATT, it will find itself in the midst of keen competition in the global iron and steel industry. Faced with strong competition, China's iron and steel industry may end up in dire straits again if it fails to upgrade itself.

Third, upgrading is essential to the industry's own survival and development. Since reform and the open policy were under way, the iron and steel industry has made considerable progress, but there is still room for improvement in product mix, technology, and equipment. Faced with the surging global high-tech revolution and accelerated developments in all trades and industries at home, the iron and steel industry must scale new heights in technological revolution, a task of rising urgency. Moreover, with the price system slated for further rationalization, there will be more reason to raise the prices of upstream products than to adjust those of

iron and steel products. Accordingly, the iron and steel industry must work hard to improve itself internally and do its best to absorb external price increases so as to make the industry increasingly profitable. This requires the industry to upgrade its economic performance.

#### **In What Areas Should the Industry Upgrade Itself?**

Upgrading the iron and steel industry essentially means raising the level of modernization, as reflected mainly in the following ways:

One, it means better varieties and quality. In recent years the Ministry of Metallurgical Industry has consistently emphasized that the industry must concentrate on variety and quality in its development strategy. This emphasis both is inherent in the present state of the development of China's economy and embodies what we have learned from the history of iron and steel industries around the world. In the past, the steel output of all Western advanced nations, including the United States, was much lower than that of the former Soviet Union, yet its effective value was higher. The reason is that the West put more stress on variety and quality whereas many iron and steel enterprises in the former Soviet Union pursued an extensive mode of operations, long on quantity but short on quality. Consequently, resources and manpower were wasted while profits remained low. We must take the Soviet experience as an object lesson and follow the road of good variety and good quality. The iron and steel industry must make it its objective to satisfy market demand and upgrade the variety and quality of its products at all times. The plan of the Ministry of Metallurgical Industry calls for the industry to satisfy the needs, both qualitative and quantitative, of all sectors of the national economy, including agriculture, energy, transportation, raw materials, and machinery, in 69 categories of key steel products out of a total of 100 by 1995, up from the current 42, and 80 categories by the year 2000. Furthermore, the industry must increase the percentage of plate steel and steel pipes as appropriate in light of national conditions, from 36.96 percent in 1990 to 40 percent in 1995 and 45 percent in 2000. The proportion of steel products manufactured in accordance with international standards must be increased substantially. By 1995, 8 million to 10 million tons of rolled steel must approximate or equal the quality of their advanced international counterparts. By 2000, the number should reach 20 million tons.

Two, technology and equipment must be upgraded. After the technological transformation of the Sixth and Seventh Five-Year Plans, the iron and steel industry has improved its technology and upgraded its equipment to various extents. Now that first and second phases of the Baoshan Iron and Steel Complex have been completed and gone into production, in particular, they have been highly instrumental in raising the level of technology and equipment in China's steel industry. In addition, the technology of continuous casting which has greatly helped energy conservation and contributed immensely to improving the quality of billets has made rapid

progress. In 1980, the country produced only 2.3 million tons of continuous-casting billets, or 6.2 percent of the total. By 1991, the numbers had risen to 18.83 million tons and 26.5 percent, respectively. Compared to iron and steel industries around the world, however, continuous casting remains an insignificant part of China's steel industry. Moreover, while converter refining has been widely adopted in other industrially developed countries, it is used in only a handful of enterprises in China. In 1991, converter refining was used in only 2.8 percent of the operations, compared to over 70 percent in Japan. China's iron and steel industry, it may be said, has few truly modern and competitive production lines. Backward technology and equipment means that energy and resources are being wasted. It also means low-quality products and poor economic results. As we enter the 21st century, this state of affairs must be changed. In particular, we must master the technology of steel smelting. Take converting, for instance. There should be one continuous production line starting with the pretreatment of molten iron through compound top-blowing to converter refining and continuous casting. Also master the intermediate technology between steel rolling and continuous casting. As far as steel rolling is concerned, properly adjust the mix of rolling mills, primarily to raise the proportion of output of the seven major rolling mills, the better to improve the mix of products and upgrade product quality.

Three, increase the quantity of output. While we must tackle variety and quality as the strategic focal point, we also must pursue quantitative expansion as appropriate. A few years ago China's steel output grew 3 to 4 million tons a year, sometimes even more. Looking back now, we can see that did more good than harm. First, domestic output has substituted for imports. In 1985, for instance, China imported 19.63 million tons of steel products, including 3.73 million tons of wire rod and 4.84 million tons of section steel. The country was capable of producing both types of steel but just could not turn out enough. In the last couple of years, we imported much less of these two types of steel products as a result of rising domestic output. Last year we imported only a total of 180 million tons of small-section steel and wire rod. Quantitative increase, therefore, is not something to be avoided. Instead we must analyze it honestly. We must realize that as technology is mastered and technological transformation deepens, output will necessarily increase. As management is tightened and the quality of the personnel is improved, we also will be able to tap new potential. Provided the increase in quantity is supported by the necessary external conditions and meets market demand and will not contribute to the overstocking problem, we have no reason to oppose it. After all, China is a huge country with a population of 1.1 billion. An annual output of 70 million tons of steel is not excessive. Judging from the present situation, we are totally capable of over-fulfilling the target this year by a wide margin under the Eighth Five-Year Plan. Provided the coal, electricity, and transportation sectors manage to keep up, we will be fully capable of achieving the target of the

Ninth Five-Year Plan for steel output ahead of time during the Eighth Five-Year Plan: 80 million tons. This will lay a solid foundation for our drive to reach our target by the year 2000.

Four, enhance industry profitability. The profitability of the steel industry declined two years ago, with the slip in return on funds rate particularly striking, dropping from 10.65 percent in 1988 to 4.36 percent in 1991. There are both external and internal explanations for it. The iron and steel industry must rely more on its own effort to improve its margin of profit. On the one hand, it must work mightily hard to lower all sorts of consumption and cut costs, forming a real cost-reduction mechanism. On the other hand, it must adjust the organizational structure of enterprises in a way that would take advantage of the economies of scale. In 1988, local iron and steel works produced a total of 13.52 million tons of steel and realized 2,724,000,000 yuan in profits, or 201.5 yuan per ton. In 1991, local iron and steel works had a total output of 19.10 million tons but realized only 470 million yuan in profits, or 24.6 yuan per ton. During the same period, the losses of local unprofitable iron and steel works rose from 50 million yuan to 780 million yuan. By both counts—the rate at which profits dropped and that at which losses soared—local iron and steel works greatly outpaced key iron and steel enterprises. This shows that the former were able to make a profit in the past primarily because of the price differences under the dual price system. Now that price differences have been narrowed, a host of small local plants found it hard to turn in a profit. Iron and steel enterprises, therefore, must work hard to optimize the mix of enterprises, depending on the technological processes to become more profitable. Another important aspect of enhancing profits is raising investment returns. During the Seventh Five-Year Plan, the ratio between investment in fixed assets and new profits at the Shoudu Iron and Steel Complex was 1:1.98, yet the average for the eight major steel plants was only 1:0.99. So there is a great deal of potential here too.

#### **Rely on Reform and Open Policy To Upgrade the Industry**

While there are conditions that favor the upgrading of the iron and steel industry, difficulties also abound, some related to the internal operations of the enterprises, some related to government behavior, and some to the in-depth reform of all sorts of institutions and mechanisms.

##### **1) Deepen reform as a means of revitalizing enterprises.**

The most important thing right now is to continue reform by implementing the policy measures that have already been announced. To begin with, separate enterprise management from government administration. Give to enterprises the decision-making authority that is due them. Further reduce the scope of command planning. At present command planning still covers over half of the operations of key iron and steel enterprises; it

must be made smaller still. Reform planning itself to bring the producer and user closer together. Second, reduce the tax burden on iron and steel enterprises. Like township enterprises and enterprises that are either wholly or partially foreign-owned, state iron and steel enterprises these days have to meet production and business targets, making sure that their short-term profits increase while maintaining a developmental momentum. Unlike those enterprises, however, they are also required to achieve social objectives. The bigger the enterprise, the more extensive its social commitments and the heavier its burden. The deployment of economic tools will not give state enterprises bearing an extra burden the necessary support. The tax burden on large and mid-sized state enterprises is much heavier than that of township enterprises and foreign-funded enterprises, so much so that the profits to taxes ratio of state iron and steel state enterprises above the county level dropped from 1.56:1 in 1985 to 1:1.88 in 1991. In our opinion, the tax burden should be eased and state enterprises should seek fairness in taxation to pave the way for improving their operating mechanism. Third, continue with price reform and sort out the prices of iron and steel products over time by combining the two sets of prices under the dual price system, changing category, and regulating prices. Fourth, implement in earnest policies designed to accelerate basic depreciation and reassess the value of fixed assets so that the enterprises will be better able to rely upon their own resources to carry out technological transformation. Accelerated depreciation will inevitably affect workers' incomes. Accordingly, we propose that accelerated depreciation be treated in part in the same way as realized profits. Fifth, select a small number of qualified enterprises to broaden fund-raising channels. At the same time, help enterprises set up a loan repayment mechanism. Currently iron and steel enterprises rely mainly on loans to finance their projects, yet they have a limited ability to pay off debt. It is proposed that the state apply a preferential policy to some key iron and steel enterprises with extensive technological transformation responsibilities. For instance, the state may allow them to use their new profits to pay off their debts first or to do so within a specified number of years before paying taxes to the government and retain a fixed percentage of the profits in accordance with regulations.

Within an enterprise, reform must be continued and operating mechanisms overhauled. Right now a top priority is to build an incentive mechanism by reforming the personnel, labor, and wage systems. Another priority is to put together a scientific and democratic decision-making mechanism. The product mix, in particular, must be adjusted in a way that would meet market demand and make the enterprise competitive. When it comes to choosing technology and equipment, we must consider both their progressive nature and economic rationale. An enterprise must reconcile short-term profits with long-term interests properly. When it overlooks short-term interests, an enterprise would find it hard to accumulate the necessary funds for sustained development. But the short-term profits must not be

acquired at the expense of long-term interests in the future. The third priority is to establish a self-discipline mechanism, taking special care to handle the relations between the part and the whole. If what seems feasible from the partial point of view is not so from the overall point of view, the latter must be allowed to prevail to avoid wasting funds.

2) Deepen reform as a means of changing government functions.

Changing government functions does not mean weakening the role of government departments. Rather, it means liberating them from the traditional mode of economic management typical of the old product economy and shifting their focus to "planning, coordination, supervision, and service," to "nurturing, guiding, and coordinating the market."

The key to strengthening macroeconomic regulation and control and managing an industry or industries is planning. Besides working out a plan for the entire industry and development plans for key enterprises, the Ministry of Metallurgical Industry is also responsible for drawing up a development plan for each of about 50 mainstay local enterprises in conjunction with local governments.

Even as the ministry coordinates the activities of the various localities and enterprises, it must take pains to do a good job in structural adjustment. Even as it supports and nurtures the development of some enterprises with its economic policy, it must curb or terminate, in accordance with the national industrial policy, those enterprises or products that are unprofitable and wasteful in resources, do not move on the market, or constitute surplus productive capacity. Support promising enterprises in taking over backward enterprises to give the latter a new lease on life. Break with the "large and comprehensive, small and comprehensive" development formula in accordance with the industrial policy. Expand lateral cooperation in all forms and shapes. Practice specialization as necessary. Work hard to explore new approaches toward the "three breakthroughs," taking into consideration the interests of all parties. The transformation of some rolling mills that are unprofitable and lack raw materials must be tackled in conjunction with enterprise reorganization and the adjustment of the mix of enterprises. To avoid expanding the supply-demand gap of semifinished materials, reorganize first, then transform.

Service should be multi-faceted. What needs to be emphasized at present is that a department in charge must pay attention to information services, an important means of guiding enterprise development on the macroeconomic level. As enterprises become increasingly important decision-makers in the future, the quality of the information services of an industrial department and the accuracy and reliability of the information provided all will have a direct impact on how well the enterprises are managed and the quality of their decision-making. Currently information service is a very weak link. While

enterprises themselves certainly need to do more here, the departments in charge have an inescapable duty.

3) Continue reform as a means of expediting scientific and technological progress.

It will take some time and considerable investment to translate S&T into real productive forces. Foreign experience shows that an appropriate ratio among fund inputs in the three stages—scientific research, the conversion of S&T achievements, and production—is 1:10:100. At the moment China spends little funds on R&D and proportionally even less on the intermediate stages. As a result, not a few S&T achievements have been shelved and forgotten and S&T is not put to effective use. The State Council has decided to allow enterprises to set aside 1 percent of their sales earnings to be put into a product development fund. The main thing is to put this money to good use. Enterprises with the necessary wherewithal may set aside even more. Establish an operating mechanism and a set of evaluation standards to promote S&T progress with a view toward making S&T progress an increasingly important factor in generating new profits. The state too must increase investment in S&T to support the conversion of S&T achievements into productive forces. Continue to encourage scientific research institutions to deploy their principal forces on the main battlefield of economic construction. Through reform, the Metallurgical Automation Institute has found a new approach that combines science, industry, and trade, the better to translate S&T into productive forces. It has made contributions to technological transformation and other projects at Anshan, Zhongshan, Tangshan, and Baoshan iron and steel complexes, itself profiting handsomely from the process as well.

Make the absorption and assimilation of foreign technology a priority. Since it is the importing unit that profits from the import of a piece of technology and because absorption and assimilation require additional investment and the benefits do not accrue to the importing enterprise, investment funds in this area must be raised at all levels, state, industry, and enterprise. End import duplication firmly and reverse our longstanding failure to increase the domestic contents of our products.

Also critical to S&T progress is mobilizing the enthusiasm of S&T personnel and the rank-and-file workers. Translate the principle of "respecting knowledge and honoring qualified personnel" into concrete actions in society, enterprises, and scientific research institutions.

4) Further open up to the outside world.

First, continue to use the two kinds of resources and the two kinds of funds, domestic and foreign. In view of China's current mining resources, we need to increase our iron ore imports as appropriate as our steel output rises in the future. When steel output reaches 80 million tons, iron ore imports are expected to exceed 30 million tons. Accordingly we must vigorously open up and diversify our iron ore supply channels and build iron ore,

manganese ore, chromium ore, and other resource bases in the appropriate countries. At home too we should build harbors and create a fleet of large-tonnage ocean-going cargo ships to lower the costs of ores. Continue to encourage the development in the iron and steel industry of enterprises that are wholly or partially foreign owned. Integrate the utilization of foreign capital with the technological transformation of old enterprises, the adjustment of the product mix, and the drive to export to earn foreign exchange.

Second, further take advantage of the two markets and open up the international market. Judging from the reality in China, the iron and steel industry may not become an export-oriented industry. Still, we should maintain steel exports at a certain level and do our best to increase them as appropriate. Not only will this help raise the standard of management, improve product quality, and regulate surpluses and shortages at home, but it will also increase our foreign exchange earnings and better enable us financially to import the necessary raw materials, spare parts, and equipment.

Third, the newly-created large iron and steel enterprise groups must develop into multinational corporations over time. Already the Shoudu Iron and Steel Complex has made detailed plans to join the ranks of the world's 500 largest multinational corporations. Other newly organized large enterprise groups, particularly Baoshan, Wushan, and Anshan, should also make strategic arrangements as soon as possible.

## SMALL-SCALE ENTERPRISES

### Market Institute Surveys Private Enterprises

OW2611103092 Beijing XINHUA in English  
0937 GMT 26 Nov 92

[Text] Beijing, November 26 (XINHUA)—Private enterprises have been developing in so great momentum both in terms of number and quality over the past few years that they have become a force that are not to be ignored.

This is the conclusion drawn by a recent survey conducted by the Chinese Market Survey Institute.

The survey revealed that by the end of 1991, 178,000 private enterprises had appeared in all parts of the country, increasing by 9.9 percent over the year of 1990. Their total registered capital came to 12.3 billion yuan, increasing by 29.4 percent from the preceding year. The number of workers they employed came to over 1.83 million, an increase of eight percent.

The total taxes paid by the private enterprises amounted to 490 million yuan as against only 112 million in 1989.

Private enterprises engaged in industry, transportation and building trade generated an output value of 14.66 billion yuan last year while those engaged in commerce, catering, service and repair trades earned 6.8 billion

yuan, up 20.4 percent and 32.1 percent, respectively as compared with the previous year.

The survey was conducted in 21 cities and 18 counties in southern China's Guangdong and Hainan Provinces, eastern China's Zhejiang and Jiangsu Provinces and northern China's Hebei Province where large private enterprises are concentrated.

The survey showed that these enterprises bore the following four characteristics.

First, the enterprises have seen dramatic growth in investment and output.

The average registered capital of all the private enterprises reached 114,300 yuan, up 12.4 percent over the previous year.

The number of the enterprises which had more than 100 workers reached 609 and 20 enterprises had more than 500 workers each.

Last year, 662 enterprises had a registered capital of over one million yuan each and 1,251 enterprises earned a foreign exchange equivalent to 540 million yuan.

Second, private enterprises in the coastal areas experienced rapid growth.

The number of private enterprises in the 11 provinces and municipalities including Tianjin, Liaoning, Hebei, Shandong, Jiangsu, Shanghai, Fujian, Guangdong, Guangxi and Hainan reached 75,600, accounting for 70 percent of the nation's total.

The registered capital of the enterprises in the coastal areas amounted to 8.59 billion yuan, making up 69.73 percent of the nation's total.

The 1.20 million workers with these enterprises accounted for 65.33 percent.

Third, wholly-owned enterprises made up a large proportion of all the private enterprises.

In 1991, there were 60,600 wholly-owned enterprises employing 828,000 workers, accounting for 56.2 percent and 51.83 percent of all the private enterprises.

Lastly, China had 77,100 private enterprises engaged in industry, transportation and building trade with 1.28 million workers, accounting for 71.5 percent and 80.5 percent of the total; and 29,000 other enterprises were engaged in commerce, catering, service and repair with 276,600 workers, accounting for 26.4 percent and 17.32 percent respectively.

The survey figures did not include those attached to state and collective enterprises.

**LABOR****New Pension Program Requires Employee Contributions***HK2711023292 Beijing CHINA DAILY in English  
27 Nov 92 p 1*

[Article by staff reporter Gao Jin'an: "Overhaul of Pension System in the Works"]

[Text] China's decades-old pension system for its government employees will soon undergo a major overhaul aimed at ensuring the security of retirees and easing the burden on State coffers, according to official sources.

The changes in the pension system will be part of the nation's personnel and wage reform, which were proposed at the just-concluded 14th National Congress of the Chinese Communist Party.

The new pension programme requires all government employees to pay "a certain amount of their salary into a pension fund," which will be used to pay benefits to them after retirement, Zhang Zhihong, Director of the Ministry of Personnel's Retirement Department, told CHINA DAILY in an exclusive interview yesterday.

At present, the total expenditure on pensions for the nearly 4 million retired government employees in the country stand at about 7.2 billion yuan (about \$1.3 billion) each year.

Under the current pension system for government employees, the government is fully responsible for supporting all its retired employees from its tight budget.

But Zhang said the current pension distribution system for already-retired employees will not be affected by the new programme, adding the living standards of these people will improve along with national economic development.

But he refused to say how much of the employee's monthly salary will be diverted into the fund.

The more than 31 million people working for government organizations and public institutions across the country are the target of the pension reforms.

It is widely believed the plan, assisted by the ministry's hard lobbying, will soon be endorsed by the central government for adoption across the country.

The size of the retiree's pension will depend mainly on their contribution to the new programme.

Chinese enterprises have already adopted a similar pension system that was welcomed by workers. The system draws 3 percent of the worker's monthly salary into the fund.

By changing the current pension system, China will eventually establish a social security system for all retirees, Zhang said.

The number of retirees from government organs and institutions is increasing at an annual rate of 300,000 to 400,000 and the total number is estimated to reach over 10 million by the year 2000.

**TRANSPORTATION****New Air Routes, Airport Projects Reported****Lanzhou-Ningbo Air Route***OW3110142292 Beijing XINHUA in English  
1411 GMT 31 Oct 92*

[Text] Ningbo, October 31 (XINHUA)—A new air route opened today from Lanzhou in Gansu Province to Ningbo in eastern China's Zhejiang Province.

The three hour flight will operate on Saturdays. Two airplanes of Northwest China Airlines will undertake the service.

Lishe airport in Ningbo has opened services to 17 cities and Hong Kong.

**Beijing-Kunming Flight Begins***OW1711120892 Beijing XINHUA in English  
0955 GMT 17 Nov 92*

[Text] Beijing, November 17 (XINHUA)—China United airlines will open its 40th route tomorrow, an airway from Beijing to Kunming, a southwestern city renowned for its picturesque landscape.

The airlines, derived from China's airforce, will use Russian-made TU-154 planes for the new route. The flight departs from Beijing and comes back on Tuesdays and Fridays, a spokesman from the airlines said.

The spokesman, identified as Mr Wang, believed that the new route will have a bright prospect with the booming economic development in Yunnan as well as all the southwestern provinces.

**Chongqing-Fuzhou Air Route***OW1311192692 Beijing XINHUA in English  
1619 GMT 13 Nov 92*

[Text] Fuzhou, November 13 (XINHUA)—The air route between Chongqing, the biggest city in southwest China, and Fuzhou, a coastal city which has opened to the outside world in southeast China, has opened from today on.

The air route stretches 1580 kilometers. There will be two flights each week on Tuesday and Friday. A flight takes two hours and twenty minutes.

The Southwest China Airlines will provide Boeing 737 airplanes for the flights.

In addition to the new route, Chongqing branch of the Southwest China Airlines has opened air routes between

Chongqing and Haikou, Xiamen, Shenyang, Harbin, Shenzhen, Urumqi and other cities in the country.

#### Tianjin-Shantou Air Route

SK1711124592 *Tianjin TIANJIN RIBAO in Chinese*  
11 Nov 92 p 1

[Excerpt] After flying for two hours and 30 minutes, a Boeing 737-300 airliner of the Tianjin branch of Air China arrived in Shantou Airport at 1120 on 10 November, thus opening the Tianjin-Shantou air route and erecting an air bridge linking these two cities.

Both Tianjin and Shantou are coastal open cities. To promote the economic and cultural exchanges between the two cities, an adviser to the Tianjin Municipal government and Chen Shixian, adviser to the Shantou City government advocated that Tianjin and Shantou open an air route as quickly as possible. This aspiration of the citizens of Tianjin and Shantou has come true finally thanks to the work of Air China. When the maiden flight delegation of the Tianjin Municipal Government, headed by Vice Mayor Song Pingshun, arrived at Shantou Airport, it was warmly welcomed by Mr. Chen Shixian and Guo Sikun, vice mayor of Shantou City. The two sides commonly held a grand ceremony to mark the successful maiden flight.

Covering a total flying range of 1,905 km, this air route flies to and fro between Tianjin and Shantou every Monday and Friday. [passage omitted]

#### Shantou-Hangzhou Air Route

OW2410132092 *Beijing XINHUA in English*  
1217 GMT 24 Oct 92

[Text] Shantou, October 24 (XINHUA)—Two new air routes linking Shantou City in south China's Guangdong Province respectively with Hangzhou, capital of east China's Zhejiang Province, and Fuzhou, capital of south China's Fujian Province, have been opened.

The routes use DHC-8 airplanes and operate two-way flights every Wednesday and Saturday.

The take-off time for the Shantou-Hangzhou route is 1630 and the arrival time in Hangzhou is 1710.

Planes from Shantou to Fuzhou take off at 1130 and arrive at Fuzhou Airport at 1310.

#### Xinjiang-Shandong Air Route

OW1711140592 *Beijing XINHUA in English*  
1358 GMT 17 Nov 92

[Text] Urumqi, November 17 (XINHUA)—A new flight linking Urumqi, the capital of northwest China's Xinjiang Uygur Autonomous Region, with Jinan, the capital of east China's Shandong Province, was opened on November 15.

The 3,206-km-long air route runs via Xian, capital of northwest China's Shaanxi Province. It operates once a

week on Sunday between the two terminals across seven provinces and regions including Xinjiang, Gansu, Ningxia, Shaanxi, Inner Mongolia, Henan and Shandong.

Before the opening of this air route, Xinjiang Airline Company opened routes to Alma-Ata and Tashkent in the Commonwealth of Independent states and 15 other domestic airlines. [sentence as received]

#### Urumqi-Xian-Jinan Air Route

SK0911041592 *Jinan Shandong People's Radio*  
*Network in Mandarin 2300 GMT 8 Nov 92*

[Text] With the approval of the Civil Aviation Administration of China, the Urumqi-Xian-Jinan air route service will begin on 15 November. This air route is opened by Xinjiang Airline Company. TU-154 aircraft will be used. The flying time from Urumqi to Jinan is about three hours and 50 minutes. There will be one scheduled flight to and fro on every Sunday. The opening of this air route will play a positive role in accelerating reform, opening up and economic construction in Shandong and the northwest China region. By that time, the number of weekly flights of Jinan airport will increase to 29.

So far, our province's aviation has basically realized the goal of linking up all parts of the country, reaching Beijing and Shenyang, Xian and Urumqi in the north and reaching Chengdu, Guangzhou, Haikou, Hong Kong, Fuzhou and Xiamen in the south.

#### Hohhot-Xilin Hot Air Route

SK3010064192 *Hohhot NEIMENGGU RIBAO*  
*in Chinese 23 Oct 92 p 1*

[Text] The Inner Mongolia branch of Air China will officially resume the route between Hohhot and Xilin Hot on 28 October. It will also increase the number of flights between Hohhot and Chifeng cities.

Flights between Hohhot and Xilin Hot are scheduled every Monday, Wednesday, and Friday. The plane leaves Hohhot at 0800 and returns at 1120.

The weekly Hohhot-Chifeng Wednesday flight will increase to flights on Monday, Wednesday, and Friday. The plane leaves Hohhot at 1300 and returns at 1700.

The new Xilin Hot airport and the Chifeng airport have built cement runways, and their telecommunications guidance facilities have greatly improved.

#### Harbin-Shandong-Sichuan Air Route

OW1811141092 *Beijing XINHUA in English*  
1356 GMT 18 Nov 92

[Text] Harbin, November 18 (XINHUA)—On November 25, Harbin, capital of northeast China's Heilongjiang Province, will open a new air route via



Jinan, capital of east China's Shandong Province, to Chengdu, capital of southeast China's Sichuan Province.

A TU-154 passenger airplane newly imported from the CIS. Sichuan Airlines will fly over the new 2,844-km air route, taking four hours and 10 minutes one-way.

The flight is presently scheduled to depart Harbin at 1240 every Wednesday.

### Shandong Opens New Aviation Firm

*SK1611132092 Jinan Shandong People's Radio Network in Mandarin 2300 GMT 14 Nov 92*

[Text] Our province and Eastern Airlines will jointly establish the China Eastern Airline Qilu Aviation Co. Ltd. The agreement signing ceremony was held in Jinan on 14 November. This newly organized aviation company is a sub-company of the China Eastern Airline and an enterprise of our province. This company will implement the system of having the general manager assume full responsibility under the leadership of the board of directors in line with the management model of enterprises experimenting with the shareholding system. It will mainly deal with air passenger and freight transport business and carry out general-purpose aviation planning tasks. It will play a positive role in accelerating our province's civil aviation business, promoting economic development, and expanding the scale of opening up.

Zhao Zhihao, deputy secretary of the provincial party committee and provincial governor, attended the signing ceremony. Wang Lian, president of China Eastern Airlines, and Vice Governor Ma Shizhong signed the agreements respectively.

### Jinan Opens to Foreign Aircraft

*OW3010230892 Beijing XINHUA in English 1447 GMT 30 Oct 92*

[Text] Jinan, October 30 (XINHUA)—Jinan airport has been approved by China's State Council to open to foreign aircraft, according to a spokesman from the municipal government of Jinan, capital of eastern China's Shandong Province.

Officially put into operation on July 26 this year, the airport was constructed according to international standards. With an annual transport capacity of 500,000 to 800,000 passengers and 23,000 tons of goods, the airport is equipped for Boeing 707, 737, 757, 767, A310, MD310 and TU154 airplanes.

The airport has opened air routes to Beijing, Shanghai, Guangzhou, Chengdu, Qingdao, Yantai, Fuzhou, Hangzhou and Xiamen. At present, 60 flights land and take off at the airport every week.

The spokesman said that the airport is bettering its conditions so as to open international routes as soon as possible.

### Heilongjiang Airport Expands

*SK2710123492 Harbin Heilongjiang People's Radio Network in Mandarin 2200 GMT 26 Oct 92*

[Text] The project to expand the (Hailang) airport in Mudanjiang was completed, checked, and accepted on 26 October. A trial flight conducted in the morning proved successful.

This project is implemented in line with the state's requirements on second-category airports. The Mudanjiang City government invested more than 53 million yuan to start the project in April this year. It took merely 192 days to complete the project.

The expanded (Hailang) airport has a 2,600 meters long, 60 meters wide runway, from which long- and medium-range airplanes such as Boeing 737s or MD-82s can land. Its parking apron can accommodate five Yun planes or two MD-82s simultaneously. The airport is also equipped with advanced guidance and blind landing facilities. A signboard to indicate the schedule of airline departures and arrivals has also been installed in the lobby of the terminal building.

### Market Economy Quickens Pace of Port Construction

*OW2411140092 Beijing XINHUA Domestic Service in Chinese 1205 GMT 23 Nov 92*

[By reporter Li Haifu (2621 3189 3940)]

[Text] Zhengzhou, 23 November (XINHUA)—In keeping with the development of a market economy, port construction in our country has accelerated since the beginning of this year. The country has newly approved the opening of 24 first-category ports—airports, seaports, and railway and highway ports. Our country currently has 175 first-category ports and 330 second-category ports. From January through October, 210 million tonnes of export and import goods went through seaports, land ports, and airports across the country, while more than 63 million passengers entered or left the country through those ports. This signals a faster pace in opening our country's ports to the outside world.

## AGRICULTURE

### Bai Meiqing on Decontrol of Grain Prices

*93CE0097C Beijing NONGMIN RIBAO in Chinese 29 Sep 92 p 1*

[Article by Jiang Jun (1203 6511): "Grain Prices To Be Decontrolled Nationwide"]

[Text] A national conference to exchange experience in grain circulation reform, which was jointly organized by the State Restructuring of the Economic System Commission and the Ministry of Commerce, closed in Shanghai today. As Vice Minister of Commerce Bai

Meiqing [4101 5019 3237] put it, the decontrol of the prices, buying, and selling of grain is the trend of the times, but since this piece of reform involves a wide area, a plan must be carefully worked out beforehand. After it is approved and introduced, it must be energetically and steadily carried out.

Bai Meiqing said: "Driven by the national tide of reform, a string of pilot projects in the decontrol of grain prices and grain buying and selling have been launched since the beginning of the year after the procurement and selling prices of grain were equalized. According to statistics, nationwide over 300 counties with a combined population of 180 million people in 18 provinces and municipalities have begun experimenting with grain decontrol. The latest meeting of the State Council has decided that we should grasp the current favorable opportunity to accelerate reform of the buying and selling of grain, further commercialize grain, and orient it toward the market. In view of the fact that circumstances differ from place to place, decision-making should be decentralized. After considering its ability to cope with the change and ensuring that related measures are in place, a qualified province, autonomous region, or municipality directly administered by the central government may submit a plan to the State Council for approval."

According to State Council projections, Bai Meiqing said, grain prices and grain buying and selling would be decontrolled nationwide within two to three years, except for a few impoverished areas. Decontrol would take place first in the economically developed areas along the coast before working its way into the interior.

Bai Meiqing asked the localities to pay attention to these five points as they reform grain prices:

First, based on its economic conditions and coping ability, a locality should choose a reform plan and reform model that suits local reality. And retain grain procurement and maintain grain relations during the transition. This will help preserve public confidence in both rural and urban areas. Even when a locality decides to do away with procurement, it should enter into an economic contract with the peasants and procure some grain. Such a move will not only help ensure urban grain supply but will also benefit the grain-growing peasants tangibly and provide them with information, thereby preserving their enthusiasm for growing grain. Second, reconcile the interests of all parties. After grain prices are decontrolled, a locality should continue to aid peasants in developing grain production and adjusting the mix of crops. Turning to consumers, the locality should ensure their basic livelihood, particularly that of low-income people. As for grain buying and selling units, the locality must help them solve such problems as old grain and debt to bring about the change smoothly. Third, after deregulation, the locality must set up a guarantee mechanism. Most importantly, it must establish a grain reserve system and a price risk fund. This is a prerequisite for deregulation. Fourth, the decontrol of grain

prices must go hand in hand with enterprise reform, the nurturing of a market mechanism, and the establishment of a market. Fifth, after deregulation the locality must intensify macroeconomic regulation and control and the management of trades. Before deciding on an organizational reform plan, it should not casually dismantle grain administrative departments at the various levels or discontinue their administrative functions. The state-owned fixed assets of a grain enterprise are not to be transferred in an egalitarian or indiscriminate manner.

### Measures To Accelerate Rural Economic Development

93CE0010A Beijing *NONGYE JINGJI WENTI*  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
in Chinese No 7, 23 Jul 92 pp 20-21

[Article by Duan Yingbi]

[Text] Accelerating rural economic development is the crucial link in achieving the goal of prosperity. Comparatively speaking, it is easier for urban areas than rural areas to realize this goal by the end of the century. In the Eighth Plenary Session of the 13th Central Committee, it was pointed out that without peasant prosperity, there is no prosperity for all Chinese people. In rural areas, it is easier for developed coastal areas and urban suburbs than midwest China to realize this goal of prosperity. Since midwest China's population is fairly large and located mainly in rural areas, without its prosperity, the whole Chinese countryside cannot be well off. So in my opinion, accelerating rural economic development is the key link in achieving this strategic aim of prosperity by the end of the century. To develop the rural economy rapidly, we must vigorously emphasize diversified agriculture, town and township enterprises, and secondary and tertiary industries. There are many reasons for the rural economy's slower growth. In the early 1980's, through rural reform and implementing the household contract responsibility system, with remuneration linked to output, China's agriculture experienced rapid growth, bringing a quick solution to the problem of providing adequate food and clothing for all people. In many regions, there are numerous supply bases for staple agricultural products such as grain, cotton and cooking oil. However, prices for these goods are very low, and output is unstable. The state can only purchase small amounts for a low price, leaving a large surplus as a burden on these supply depots. In the above mentioned rural areas, there are too few township enterprises relative to the eastern developed areas. Therefore, the key to accelerating economic development in the less prosperous regions is to adjust industrial structure, develop diversified agriculture, secondary and tertiary industries, and town and township enterprises. There are two approaches we can take here: First is to use family handicraft industry as a basis, and depend on specialized wholesale markets for small commodities. One wholesale market can involve many families, which is a great advantage because it can bring prosperity to farmers very quickly as illustrated in previous examples. Second is

emphasizing high-value cash crops, forestry and live-stock products, forming specialized production with leading enterprises in the region as its mainstay to spur the regional economy. We have discussed approaches to rural economic development, and the issue becomes how to best take these approaches. I think there are many problems to be solved with regard to accelerating the development of diversified agriculture, town and township enterprise, and secondary and tertiary industry in rural areas, foremost among which is the state policy environment. Three points must be considered.

(1) Accelerate reform of purchasing and marketing agricultural products and the pricing system. Since many rural areas are production bases for grain, cotton and edible oil, they make great contributions to society. However these products are usually under the strict control of the central government. Now to develop diversified agriculture, town and township enterprises, and secondary and tertiary industries, we face the problem of adjusting the industrial structure, which should be regulated by market demand. If we don't deregulate prices and open purchasing and marketing channels for agricultural products, we will definitely hinder this adjustment. A structure is only rational when fitting the needs of the market. Therefore, we should first create a market economy. In Guandong Province, beginning 1 April this year, the government lifted controls on grain, cancelled all contracted purchases, and retained only 500 to 600 million jin of public grain requisitions for all of Guandong Province. This way, high grade rice fields have expanded from four million acres to 10 million acres this year. It appears that a major policy change on grain purchasing and cotton is now necessary. Only then will it be possible for rural areas to optimize resources, and adjust the industrial infrastructure according to market demand.

(2) Develop policies for town and township imports, exports and foreign trade. Another obstacle to developing town and township enterprises is that the domestic market for industrial products, especially daily consumer goods, is relatively saturated, as is the domestic market for agricultural products. We must find markets if we are to promote high-quality agricultural products and town and township enterprises in rural areas. Taking the view of national policy, we should vigorously promote these comparatively more advanced town and township enterprises to world markets so as to give domestic markets to the less developed. In 1991, China's town and township output value reached one trillion yuan, which is one-third of the national industrial output value. But there is a very irrational phenomena in that township and town enterprises do not directly export their products, even though many of their products are exported, they may not directly export themselves. The policy states that collectively owned enterprises do not have the right to import and export, even though their output value is more than one trillion yuan, while there are thousands of companies and coporations in China who have the right to import and export. Without the

authority to import and export directly, town and township enterprises cannot face the world market directly. To grant authority to rural enterprises, allowing them to import and export directly is not just to reduce taxes or commissions, but to let these enterprises meet the world market directly and adjust their production according to market changes. At present, imports and exports are monopolized by state foreign trade companies. They buy or stop buying according to their own plans while town and township enterprises never have the chance to know anything about world market demand. Due to low labor costs, town and township enterprises have great potential for export. Reforming import and export policy will be very favorable for them. Perhaps we should consider choosing those companies who have already have certain conditions in developed coastal regions and give them import and export rights, for instance, those town and township enterprises with the strong ability to earn foreign exchange, a fairly stable customer base, and the ability to engage in negotiation with foreign firms. Some of these enterprises have already formed agriculture-industry-commerce enterprises and integrated the procurement of supplies, production and marketing. We should promote their entrance into world markets, clearing the way for town and township enterprises in less developed areas to engage the domestic market. Mainly because of our irrational foreign trade restrictions, exports from the mainland are even less than those of Taiwan. Without the ability to face the world market directly, our producers and enterprises remain passive and cannot begin a new phase.

(3) The policy of promoting the relocation of coastal industries to less developed areas in central China. It is a rule of the economy to adjust arrangement of production areas, upgrade and change products. For example, in umbrella manufacture, Japan first monopolized the world market, then Taiwan took the lead, accounting for 70 percent of the world market share due to rising labor cost in Japan. Then China dominated this market after labor costs in Taiwan also increased. Now mainland China's umbrella industry accounts for 50 percent of the world total. In the Zhujiang Delta of Guandong Province, township enterprises have attracted many inland rural laborers to do unskilled and heavy labor. Their monthly salary is around 400 yuan and companies must provide accommodation for them as well. These laborers also bring with them many social problems. However, if these businesses are relocated inland, these problems will be easily solved and labor costs will be lower as well. So why aren't people relocating their businesses inland? Because they don't think it is worthwhile. There is a special preferential policy for foreign-funded enterprises, not for those who relocate enterprises inland. This is the reason that many Taiwanese and foreigners have moved their investments to our coastal areas, while no businesses in coastal areas are moving inland. So policy should really favor the relocation of coastal enterprises to inland areas, otherwise no one will want to do this. By encouraging a relocation, people in coastal areas will bring their facilities, technology, management expertise,

marketing information and channels of purchasing inland with great benefits. It seems unfavorable for a financial situation of these coastal areas, but considering the overall economy, it is favorable. In conclusion, policies similar to those for foreign-funded enterprises, or even more preferential ones should be implemented to promote an industrial relocation from developed areas to inland China.

**Private Sector Involved in Zhengzhou Grain Trade**  
*93CE0097B Beijing NONGMIN RIBAO in Chinese*  
22 Sep 92 p 4

[Article by Du Fengchang (2629 0023 2490) and Zhao Zhengqiang (6392 2973 1730): "Zhengzhou Private Grain Companies Play Extraordinary Role"]

[Text] The private grain company, a new way of buying and selling grain and oil crops, has sprung up in Zhengzhou, Henan Province, in response to the needs of the times. Over the past three years, private grain companies shipped and sold 530 million kilograms of wheat, corn, dried yams, soybeans, peanuts, and sesame to 18 provinces and municipalities including Hubei, Guangzhou, and Shanghai, increasing their value by over 23.40 million yuan.

Zhengzhou is the nation's base for grain and oil crops, but until a few years ago it had just one method of marketing grain and oil-crops. To a large extent the area's strengths in resources and industry were not translated into economic benefits promptly enough. As a result the peasants in many a village did not see their incomes go up even though their output rose.

To solve this problem, the Zhengzhou City CPC committee and municipal government in 1989 dismantled four grain and oil-crop checkpoints, including the Henan-Hubei and Henan-Shaanxi checkpoints. At the same time, by giving them funding support, adopting a preferential policy, providing conveniences relating to the issue of licenses, sites, storage, transportation, and information, they worked hard to encourage peasants to enter the circulation arena and involve themselves in buying and selling. As a result, the number of private grain companies has soared from the original 100 or so to more than 980 at present, thereby widening the grain and oil-crop circulation channels.

Private grain companies are funded by a household, a collection of households, or a state grain department, but each operates as an individual household. Their way of doing business is flexible and diverse. In addition to operating outlets, they also procure at the door. They pay and charge market prices, settle accounts face to face, and practice fair trading.

When it comes to marketing and selling methods, they have all lined up regular customers in other places. Usually a private grain company first signs a contract with a customer to supply merchandise and is paid a fixed percentage as deposit. It also actively assists its

customers with transshipment, among other things. The private grain companies have formed a buying and selling network that crisscrosses in every direction.

The emergence of private grain companies has ended the difficulties of buying and selling agricultural products. They have helped regulate shortages and surpluses and made the agricultural market prosper. Last year alone the companies shipped and sold 210 kilograms of corn, wheat, dried yams, sesame, mung beans, and other products, at the same time purchasing 9 million kilograms of rice and palm oil from the south. Furthermore, they have lessened the burden on state grain and oil-crop departments in the allocation, storage, transportation, and selling of grain and oil crops. There is a village called Liang village to the southwest of Zhang village in Zhengzhou. Liang village abuts counties in Zhejiang and Sichuan but is quite a distance from the townships, which renders buying and selling rather inconvenient. Wang Shengyao [3769 0524 5069], a retired soldier, opened a private grain company here with 80,000 yuan he had raised and sold 70,000 kilograms of soybeans last fall, over 53 percent of all soybeans allocated and sold in the area.

The healthy development of private grain companies has provided the local peasant households with reliable and detailed information to help them apply the law of value and adjust their mix of crops promptly.

**Tobacco Tax Quotas To Be Raised**

*HK2511022992 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 2036 GMT 12 Nov 92*

[Text] Beijing 12 Nov (ZHONGGUO TONGXUN SHE)—Tobacco tax quotas set during the Eighth Five-Year Plan will be readjusted from the original target of 150 billion yuan (an annual average of 30 billion yuan), to 165 billion yuan and up, an average annual increase of 3 billion yuan, China State Tobacco Monopoly Administration disclosed not long ago.

It was learned that Mainland China's tobacco industry realized 53 billion-yuan in profits and taxes during the Sixth Five-Year Plan, and 103.5 billion yuan during the Eighth Five-Year Plan. The revised quota for the Eighth Five-Year Plan will push tobacco profits and taxes to a new plane.

It was learned that to give full play to the market mechanism's role and break the market blockade, a great unified circulation and nationwide market will take shape under the monopoly structure of the tobacco industry; in addition, the State Tobacco Monopoly will set up two major tobacco markets, domestic and international, in Beijing and Shanghai's new Pudong District, respectively.

**Hainan's Agricultural Output Growth Posted**

*HK2711124592 Haikou Hainan People's Radio  
Network in Mandarin 2300 GMT 21 Nov 92*

[Text] Our province is strengthening the status of agriculture as the basis of the economy, increasing inputs to boost the capital construction of farmland, and implementing the policy of invigorating agriculture with science and technology. After three consecutive years of bumper harvests—the first ever since the founding of the province—this year again saw all-round growth in farming, forestry, animal husbandry, sideline and agricultural production, and fishery. Agricultural production and the rural economy have both moved to a new stage.

According to provincial Agriculture Department figures, calculated on the 1990 price level, the province's gross agricultural output value this year is expected to hit 7.5 billion yuan, up 8.41 percent over last year; gross grain output is expected to increase by 9.64 percent over last year and to reach ahead of time the provincial party committee and government's target of achieving self-sufficiency in grain rations in three to five years' time.

Tropical crop fields will increase by 2.1 percent in area over last year. Of this, the area of nongovernmentally grown tropical crops increased by 5.26 percent over last year. Outputs of various tropical crops, except peppers whose production has gone down slightly due to typhoons and lowered prices, have all increased. Of these, gross output of dried rubbers this year is expected to reach 186,700 tonnes, up 8.17 percent over last year; and sugarcane is expected to reach 4,328,500 tonnes, up 11.71 percent over last year. The gross output of meat from animal husbandry is expected to reach 186,000 tonnes, up 8.8 percent over last year; the gross output of aquatic products is expected to reach 235,000 tonnes, up 18.2 percent over last year; the gross output value of township and town enterprises is expected to be 2.16 billion yuan, up 31.4 percent over last year. Afforestation will cover 400,000 mu; the area covered by forest will increase by 0.1 percent over last year.

The per capita income of all the peasants in the whole province derived from production sources will be 740 yuan, up 8 percent over last year.

### Premier's One-China Policy Under Fire

92CM0046B Taipei TZULI WANPAO in Chinese  
14 Oct 92 p 1

[Article by reporter Li Chiung-yueh: "Refute China Dream—Voices From Mainlanders and Taiwanese"]

#### [Text] Liao Chung-shan: Premier Hao's Thought Divorced From Society

In connection with Premier Hao Po-tsun's statement that those, either Taiwanese or mainlanders, who advocate Taiwan independence are muddle-headed, Liao Chung-shan, chairman of the "Association of Mainlanders for the Promotion of Taiwan Independence" and a professor of the University of Oceanography, said that this statement made by Hao Po-tsun proves that Hao's thought is divorced from society, and the era of democracy and rule by law. Liao Chung-shan added the "Republic of China" ceased to exist in the international community long ago, but Hao Po-tsun continues the "China Dream." If Hao Po-tsun only seeks to identify himself with China without identifying himself with Taiwan, he may as well retire as soon as possible and settle down in mainland China, Liao pointed out.

In our association, there are professors, students, businessmen, and people of all walks of life in society. Hao Po-tsun's remark about advocates for Taiwan independence being "muddle-headed" alone cannot wipe out mainlanders' plan to identify themselves with Taiwan and promote Taiwan independence, Liao Chung-shan said. He thinks that Hao Po-tsun is possibly suffering from Alzheimer's disease. Only with this type of disease can Hao possibly say something that is so out of keeping with the society.

Meanwhile, Liao Chung-shan also strongly criticizes Hao Po-tsun's allegation that the national armed forces would not protect Taiwan independence. Hao Po-tsun is not the commander-in-chief of the army, navy and air force, but he spoke in an outspoken manner at the Legislative Yuan. He lacks the basic knowledge on the rule by law. What kind of qualification does he have in labelling those who advocate Taiwan independence as "muddle-headed?"

Mainlanders of this generation have already suffered a great deal in drifting from place to place. They do not want their next generation to lead a vagrant life. Therefore, they want to arouse all mainlanders to leave their roots in the island and identify themselves with the people and the land in Taiwan. Meanwhile, he hopes that from now on, there will be only the difference between fellow countrymen and foreigners, but no difference between Taiwanese and mainlanders. He pointed out: Hao Po-tsun lives in Taiwan most of his life, but he refuses to identify himself with Taiwan. Hao only slumbers in the "China Dream" days and nights. He urges Hao Po-tsun to promptly retire and settle down in the mainland, if the latter goes on dreaming like that.

### Li Feng-ching: Premier Hao's Remark Devoid of Concept for Democracy

Premier Hao Po-tsun said yesterday at the Legislative Yuan that it would be inconceivable to see the commander-in-chief of the army, navy and air force of the Republic of China taking no action at all when someone seeks to tamper with the official name of the Republic of China. This remark of his is criticized by academic circles. Lin Feng-ching, Secretary General of the Association of Professors in Taiwan, pointed out: On the basis of the theory of people's constitutional rights for democracy, the official name of a democratic nation should originally be decided by all the people. In addition, the utmost goal of so-called devoting oneself heart and soul to the nation as stipulated in the constitution is aimed at serving the people, not those who rule the nation. Hao Po-tsun's remark is completely devoid of concepts on democracy and constitutional rule.

Lin Feng-ching further pointed out: In replying to a question raised by a legislator on the issue of separating America from Britain, Hao Po-tsun said that to become independent, Taiwan possibly needs to fight a war with Communist China for eight years. This kind of metaphor is inappropriate, and devoid of the concept of history. At that time, America was a British colony. America's independence is the result of the war to free the colonies from Britain. However, the "People's Republic of China" was founded only in 1945, and Communist China has never ruled Taiwan. Hao Po-tsun's metaphor is the same as regarding Taiwan as a colony of mainland China, not as a nation. This kind of remark made by a premier is quite absurd.

Hao Po-tsun now plays the "Li Teng-hui card" to suppress those who advocate Taiwan independence. It precisely shows that Hao Po-tsun has run out of words and that he has lost confidence in himself, Lin Feng-ching said. On Hao Po-tsun's struggle to prevent the Kuomintang from becoming "Taiwanese," Lin Feng-ching said that since the Kuomintang came to Taiwan and ran the government here, it in fact had already become "Taiwanese." Meanwhile, the international community also recognizes it as "Taiwan's Kuomintang." Thus, the question should be whether or not the Kuomintang has been localized and whether or not it has identified itself with Taiwan.

Lin Feng-ching pointed out: The official name of a democratic nation should originally be decided by all the people in the nation. It should not be arbitrarily decided by a ruler. Right now, on the issue of changing the official name and of advocating Taiwan independence, Hao Po-tsun said that it would be inconceivable to see the commander-in-chief taking no actions at all. This is really a thought-provoking remark that the people in Taiwan may understand the state of mind of those who hold the rein of the government.

### People's Perception of KMT, DPP

93CM0006A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 289, 26 Sep 92 pp 48-50

[Article by Lu Huanrong (0712 2970 1369): "Both Parties Have Gained in Popularity, But Fewer Votes Can Be Considered Shoo-Ins - Our Magazine Polls the People on Their Satisfaction With and Support for the KMT and the DPP"]

[Text] In the last two successive years, our magazine has conducted detailed questionnaire polls, asking people throughout Taiwan to assess their "satisfaction with and support for the KMT and the DPP," while trying to gauge their satisfaction with the way the two parties have run the government and/or exerted a checking and balancing function on the other. This year, we conducted the third annual questionnaire poll. Not only does our poll represent an attempt to gauge the three-year growth or decline in the people's satisfaction with and support for the two parties, but with the year-end elections less than 100 days away, our poll may be the best available index of which parties the voters will align with in the election.

The results of this year's poll show that voter satisfaction with both the KMT and the DPP has risen slightly over the course of the last three years. The KMT satisfaction index rose 3.9 percent compared to last year, while that of the DPP jumped 9.3 percent. From the numbers of those answering "not satisfied" we can see that those holding a negative view of the DPP clearly dropped from last year's 61.8 percent down to 53.8 percent this year, while the change for the KMT was not great with the nonsatisfied index holding steady at approximately 23 to 24 percent. Clearly, the DPP has steadily gained a more favorable image in the eyes of the masses, while the KMT's stock has remained at its original level.

It is worth noting that the fair proportion of "extremist" responses that we have seen over the years, including "extremely satisfied" and "extremely dissatisfied" among others, ranked proportionally lower in this year's poll. That is to say, there has been a steady erosion in the people's knee-jerk adoration and/or aversion to the two parties. This may be related to the fact that partisan politics has gradually moved more into the mainstream. Once the fervor cooled down, reasoned consideration began to prevail. Of course, with a plethora of reporting media, the political activities of both parties have also become more equitable, giving the people more chances to choose from competing views and gradually allowing the passions to simmer down.

If the Legislative Yuan elections were held today, to what extent would the people support the two parties? Analyzing the results of our poll, we see that both parties received approximately two to three percent less support than indicated by last year's poll. This is noteworthy. The KMT support fell from last year's 25.1 percent to 22.6 percent, a drop of 2.5 percent. The DPP's support fell from last year's 4.5 percent to 2.7 percent, also a drop of roughly two percent.

How is it that the people's satisfaction with both parties has risen while support for the parties has simultaneously fallen off a bit? The rise in the KMT's satisfaction index may be related to its large-scale push for national construction. Moreover, some middle-of-the-roaders may decide to join ranks with the KMT due to the DPP's call for Taiwan independence. The rise in the DPP's satisfaction index may be related to the ability of a segment of the population to regard the opposition party as a normal feature of the political landscape, which in turn boosts the DPP's satisfaction index nearly 10 percent higher than that for last year.

However, the most obvious explanation may be that the people are now somewhat more open to these types of political polls and are willing to express their opinions about how satisfied they are with the two parties instead of hiding behind such responses as "no opinion," "I do not know," and "I refuse to answer." For example, looking at the KMT satisfaction index polls, two years ago 26.6 percent hid behind one of these three responses, last year the number fell to 26.3 percent, and this year it was 22.7 percent. The same happened with respect to the DPP satisfaction polls, with the numbers falling from 26.9 percent two years ago to 24.1 percent last year to 23.4 percent this year.

However, a rise in the satisfaction index does not automatically translate into more votes at election time, especially when one considers the nonstop internal struggles of the KMT and the DPP's endless factional bickering. These factors cast an extremely negative hue over the images of the two parties. As the self-destructive force from these incidents accumulates, it translates negatively in our poll's support index. The rise in the support index that we saw last year has been lost and the lower numbers this year weaken both parties. The significance of this lies in the fact that the year-end elections will be tough battles for both parties and no votes can be counted as shoo-ins. Moreover, more people will base their decision primarily on the candidates themselves in the year-end election. Last year, 57.8 percent indicated that they would consider the candidate as an individual, and the number jumped to 62.4 percent this year, an increase of nearly five percent. Clearly, the undeclared middle ranks of the electorate will grow.

Comparing the sexes, we find that there is little difference between male and female satisfaction with the KMT, as both came in at about 50 percent. However, looking at the DPP, we see that 7.7 percent fewer females than males are satisfied with the party. Looking at the intersection of voting behavior and sex, we find the same result. Approximately two males will vote for the DPP for every one female vote, based on our samples. (69.7:20.3) It is worth noting the females consistently chose to answer "I do not know" or "no opinion" more frequently than males when asked sensitive political questions, while males selected "I refuse to answer" more often than did their female counterparts.

Generally speaking, the older respondents showed greater support for the KMT (about 30 percent of total supporters), while most of the DPP supporters (about 40 percent) fell within the 18 to 29 age bracket. Compared to the KMT, DPP supporters tend to be younger.

Looking at the support index for party members, we might be able to get a glimpse of how well the centers are holding for the two parties. Our poll showed that 69.1 percent of KMT party members are satisfied with their party. Of course, there were those who answered "extremely dissatisfied," and although they comprised only 2.3 percent of the party members polled, still this does show that a small minority feels strongly dissatisfied with their party. As for the DPP, because there were rather few samples of DPP party members, no similar analysis can be done based on the statistics we received. However, looking at voting behavior, a rough conclusion can be reached - 35 percent of KMT members and 50 percent of DPP members will vote for their own parties. Moreover, looking at crossover data, we unexpectedly discovered an interesting statistic - 2.7 percent of the KMT members were willing to vote for the DPP whereas we could not find any DPP members who expressed a willingness to vote for the KMT.

Although the Ministry of the Interior has abolished the regulations pertaining to place of origin, there remains a very clear correlation between birth province and political party support. Looking at birthplaces, upwards of 44.8 percent of those born outside of Taiwan lean toward supporting the KMT while only 0.9 percent support the DPP. This ratio is much starker than that found when comparing native-born Taiwanese support for the two parties. Looking at the satisfaction index, upwards of 74 percent of those born outside of Taiwan and 48 percent of native-born Taiwanese expressed dissatisfaction with the KMT. A similar drop was found in the DPP satisfaction index, with native-born Taiwanese support for the DPP at around 24 percent. However, DPP support from those born outside of Taiwan dropped to less than 10 percent (8.3 percent). A difference, as far as the KMT is concerned, is that KMT supporters are roughly 50 percent native-born Taiwanese, while when we compare the composite support for the DPP, we find that native-born Taiwanese support has rocketed up to 90 percent.

Generally speaking, the educational background of a given voter is irrelevant. The majority of the people will still tend to consider the candidate as an individual rather than the party when making a decision on how to vote. Aside from those with an elementary school background or less who indicated in equal numbers that they give primary consideration to the party and the candidate, a majority (between 60 and 70 percent) of those with a middle school background or more emphasize the candidate and not the party. Those with masters degrees or higher had the largest percentage (70 percent) giving weight to the candidate and not the party.

Concerning the intersection of responses to the question whether "people's representatives only look out for their

own interest and do not represent popular opinion," the satisfaction index, and the support index for the two parties, we unexpectedly discover that among those who strongly agreed that "people's representatives only look out for their own interests and do not represent popular opinion," 60 percent expressed satisfaction with the KMT and 29 percent expressed satisfaction with the DPP. (This greatly exceeds the general satisfaction index of 53.8 percent for the KMT and 23.2 percent for the DPP.) This information about "self-serving people's representatives who do not reflect popular opinion" shows that such a view is commonplace among the electorate, that it cannot be changed, and therefore, it does not influence the voters' estimation of satisfaction with the two parties. Perhaps they feel that self-interest among people's representatives is merely a sort of individualized behavior that has nothing much to do with the individual's party? This point is truly worth pondering.

As for the long-standing battle within the KMT between the mainstream faction and the breakaway faction, and the give and take within the DPP between the Beautiful Island faction and the New Wave faction, although the behind-the-scenes activity continues, the people can still discern certain signs with the help of certain elements of the media that things are not all well. Looking at the intersection between responses that "high-level politicians are engaged in power struggles and do not lay emphasis on popular opinion" and the people's satisfaction with the two parties, we clearly see that those who subscribe to this view are now slightly less likely to be satisfied with and to support the two parties than before. Although the drop was only between one and two percent, it is not hard to see that the power struggles of the high-level politicians directly influence the people's feelings of satisfaction with the parties.

Looking at the intersection of responses to the statement "our nation currently lacks good leadership" and the support index for the two parties, we find that there has been a clear drop in the support for the ruling KMT party among those who concur with the statement. Among those who answered "I agree for the most part," satisfaction with the KMT slipped to 35 percent. Conversely, the more people disagree with this view the less their estimation of satisfaction with the ruling party is affected, with 80 percent of them being satisfied. A special point needs to be raised here. Aside from the jump in the DPP satisfaction index from 22 percent to 42 percent among those who answered "I agree wholeheartedly" with the statement that the nation lacks good leadership, there was not much correlation between satisfaction with the DPP and agreement or disagreement with the statement, with both at around 22 percent. This data shows that people do not associate the quality of the nation's leaders and impressions about the nation's rulers with their thoughts about the DPP. Also, it shows that the DPP's checking and balancing role is not sufficiently well manifested.



**Comments on Kuomintang Political Corruption***92CM0046A Taipei TZULI WANPAO in Chinese  
27 Oct 92 p 2*

[Article by Wu Nai-te, Assistant Research Fellow of the Institute of Nationalities of the Academia Sinica: "Ludicrous Li Teng-hui and Hao Po-tsun"]

[Text] Recently two of the most strangest and ludicrous events occurred in Taiwan's political arena. They are the moral rearmament movement launched by Lin Yang-kang and the statement made by Li Teng-hui and Hao Po-tsun against vote-buying. Although these two farces differ in nature, they share the same root and aim at achieving the same goal. Taiwan's politics under the rule of the Kuomintang is corrupted to an extent almost unbearable to the people. Since losing the support of the people, even the three Kuomintang tycoons who should be held responsible for the corruptive practices have to act pretentiously in every way. One of them seeks to develop the moral rearmament movement, while the other two grieve over vote-buying as if they have nothing to do with these corruptive practices and with the abnormal state of affairs at present.

In no way can morality be developed by the mere propagation of dogmas. Otherwise, government officials and politicians who have grown up under the Kuomintang's extensive moral education would have long ago refused to take more than their rightful shares, cherished people, taken good care of public property, and ready at all times to sacrifice themselves for the nation. The only way to develop morality is to give full play to the examples set by the people with high moral standards. Under the reign of terror of the awe-inspiring system, those with high moral standards would definitely refuse to cooperate with this type of immoral regime that pays no respects to human life and freedom. However, Lin Yang-kang serves it with loyalty, ignoring the trampling over humanity. It looks ludicrous when he is asked to develop the moral rearmament movement.

The statement made by Li Teng-hui and Hao Po-tsun against vote-buying looks ludicrous in the same way. These two are the most powerful men in the ruling circle at present. Not long ago, they jointly nominated many old comrades who had bought votes during the election and new comrades with vote-buying capabilities and inclination as candidates for the legislature. It is inconceivable that they truly know nothing about those people's past records and characteristics. Their ignorance also makes people worry about Taiwan's future. If they know about those people's past records and characteristics, and still nominate them, what they do (or do not do) will become one of the roots for vote-buying. Whether Li and Hao nominate these comrades because they know nothing about the nominees' past and characteristics or they do this on purpose, their statement against vote-buying looks ludicrous just the same.

Corruptive practices in Taiwan's political arena truly make people feel sad. There may be some hope for

Taiwan's politics, if the people in Taiwan think more about the original sources of corruption, and pin less hope on those who are at the helm of the government.

**Editorial Downplays Recent Monetary Policies***93CE0096D Taipei CHING-CHI JIH-PAO in Chinese  
4 Oct 92 p 2*

[Editorial: "Monetary Policies—Declarative vs Substantive"]

[Text] The Central Bank announced yesterday (3 October) that it was raising private outgoing and incoming remittance (money order) limits, as well as taking the two steps of publicizing its market operations and lowering its bank discount rate, in hopes of shrinking the gap between domestic and foreign interest rates, boosting investment aspirations, and thus stimulating economic prosperity. While these Central Bank actions were a little slow in coming and slightly too conservative, in addition to being more declarative than substantive, they are still welcome in light of our current overall economic climate.

While the Central Bank's policy considerations were obviously mainly to adapt to domestic conditions, they also included a foreign factor. Even though the major industrialized nations, such as the United States, Japan, Germany, and Britain, have all lowered their interest rates in the last three months, their economies remain low-key, so that our gap between domestic and foreign interest rates has widened, which has disrupted our New Taiwan currency exchange rate. Our domestic economy, which is dominated by foreign trade and becoming steadily more internationalized, cannot wall itself off from such financial changes in the international economy. In particular, of our Central Bank's seven monetary policy adjustments since the last half of 1991, all of the first five were in response to the United States lowering its discount rate, while the one in May 1992 to stabilize prices raised our discount rate 0.25 points instead. While yesterday's lowering of interest rates by our Central Bank was apparently to act before the U.S. Federal Reserve Board did, it actually leaves our adjusted domestic discount rate still 2.625 points higher than in the United States and 2.375 points higher than in Japan. This shows that our Central Bank's focus on shrinking the gap between domestic and foreign interest rates was certainly necessary.

The raising of private outgoing and incoming money order limits was even more obviously due to foreign considerations. Based on the regulations in Article 3004 of its 1988 Omnibus Trade and Competition Act, the U.S. Department of Treasury is going to report on exchange rates to the Congress in mid-October. But the United States has been crying out in advance of this report that our Central Bank is suspected of being involved in manipulation of exchange rates, so expects us to gradually ease our outgoing and incoming money order limits. After returning from a meeting last month

of the International Monetary Fund and World Bank, where he met in Washington D.C. with U.S. Deputy Secretary of Finance Moffat, the Central Bank of China Governor Samuel Hsieh immediately took charge of this easing of our monetary policy. But yesterday's announcement raising the limits of private outgoing and incoming money orders from \$3 million to \$5 million should be seen as only a minor step in our Central Bank's emphasis on foreign exchange liberalization. As such a small step will not necessarily effectively dispel the probable United States criticism of us in its exchange rates report, we still need to take further action.

Second, yesterday's announcement by our Central Bank of its two monetary policy steps was essentially more declarative than substantive, with its greatest significance being that the Central Bank wished to declare a general monetary policy framework based on its assessment of our economic prosperity, prices, and financial situation. In particular, its decision to set the lending rate among banks at 6.5 percent aimed at publicizing its market operations, was a specific example of the Central Bank's deliberate forcing down of bank interest rates. But as bank interest rates in recent months have been experiencing an overall increase due to competition for market share, to which the Central Bank was forced to respond, neither lowering the discount rate nor publicizing its market operations will be forceful enough. While the Central Bank is lowering by 0.5 points each the discount rate and interest rates on secured-loan and short-term financing beginning tomorrow, such Central Bank actions do not usually open much of a window for bank discounting, and the amount of funds that they enable banks to finance is also quite limited. As to publicizing its market operations, trading notes on money markets to influence the banking system's deposit reserves to control the money supply, is certainly not as direct or effective in easing money and lowering bank financing costs as adjusting the deposit reserve fund rate.

The Central Bank's wish to lower interest rates, while not using its most effective policy options, shows its dilemma in trying to achieve the two general objectives of maintaining price stability and boosting investment desire. From an economic growth perspective, short-term stimuli for economic prosperity and long-term boosting of investment desire are both matters of great government and opposition interest at election time. But meanwhile, domestic prices have increased more than planned in 1992, with the impact of three skyrocketings in September in particular that hit and raised tuition and miscellaneous fees, bringing a possible increase of as much as 6 percent. As the Central Bank has to strive for a balance between growth and stability, while not wanting to take too great policy risks, it has been forced to use moderate monetary policy tools that produce indirect results.

In fact, this not only reflects the timidity of our Central Bank policymaking authorities, but has also become a pattern. Of our Central Bank's seven monetary policy adjustments since 15 July 1991, most were passive

adaptations to changing circumstances, with very little positive initiative and most of the measures being quite conservative. Such passive and frequent policy adjustments, with the Central Bank policymakers' mindset of thinking it best to attend to each and every aspect of a matter, can hardly be called dealing with matters concretely. While yesterday's action still has a passive flavor as to choice of policy tools, it can be called an initiative as it occurred before a possible United States lowering of interest rates and tomorrow's publication of our domestic price index. This is precisely why we hope that our Central Bank will take a closer look at domestic and foreign financial and economic conditions, and continue to make monetary policy adjustments. Especially if the banking industry finds it impossible to effectively reduce interest rates on the heels of this action that was more declarative than substantive, our Central Bank should take active and flexible steps as domestic and foreign conditions permit to effectively spur investment.

#### **Editorial on Economic Slowdown, Six-Year Plan**

*93CE0096C Taipei CHING-CHI JIH-PAO in Chinese  
9 Oct 92 p 2*

[Editorial: "The Lagging Progress of Taiwan's Six-Year National Development Plan Is the Major Cause of Our Economic Slowdown"]

[Text] The Executive Yuan's Statistics Office pointed out the other day that Taiwan's economy has been affected by the slow international economic recovery, as well as active export competition by developing countries, so that our commodity exports have slowed, with exports down even more for the three months of June, July, and September 1992. This means that our 1992 economy will not be as good as was predicted at the beginning of the year, with our 1992 economic growth rate being lower than the 6.4 percent that was estimated in August, which will make it hard for us to achieve in 1992 the projected 7 percent economic growth objective of our National Development Plan.

But it is open to question whether our inability to achieve our 1992 economic growth objective of 7 percent is really due to our export decline, as was posited by the Executive Yuan's Statistics Office. While our exports were down in June, July, and September, they were up 7.6 percent for the first three quarters, which is certainly neither bad in comparison to other countries in light of the international economic recession, nor behind the year's planned export growth objective of 7.5 percent. While the appreciation of the New Taiwan [NT] currency in relation to the U.S. dollar means that after converting to the NT dollar and correcting for inflation, our real export growth rate will certainly be lower than our planned objective, our lower export growth rate is a limited but obviously not the key factor in our inability to achieve our 1992 economic growth objective. The Executive Yuan's Statistics Office projected in August that our 1992 fixed assets investment would be up 18.3 percent for the government and 6.2 percent for public

enterprises, which figures are 5.2 and 8.8 points lower, respectively, than the planned objectives of 23.5 percent and 15 percent, with the latter being less than one-half what was planned, which obviously makes our lagging fixed assets investment the key factor in our inability to achieve our 1992 economic growth objective.

The Economic Development Council's progress report to the Executive Yuan on the Six-Year National Development Plan the other day pointed out that work had begun on less than 65 percent, or only 45, of the 70 key projects under its jurisdiction that will cost more than NT\$20 billion, and that progress was lagging on more than 20 percent of the 45 that are underway. When the annual plan was approved by the Executive Yuan at the beginning of 1992, the responsible unit announced that trying to spur domestic demand by increasing public investment to achieve the right economic growth objective, would be bound to fail. Not only does the lagging implementation of our National Development Plan affect our achievement of the year's economic growth objective, but the budget backlog due to its lagging progress affects the implementation of other development plans on one hand, while producing a tightening effect on the other, which is detrimental to our whole economy. For instance, while more than NT\$420 billion was budgeted for the 19 key transportation and communications projects under the jurisdiction of the Executive Yuan, less than NT\$300 billion of it had actually been spent by the end of the fiscal year at the end of June 1992, leaving more than NT\$120 billion, or 30 percent, unspent. This leaves over NT\$120 billion in other economic development plans out of the 1992 budget, which will impact the progress of the whole Six-Year National Development Plan. The authorities need to make a conscientious self-criticism and improvement in this area.

While the Executive Yuan's Statistics Office plans to revise our 1992 economic growth rate downward from the 6.4 percent that was projected at the beginning of August, it is understood that it will not project it too low, but will estimate it at still above 6 percent. In addition to the abovementioned export growth impact, the key reason for this is brisk private consumption. The August projection was that 1992's private consumption would be up 13.6 percent, bringing double-digit growth to private consumption for the sixth year in a row. Its rapid growth means that private consumption accounts for a markedly larger percentage of our GNP, which percentage is projected to be up from 1986's 46.7 percent to 54.8 percent for 1992, or 8.1 points in six years, which has brought a sharp decline in our national savings rate to 27.9 percent for 1992. Except for 1975, when it fell to 26.7 percent due to the first oil crisis, this is the lowest point that our savings rate has dropped to in the last two decades. While sharply higher consumption that increases domestic demand can contribute to a year's economic growth, such a "high consumption with low savings and investment" makeup in 1992, when our per capita GNP is passing the \$10,000 mark, shows that we

may be becoming infected with overheated consumerism, which is undoubtedly an extremely dangerous sign. Meanwhile, as the government is actively pushing ahead with our national development, with a huge demand for funds to invest in public development to remedy past development gaps, it is suffering from a shortage of financial resources. This means that the current further sharp fall in our savings rate is adding to the government's fundraising difficulties. As scholars are concerned that overexpansion of public investment might have an exclusionary impact, which possibility is even greater due to the sharp drop in our savings rate, the responsible authorities should not ignore the danger sign of this "high consumption with low savings and investment" makeup.

As to our exports, even in the midst of the worsening international economic recession, they still grew 7.6 percent for the first three quarters of 1992, which sustained our economic growth. But as to our export regional breakdown, we are experiencing negative growth of exports to Japan and Europe, while our exports to Hong Kong are up 23.4 percent, which is the key factor in their growth. Our increased exports to Hong Kong in the first three quarters of 1992 contributed as much as 50 percent to our overall export growth. In other words, if we stopped our exports to Hong Kong, our export growth rate would drop by half to only 3.8 percent. This means that our exports to Hong Kong account for as high as 18.3 percent of all of our exports, surpassing the percentage for our exports to all of Europe. Meanwhile, as we had a trade surplus with Hong Kong for the first three quarters of 1992 of \$9.7 billion, or more than our whole trade surplus of \$7.4 billion, our foreign trade situation for the first three quarters of 1992 without exports to Hong Kong would have been a deficit of more than \$2.3 billion. As the major reason for our sharp increase in exports to Hong Kong is entrepot trade with mainland China, our export and surplus dependence on the mainland is growing steadily, which is another matter that warrants sharp vigilance.

#### **Editorial on Establishing Fair Land Tax System**

*93CE0096B Taipei CHING-CHI JIH-PAO in Chinese  
7 Oct 92 p 2*

[Editorial: "Striving for a Fair, Rational, and Feasible Land Tax System"]

[Text] The recent debate over our land tax system, in which various parties have divergent views, is bringing more related confusion to our land tax reform goals and methods, making it harder to reach a consensus, and causing a certain amount of discrepancy in our views about whether "the debate will make the truth clearer or not." We hope that this is merely a temporary phenomenon, and that as time goes by, misunderstandings of the various theories will be cleared up, with all of their essentials becoming understood, their key issues becoming gradually focused, and all parties' views converging, so that a consensus can finally be reached.

There certainly seems to be no reason why a consensus cannot be reached on the real intention of land tax reform. Simply stated, our land tax system goal is to strive for the greatest possible land profits to be shared by all. But today's issue is that our current tax system is unable to truly achieve the goal of all sharing in the profits from increased land values. This is precisely why the pertinent government institutions are acting so cautiously and advancing so gradually when setting or changing land use classifications, which is causing a related disjointedness between the pace of and flexibility in land use classification changes and our society's real growth needs, and making it impossible also for us to achieve our goal of the greatest possible land profits.

Another key issue grows out of the side effects of land speculation. As land use classifications are so hard to change, and most appreciation profits are private, buying a plot of nonconstruction-use land at a low price, and then exploiting powerful government-commercial relations to change its use classification, can bring profits of tens or hundreds of times. Attracted by such high profits, our social skills and capital are being largely invested in land deals that are of no help to overall social production, which is leading to neglect of productive investments, and further slowing and stalling the upgrading of our industrial technology.

While the pertinent department's original proposal to collect land appreciation taxes on actual prices was expected to improve our existing system defects, so that we could achieve the dual goal of the greatest possible land profits to be shared by all, the recent series of debates seems to show more views being that this may have been a good idea, but its actual implementation has been difficult even to the point of being unfair, so that it is hardly feasible. Quite a few of these opposing views reflect rural doubts about our tax system. That is, why must the fields that we have farmed for generations become a "reform" goal? They also reflect the misgivings about the experts who have been engaged in land tax affairs. That is, how can the government set with the pen real transaction prices?

In fact, if the actual-price taxation plan was made more complete, these two general areas of doubt could be considerably cleared up as follows:

1. As pointed out in a CHING-CHI JIH-PAO editorial the other day, if tax rates are not lowered, the change to actual-price taxation will sharply increase tax burdens, which would obviously be quite unfair to landowners who have farmed their land for generations, so that tax rates must be adjusted. So why not change the current progressive tax rates based on multiples to graduated rates that are based on guarantees for a fixed number of years? If we made many changes for short-term users, by applying the original high tax rate, and applied a lower tax rate to long-term owners (such as those who have farmed for generations), this would enable us to achieve our goal of curbing speculative deals without increasing the burden on long-term owners. Such tax rate changes

could dispel farmers' doubts, while making feasible our original intention of seizing the time to crack down on speculation. In fact, as the number of land speculators is actually very few, a good, well-distributed, and considerate policy should be focused on them, without necessarily affecting the majority of common people who have no speculative aspirations to avoid a negative reaction from them.

2. If land-appreciation was changed to actual-value taxation, the government actually could not, except for land transactions conducted through listed companies or in large amounts, investigate the details of ordinary transactions, just as in business tax collections, but would have to act through prioritized spot checks. How would this spot checking operate? It would probably have to begin with a set of "benchmark prices" or "reference prices" for land in each zone and sector, with prioritized spot checks being made when declared prices deviate more than a certain percentage from these benchmark prices. If this really occurs, so that these benchmark prices become commonly accepted over time, we believe that ordinary transactions will simply operate according to declaration of land appreciation taxes based completely on benchmark prices.

This would limit the discrepancies in raising proclaimed current values to near market prices, and then collecting taxes based on proclaimed current values. If proclaimed current values were based on transactions in all areas, just as for intermediary companies, with necessary adjustments being made as needed, they would in fact not be much different from actual prices. While it may be said that the government does not have such a rapid-response capability, it is worth asking why it does not since ordinary intermediary companies (and banks) all do? Moreover, if the government does not have this capability, how can it have that to find actual prices and collect taxes based on them?

Since proclaimed current values adjusted as needed (by the day, week, or month as set by each zone) would be the same as actual prices for ordinary transactions, why not put them onto a single track, by requiring taxes to be collected based on actual prices, and making rational proclaimed current values "benchmark prices," while retaining the government's right to make spot checks? This could dissolve many controversies, while providing more support for the spirit of "actual-price taxation."

As we believe that reducing the wave of land speculation, so that our resources can be used correctly, with the highest possible land profits being shared by all, is what most people want, we should be smart enough to come up with a set of methods that can achieve these goals, and which are fair, reasonable, feasible, and able to gain the support of the majority. A method set in the spirit of actual-price taxation, after adjustment, revision, and detailed analysis, whether it is called actual-price taxation by name or not, should not deviate from these goals, so should finally be acceptable to the majority.

The most worrisome part is that in the process of seeking for consensus, the divergent views might lead to polarization, which would finally stall the whole process and return us to the starting point, so that current defects would continue to exist. We hope that this polarization can be avoided, so that a consensus that is in the best interests of our country and society can finally be reached.

### Editorial Examines Stock Market Regulation Policies

93CE0096E Taipei CHING-CHI JIH-PAO in Chinese  
8 Oct 92 p 2

[Editorial: "On Thoroughly Examining Domestic Stock Market Regulation Policies"]

[Text] The case of Yuansheng Corporation Director Hsu Cheng-hsin [1776 2973 2450], who is suspected of being involved in stock speculation with stock market magnate Lei Po-lung [7191 0130 7893], has again exposed a severe defect in our domestic stock market regulations. Faced with this long-known market defect, our responsible securities authorities need to conscientiously consider whether to continue the current policy of a high degree of regulation, or to change course to a new style of reestablished stock market control regulations. It will be only through serious decisionmaking and conscientious implementation that we will be able to reverse our domestic stock market forces and image, without which it will remain hard for us to ever escape the cloud of improper and unfair speculation.

The practice of listed company directors and supervisors acting in collusion with major stockholders, financiers, and magnates to speculate for profit on their own stocks, is not only a longstanding one, but is also growing in intensity. In fact, it is precisely the major lure for certain unprincipled entrepreneurs to avidly list their stocks in hopes of exerting control over the stock market to gain majority investor interests.

To eliminate this defect, the Securities Control Commission [SCC] could take either of the following two diametrically opposed steps: 1. It could intensify its investigation and suppression, in hopes of stamping out the evil practice of speculation, by responding to it with a stronger and more highly regulated control policy. 2. Or it could abandon its current practice of a high degree of regulation, by changing to a more relaxed listing examination and approval system to enable companies to list stocks at will once they conform to the essential qualifications. This would mean that the SCC would only have to exercise the necessary mandates and oversight to make sure that pertinent information was revealed, while listed companies operating and profitmaking capabilities would be left entirely up to the investigation and judgement of investors.

Past experience shows that whenever similar cases come to light, while the media and most responsible institutions respond as one with determined calls for immediate adoption of the first abovementioned remedy, the reality is that the chronic defect is absolutely never eliminated. At most, the offenders lie low until the incident blows over, simply taking a temporary break and waiting for the times and trends to change and the media attention to fade away so that they can slip back into their old ways, which makes the next recurrence simply a matter of time.

Some may complain as follows: Such continuously recurring incidents occur mainly due to the connivance of the responsible authorities. As the authorities never take the necessary steps despite clear market rumors and warnings, such incidents can be stopped only by strengthening discipline, tightening down on standards, and even granting the SCC more investigative (or even judicial) powers. Otherwise, without adequate weapons, how could SCC officials investigate and check up on large listed companies? Such regulatory logic means that it would be necessary to further raise listing examination and approval standards and qualifications, and that it would be only through highly standardized screening and selection that the "incident" rate could be lowered.

But both past domestic cases and foreign experience show that seemingly all of the demonstrated results are inconsistent with this deduction. Professor G. Stigler, the famous Nobel Laureate in economics, conducted a detailed observation and study of U.S. securities regulations, finding that despite their enforcement, they still fail as regulators. Because our domestic lack of enforcement is even more severe, regulatory failures here would be even more unavoidable.

In fact, those with blind faith in judicial and investigative powers would probably not be so optimistic if they took a look at the results of the investigations of and even final verdicts on major domestic fraud cases by our judicial organs. As our judicial organs do not even have public confidence, how could they be depended on in such cases? While others believe that elevating their status might curb the incidents, a look at the way one out of five control commission units actually exercises its functions independently, seems to provide only further disproof of the "status theory," so that this argument is not convincing either.

Because the abovementioned remedy possibilities are so limited, should we then simply allow our domestic stock market to deteriorate while we sit by with folded hands? Before reaching such a pessimistic conclusion, why not consider the other approach? That is, since it is so hard to prevent or stop speculation by listed companies, why not have the responsible authorities retreat to the second line of defense, and allow investors to stand on the frontlines by conducting their own direct oversight of company operations? As investors have common interests with listed company operating conditions, they have

strong incentives to practice oversight, so would naturally not be negligent. This would leave the government with only setting the responsibility of companies to reveal the pertinent information and attending to specific duties. Then, once investors obtained and reported evidence of illegal speculation, the government could investigate and deal with it in accordance with the law. Such securities regulation could achieve the regulatory effect of twice the result for half the effort.

Along with such a regulatory policy, our company listing examination and approval system should also be essentially changed. This means that the government should similarly stop playing the role of watchdog for investors, and that investors must take the initiative to understand, study, and assess the operating qualifications of listed companies, as well as being responsible for investment profit or loss risks. This would not only sharply lower listing standards and thresholds, but would also make consignment prices more flexible, so that there would be no further need for a set of formulas to calculate the mandatory consistency.

Such a different-than-in-the-past stock market regulation policy could sharply shrink the gap between the interests of the overseers and the beneficiaries, even to the point

of making them overlap, as well as lightening the government's too heavy protection responsibility. This would be effective because it would be founded on the basic principle of equal rights and responsibilities.

Even more importantly, lowering the company listing examination and approval threshold would naturally eliminate the past "standard groupings" formed by man-made obstacles. Any enterprise or company that wished to and had conformed to the essential requirements could raise funds on capital (stock) markets. Once government obstacles were removed, capital market competition would enable those with better fund application performance to acquire their needed funds first. Then, market forces could replace the former artificial examination and approval, which would be the basic way to truly defy improper business-government relations, stop money-power politics, and dissolve private interest-group pressure on securities control units.

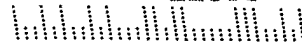
Based on a deep study of many domestic reforms, radical reform means starting with system change to truly eradicate defects. As to the reestablishment of stock market order and forces, while strict investigation and suppression could not be reliable in the long term, easing up to allow the market to regulate itself to bring its existing oversight capabilities into full play, is the only path to normal operation.

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