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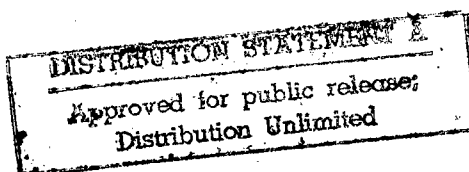


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# ***JPRS Report***

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# China

JPRS-CAR-93-003

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### Wang Ruowang on Overseas Democratic Movement

93CM0074A Hong Kong TANG TAI  
[CONTEMPORARY] in Chinese No 20, 15 Nov 92  
pp 50-52

[Article by Wang Ruowang (3769 5387 2598): "Drive Away Ghostly Spirit; Do Away With Factionalism; Unify the Democratic Movement Using Three Guiding Principles"]

[Text] Editor's Note: On 23 August 1992, a roundtable conference on the topic of "How Best To Promote Political Reform on the Mainland" was held in San Francisco, sponsored by the China Democratic Front, the China Democratic League, the Fund for Education in Democracy, the Silicon Valley Association for Promotion of Democracy, and the 21st Century Fund for Democracy. Among some 100 attendees were Wan Runnan [8001 3387 0589], Yu Dahai [0060 1129 3189], Fang Lizhi [2455 0536 0037], Yan Jiaqi [0917 1367 0366], Xu Bangtai [1776 6721 3141], Huang Yuchuan [7806 7183 1557], Zhu Jiaming [2612 0857 2494], Liu Kaishen [0491 0418 3947], etc. It happened that Wang Ruowang just arrived in San Francisco, and he spoke about certain principles at the conference. Following is the text of his remarks. [end editor's note]

What we are discussing in today's conference is the question of China's political reform. The fact that I happen to be in the United States and have this opportunity to participate is a great personal pleasure. Convening such a roundtable conference is in itself a felicitous event.

What I am prepared to discuss with you here are three guiding principles that I might compare to the concise yet appealing political platforms the American presidential candidates are using to win the trust of the electorate in the heated two-party electoral campaign now underway. To unify our comrades from abroad and on the mainland, our first task is to draw up basic guiding principles, which at a minimum, deal with the crux of political reform urgently needed by the masses. To unify activists of the various democratic movements abroad, we need political principles that all can trust and support—that is to say, principles to guide and unify our operations as we work toward our objectives while minimizing the individual quibbling and minor discord unavoidably involved in the process. When Deng Xiaoping talked about economic reform on his tour of southern China, calling for more boldness in and quickening the pace of reform, he did not touch on the point that promoting economic reform also requires a healthy environment of political democracy and reform. Without a sound and effective reform of the political system, accelerating economic reform will lack focus, will likely go in circles, and cannot guarantee against sabotage by the hard-liners' faction, including the danger of the latter trying to reassert control.

#### Symptoms of Deng Xiaoping's Fatal "Illness"

Deng Xiaoping, constrained by his rank, has avoided facing a crucial question, which is precisely the question

we need to address here. What he cannot see with his eyes closed is the symptom of that fatal illness the Chinese Communists are most sensitive about. What should this ruling party be afraid of? They are afraid of their one weakness; they lack the courage to face up to the people and to history.

Given some urgency in their implementation, I propose the following three basic principles: 1) terminate one-party dictatorship, 2) permit freedom of speech and press, and 3) release and rehabilitate all political prisoners from the 4 June incident.

Some people challenge the proposition that the Chinese Communists would ever agree to the first two principles, since their implementation would mean "the end" of communist rule.

Because the Chinese Communist authorities will reject or not carry out these principles, and we therefore dare not advocate the actions that can save the country and the people, then what is it that we are struggling for? We will certainly become the kind of servile people's organizations that aim to please the master, and we will be no different from the several democratic parties in the political united front.

We can see for ourselves that the Chinese Communists have already taken a defensive posture on the "ending one-party dictatorship" question. They have retreated from the first line of defense, namely, in the context of world public opinion, China no longer calls itself a political system under a one party dictatorship but instead has changed to say that "what we have is a multi-party cooperative political system under the leadership of the communist party," using the several democratic parties or factions as window dressing to fool both themselves and others. Playing tricks with semantics will not cover the fact of one-party dictatorship, and there are plenty of people in the mainland's democratic parties who are not willing to be window dressing for the Chinese Communist party. When the one party dictatorship comes to an end, these people will come forward and play an important role.

When we propose the first principle of "ending one party dictatorship," we aim also to break down the second barrier set up by China's semantic play on words. We say let it be replaced by a multi-party system. In terms of worldwide perspectives, the countries originally under communist party dictatorship, such as those in Eastern Europe and the Soviet Union, have all been transformed into parliamentary systems with multi-party elections, and in carrying out political system reform, these countries have replaced the old system with a multi-party system. It is obvious that one party dictatorship is an unwanted system facing certain death as the century draws to a close.

I should add a word of clarification, and that is ending the one party dictatorship does not mean ending the existence of the communist party; a communist party that takes the initiative to return political power to the people and carries out political system reform can still be viable. But if a party relies on force, and in the name of the so-called proletariat dictatorship seeks to maintain one party rule that has no popular support, then such a ruling party will be short-lived in historical terms. This is historical dialectics.

### **Vanguard of Political Democracy**

The second principle, "freedom of the press," is a prerequisite of any modern state; without freedom of the press, there is no freedom of speech and publishing, nor any protection of human rights. Only dictators and feudal kings fear press freedom; a country that relies on censorship and controlling the press may be able to maintain political power for a time, but certainly not for long because censorship is the cloak under which official corruption, bribery and false claim and pretext are hidden. At present, some in the CPC Central Committee have recognized the danger of controlling freedom of the press. For example, Hu Qili [5170 0796 4539] and Rui Xingwen [5360 2622 2429], both CPC Central Committee members, were condemned and attacked by the ultra-leftists because they told reporters on the eve of the 4 June incident that "press reform must quickly be carried out."

Today, the masses on the mainland do not read party newspapers, and that is because these papers are filled with untrue reporting and ultra-leftists' views. I believe that intellectuals and businessmen on the mainland (including some in the party and the military) all urgently demand that the press be given freedom. Only a handful of the conservatives and corrupt officials are afraid of press freedom. (They are most afraid of seeing news of their ugly deeds in print.) It should therefore be said that freedom of the press is the vanguard of political democracy.

### **Chinese Communists Should Actively Seek People's Forgiveness**

The third principle, "release detainees from the 4 June" incident, is the most widespread, urgent demand from overseas. This question cannot be resolved in one day, but to the extent the Chinese Communists cannot redress this ugly phenomenon and rid themselves of this bad dream, then on every 4 June anniversary, those responsible for the incident will unavoidably be nervous and jumpy because of their guilty conscience. If they take the initiative to thoroughly carry out this principle, the people can perhaps forgive them, and the image of the CPC butchers may even be ameliorated. In the past, the CPC authorities did release some detainees under strong international pressure, and its ugly image did seem to improve. But the CPC has approached this on a case-by-case basis, giving the impression furthermore that they are using human hostages in exchange for most-favored nation treatment. Now, in the third principle we propose, we ask that the CPC authorities adopt policies

and laws that protect the citizens and their basic human rights, and we demand that all those political, ideological and religious prisoners, whether detained in the 1979 Democracy Wall movement, or those Catholics and Christians who were not in the "Three-Self" movement, be released quickly. Because these people were all falsely or wrongly accused, they should all be rehabilitated; only by doing so can the people's anger be soothed and the antagonism between the CPC and people be dissolved.

Up to now, the CPC has not shown any awareness of this, and recently it is still trying to trump up new cases. From July to August this year, they tried and sentenced Bao Tong [7637 1749] and Gao Shan [7559 1472] to respectively seven and four years in prison, a dare-the-world maneuver that poured oil on the angry fire among the people. In the United States Congress, 33 representatives jointly cabled their protest to Beijing. I suggest that we launch an attack by marshalling the waves of strong protest from inside China and abroad, for the facts have shown that intercession by international public opinion and Chinese and foreign human rights activists are effective. The 14th CPC National Congress will soon convene; we should separately send letters to the people's representatives demanding the release of Bong Tong, Wei Jingsheng [7614 0079 3932], Ren Wanding [0117 3979 3957], Wang Juntao [3769 6511 3447], Chen Ziming [7115 1311 2494] etc., and jointly propose that Zhao Ziyang again be given an important position in government. In doing so, we can help create a pro-human rights and democratic atmosphere in and outside of the 14th CPC National Congress.

I welcome from all of you any revisions and elaborations of the above-mentioned three principles to make them more complete, focussed and noteworthy.

In my view, we have to implement the above three principles before we can get at the crux of true political reform. The first of the three principles is the foundation and indeed prerequisite to implementing political democracy. Unless this question is resolved, the others face the danger of missing their mark or being compromised in execution.

### **Overseas Democratic Movement as Seen by Mainland People**

How do intellectuals on the mainland view the overseas activities of the Democratic League and Democratic Front? From what I know, they are very concerned; they know about your important activities through overseas shortwave broadcasts, such as the meetings you organized near the United Nations to interrogate and publicly try Li Peng, and the various 4 June third anniversary observances at different places. What you are doing is giving spiritual encouragement and support to intellectuals on the mainland. What I can report to all of you

is that the sacrifices and efforts you have made abroad are not in vain and are effective. Unlike the era in which the revolutionary movement to overthrow the Qing Dynasty was spearheaded by Sun Yat-sen while exiled abroad, we live in a world where information and communication are worldwide, and China can no longer be sealed off from the world.

We learned from the Chinese Communist media that internal struggles have taken place in and among the organizations in the overseas democratic movement, a development we view with deep regret and discouragement but which the Chinese Communist authorities relish, for it would seem that we are again falling into an old habit characterized by the saying that "quarrel and contradiction arise when three Chinese get together." Now, in our respective democratic movement organizations, can we not work for the common good of the Chinese people and avoid the fatalistic trap which displays the worst in our national character?

#### **Drive Away the Ghost of Mao Zedong**

Let me make myself clear at this point: it may be too much to expect peaceable coexistence at all times within one political party, one organization, or even one small family. But as we are prepared to discard the slogan of one leader, one ideology, and one political party dictatorship, then in our democratic movement organizations, we should allow for pluralism with diverse and conflicting points of view. Therefore, we should not be too surprised at the conflicts occurring within a certain organization or among several organizations. The real issue is that to a greater or lesser extent, all of us have been subjected to or nurtured by Mao Zedong's thoughts. Even when we go abroad, we unavoidably carry with us more or less of the bad habits that Mao Zedong left us. For example, if need be, we praise a person to heaven; when a person is said to be wrong, we beat him to death with the swing of a stick; and if struggle is called for, we struggle to the very end. Another example: if the system of documenting the files of a case cannot be practiced overseas, then any one in opposition can easily be dubbed a bad element or intelligence agent.

Let us admit, my friends from the mainland, that a little ghost of Mao Zedong is making trouble in all of our souls. I am a communist party member, and the little Mao Zedong within me is a stubborn one indeed. Therefore, we are confronted with the task of driving away that ghost from our being. That means that we should constantly remind ourselves, and in our action take stock of the need to nurture the culture of democracy within us physically as well as spiritually. This is by no means a simple task! To this long-term, self-administered exercise I shall commit myself.

In closing, let me list below four courses of action not only for my own guidance but also as encouragement for all of us: 1) respect other people in the spirit of equality; 2) avoid forming factions; 3) get rid of the bad habits of

small organization; and 4) be broad-minded in subordinating oneself to the collective benefits, taking overall interests into account.

#### **Personnel Changes in State Council**

93CM0073A Hong Kong TANG TAI  
[CONTEMPORARY] in Chinese No 20, 15 Nov 92  
pp 40-43

[Article by He Ping and Gao Xin: "Personnel Changes in Ministries and Commissions of the State Council Under Consideration"]

[Text] A group of officials at the rank of full minister in the PRC State Council may be removed from their present positions at the end of this year or the beginning of next year. Based on the information available to the Center for Analysis of the Situation in China, this group of officials will include, at least, Cai Cheng, minister of justice, Zhao Dongwan, minister of personnel, Huang Yicheng, minister of energy, Yang Taifang, minister of posts and telecommunications, and Lin Zongtang, minister of aeronautics and astronautics industry. Some of them, such as Cai Cheng, Zhao Dongwan, and Yang Taifang, were ousted from the Central Committee at the 14th CPC Congress. Some, such as Huang Yicheng and Lin Zongtang, even failed to be elected alternate members of the Central Committee. Of the candidates for ministerial appointments, it is already known that Liu Jiuyan will be minister of aeronautics and astronautics industry, and that Wu Yi will be promoted to the position of minister of foreign trade. There is still no final answer to the question of whether Qi Huaiyuan or Tian Cengpei will become minister of foreign affairs. It is rumored that Tian Cengpei will replace Qiao Shi's trusted follower Zhu Liang as head of the CPC Central International Liaison Department.

#### **Cai Cheng Worked Under Zhao Ziyang in the Guangdong Days**

The Justice Minister Cai Cheng, an official under Zhao Ziyang in the Guangdong days, is 65 years old this year. He is from Puning, Guangdong, and used the name Wu Hongyi in earlier times. He joined the CPC in 1945, and worked as an officer and secretary at the Security Department in the government of the Shaanxi-Gansu-Ningxia border area. After the CPC came into power, he worked for a long time in the public security system of Guangdong Province, and was for a time the director of the general office of the provincial Public Security Department and the deputy head of the provincial Public Security Department. Later Zhao Ziyang transferred him to the positions of deputy director of the general office of the Public Security Ministry and director of the research office of the ministry. In 1984 he became the president of the University of Public Security. In 1987 he was elected member of the 13th CPC Central Committee. Cai Cheng's succeeding of Zou Yu as the justice minister in 1988 was seen as related to

Zhao Ziyang's effort to appoint his previous subordinates to important positions. After Zhao was ousted, Cai Cheng was not removed from his office. This was because he had not been involved in the 4 June incident. But his career progress is hampered by his ties to Zhao Ziyang.

#### **Zhao Dongwan Belongs to the Chen-Yao Faction**

The Personnel Minister Zhao Dongwan, who is regarded as belonging to the Chen Yun-Yao Yilin faction and for a time studied in the Soviet Union, is 66 years old this year, and is from Nanyang, Henan. He attended the Natural Science Academy of Yanan and the Medical University of the Eighth Route Army some time after 1940. He joined the CPC in 1941. He became the political commissar of Northeast China Hospital, and a section chief in the office of the Northeast China Administration Commission in eastern Liaoning after 1945.

After 1949, he worked as a department head in the Enterprise Administration Bureau of Northeast China, and the director of the Fushun Heavy Machinery Plant. In 1958, he graduated from the Heavy Machinery Institute of the Soviet Union. After that, he worked in successive periods as director and chief engineer of the Flargy First Heavy Machinery Plant, a bureau director in, and deputy minister of, the First Machinery Industry Ministry, deputy minister in charge of the State Science Commission and concurrently deputy minister in charge of the State Planning Commission, deputy secretary-general of the Central Steering Group on Fiscal and Economic Affairs, and Minister of Personnel. On 9 June 1986, he became director of the State Council's task force on the resettlement and placement of military officers with professional expertise. He became Minister of Personnel in 1988, and the deputy chairman of the State Council's steering group on the work of introducing foreign trained personnel in May of that year. On 16 October of the next year, he became deputy director of the general office of the Commission on Personnel Planning for State Organs. He was an alternate member of the 10th CPC Central Committee and a member of the 13th CPC Central Committee. He presided over the work of designing and building such large equipment as the 12,500-ton flexible hydraulic forging press, the 30,000-ton hydraulic press for mould forging, and model 1150 rough rolling mill.

#### **Huang Huoqing's Son Huang Yicheng**

The former Supreme People's Procurator-General of the PRC Huang Huoqing's son and the Energy Minister Huang Yicheng, who once studied in the Soviet Union, is 66 years old this year and is from Zaoyang, Hubei. He joined the New Fourth Army in 1939, and enrolled in the Natural Science Academy of Yanan that year. He joined the CPC in 1945. He was once secretary of the party cell at the party school of the CPC Central Bureau for Shanxi, Chahaer and Hebei. In 1949 he became the director of a branch of the First General Machinery Plant of Shenyang. In 1951 he went to study in the Soviet

Union. After returning home in 1954, he worked in successive periods as deputy chief of the technology division of the Fourth Bureau of the First Machinery Industry Ministry, deputy director and chief engineer of the Harbin Steam Turbine Plant, chief engineer of the Northeast China Power Company under the First Machinery Industry Ministry, director and chief engineer of the Beijing Heavy Electric Machinery Plant, deputy director and senior engineer of the Overall Analysis Bureau of the State Planning Commission, deputy minister in charge of the State Planning Commission, and deputy chairman of the Association of Power Engineering of China. In May 1988 he became deputy chairman of the State Council's steering group on coal export. In the same month he assumed the office of deputy chairman of the State Council's steering group on nuclear power. In 1988 he became the deputy chairman of the State Council's Commission on Environmental Protection, participated in, and presided over, the work of designing and building China's first 25,000-kw, 50,000-kw, and 100,000-kw steam turbines.

#### **Ye Jianying's Fellow Meixian, Guangdong, Native Yang Taifang**

The Minister of Posts and Telecommunications Yang Taifang, who comes from the same place as the PRC marshal Ye Jianying and was highly recommended by Ye, is 65 years old this year, and is from Meixian, Guangdong. In 1947 he joined the Patriotic Democratic Movement Society of Sun Yat-sen University in Guangzhou. He joined the CPC in 1948, and graduated from the Mechanical and Electric Engineering Department of Sun Yat-sen University the next year. After the CPC came into power, he worked in successive periods as an officer of the Organization Department of the CPC Central Bureau for South China, a section chief in the Posts and Telecommunications Administration of Guangdong Province, director of the Telecommunications Equipment Plant of Guangdong Province, deputy director of the Institute of the Science of Posts and Telecommunications, and deputy minister of posts and telecommunications. He became minister of posts and telecommunications in July 1984. He is a senior engineer and was a member of the 10th and 13th CPC Central Committee.

#### **Liu Jiyuan Will Be Minister of Aeronautics and Astronautics Industry**

The Minister of Aeronautics and Astronautics Industry Lin Zongtang is 66 years old this year, and is from Minhou, Fujian. He graduated from the Mechanical Engineering Department of Qinghua University in 1949, and joined the CPC that year. He worked in successive periods as a section chief in the Industry Department of the People's Government of Northeast China, deputy director of the First Machinery Plant of Shenyang, a deputy division chief in the State Planning Commission, chief designer and chief engineer of the Shanghai General Heavy Machinery Plant, a division chief in the Shanghai Municipal Economic Commission, a deputy

bureau chief and senior engineer in the State Science Commission, chief engineer of the headquarters for the State Science Commission's high-energy physics project, professor at Qinghua University, member of the State Economic Commission, deputy chairman, and director of the general office, of the State Council's steering group on key technologies and equipment, director of the State Council's office for export of machinery and electrical equipment, and deputy minister in charge of the State Economic Commission. He became minister of aeronautics and astronautics industry on 12 April 1988, and the deputy chairman of the Air Traffic Control Commission under the State Council and the Central Military Commission the next month.

It was rumored for a time this year that Lin Zongtang would change his job and become deputy minister in charge of the State Education Commission. His successor as minister of aeronautics and astronautics will be the 59 year old Liu Jiyan who is from Xingxian, Shanxi, and once studied in the Soviet Union. He joined the CPC in 1952, and graduated from the Automatic Control Program of the Bowman Advance Institute of Industry in Moscow in 1960. He worked in successive periods as a technician at the Fifth Research Institute of the Defense Ministry, director and chief engineer of the 10th Section of the First Research Institute of the Seventh Machinery Industry Ministry, and director of the First Research Institute of the Astronautics Industry Ministry. In April 1984 he became deputy minister of Astronautics Industry, and acquired the rank of researcher. In May 1988 he became deputy minister of aeronautics and astronautics industry. He has made contributions to the designing of the control system for China's long-range delivery rockets.

#### **Wu Yi Will Become Minister of Foreign Trade**

Wu Yi, who was once rumored to be marrying Yang Shangkun, will assume the office of Minister of Foreign Trade to replace Li Lanqing who was promoted to the position of politburo member at the 14th CPC Congress. At the 14th CPC Congress, Wu Yi was elected member of the Central Committee.

Wu Yi behaves in an open-minded way, and is careful in handling matters. She has the ability of getting on friendly terms with people, and is good at diplomacy and quick in response; thus she can play a large, positive role in promoting the development of PRC's external economic and trade ties and cooperation as well as in accelerating the reform and opening up in the economic and trade sphere. She is regarded as a tough career woman in terms of her professional life, but also displays a toughness even in her after-work life. For instance, she is the president of the Sports and Dance Association of China, loves dancing and always leads her dancing partner.

She is now 54 years old, and is from Wuhan, Hubei. She graduated from the Beijing Petroleum Institute in 1962, and got a job and joined the CPC that year. She spent 20

years in "field work" in deserts and mountains. She worked in successive periods as a technician at the Lanzhou Refinery, an officer at the Political Department of the Lanzhou Refinery, a technician at the Production Division of the Production and Technology Department of the Petroleum Industry Ministry, deputy chief and chief of the Technology Office of the Dongfanghong Refinery of Beijing, deputy director and deputy chief engineer of the Dongfanghong Refinery of Beijing, and deputy general manager, and secretary of the party committee, of the Yanshan General Petrochemical Corporation of Beijing. She became an alternate member of the 13th CPC Central Committee in 1987. She assumed the office of deputy mayor of Beijing in 1988, and was awarded the title of "senior engineer" of the nation that year. She did the job of two deputy mayors (supervising both the industrial and foreign trade sectors). In 1991, after becoming the executive deputy minister of foreign economic relations and trade, she faced with Sino-U.S. trade frictions. As head of the Chinese negotiating team, she went to Washington twice to argue face to face with the other party, and produced an agreement in the end.

At the top level, the CPC now has such important female officials as Chen Muhua, Wu Wenying, Hao Jianxiu, Peng Peiyun, Deng Nan, Wan Shaofen, Gu Xiulian, Chen Zhili, and Wu Yi.

Chen Muhua, currently vice-chairman of the Standing Committee of the National People's Congress, performed poorly when serving as president of the People's Bank of China. At the 13th CPC Congress, she left the Politburo and only got the position of a member of the Central Committee, beginning to appear to be going downhill in her career. Wan Shaofen (member of the 13th CPC Central Committee and once favored by Hu Yaobang), formerly secretary of the CPC Jiangxi Provincial Committee, had great difficulties in personal relations in her Jiangxi days, and has not been successful in her career since coming to Beijing. She was defeated by Zhu Houze in the All China Federation of Trade Unions elections in 1988, and is now deputy head of the United Front Department. It seems that she does not have much chance of being promoted to much higher positions. Hao Jianxiu is already a Central Committee member, and deputy minister in charge of the State Planning Commission. However, her performance has been ordinary, and the best she can hope for may be keeping her present positions. The Minister of Textile Industry Wu Wenying was originally a textile worker. She has been minister of textile industry for two terms and does not seem likely to be promoted further. The ones who are looking good politically are Deng Nan, deputy minister in charge of the State Science Commission, Chen Zhili, deputy secretary of the CPC Shanghai Municipal Committee, Gu Xiulian, minister of chemical industry, and Wu Yi. In terms of performance and reputation, Wu Yi is even superior to the others. Therefore, it is not sheer speculation to say that she is the "big dark horse" in the CPC's political arena in the future.

**Who Will Be Minister of Foreign Affairs?**

The current Foreign Minister Qian Qichen was promoted to the position of politburo member, and will succeed Wu Xueqian as deputy premier and take overall charge of the PRC's foreign affairs. Who will assume his present ministerial position? In the past several months, it was rumored at home and abroad—and also in the Foreign Ministry—that Liu Huaqiu will move from the deputy minister position to the position of full minister. However, at the 14th CPC Congress, Liu Huaqiu got only the position of alternate member of the Central Committee, while the other two deputy ministers Qi Huaiyuan and Tian Cengpei became full members of the Central Committee. It thus seems that it will be either Qi or Tian who will be selected as Minister of Foreign Affairs.

Qi Huaiyuan and Tian Cengpei are similar in many respects, and are largely equal in their strengths. Both are 62 years old this year, and both attended university without getting any degree. Both worked as director of the Soviet Union and Eastern Europe Department of the Foreign Ministry, and were simultaneously elected members of the Central Committee at the 14th CPC Congress.

Qi Huaiyuan is from Echeng, Hubei. He attended Qinghua University but did not graduate. He enrolled in the North China People's University in 1948, and joined the CPC that year. He graduated from the Harbin Foreign Language School in 1950. He worked in successive periods as third secretary and second secretary at the embassy to the German Democratic Republic, a division chief in the Soviet Union and Eastern Europe Department of the Foreign Ministry, counselor at the embassy to the German Democratic Republic, counsellor and counselor with the rank of minister at the embassy to the Federal Republic of Germany, director of the Information Department of the Foreign Ministry, and Assistant Minister of Foreign Affairs. In March 1986 he became deputy minister of foreign affairs.

Tian Cengpei is from Raoyang, Hebei. He attended Nankai University but did not graduate. He joined the CPC in 1947. He became a secretary serving the Tianjin Municipal Committee of the Communist Youth League after 1949. He went to study at the Central Youth League School of the Communist Youth League of the Soviet Union in 1951, and returned home the next year. After that, he worked in successive periods as a deputy section chief in the Youth Department of the North China Working Committee of the Communist Youth League, an officer at the CPC Central Organization Department, a deputy division chief in the Political Department of the Foreign Ministry, a division chief and deputy director of the Soviet Union and Eastern Europe Department of the Foreign Ministry, counselor at the embassy to the Soviet Union, counselor at the embassy to Czechoslovakia, and director of the Soviet Union and Eastern Europe Department of the Foreign Ministry. He became deputy minister of foreign affairs in May 1988, and assumed the position of member of the Drafting Committee for the

Basic Law for the Macao Special Administrative District on 5 September the following year.

Qi Huaiyuan is still the director of the Foreign Affairs Office of the State Council. According to people in the Foreign Ministry, it is more likely that Tian Cengpei will become the foreign minister. In another view, Tian Cengpei will replace Qiao Shi's trusted follower Zhu Liang as head of the CPC Central International Liaison Department.

**Newly Elected Central Committee Members From the State Council System—Report by the Center for Analysis of the Situation in China**

At the 14th CPC Congress, 20 people from the State Council system were elected members of the new Central Committee:

Zhu Rongji, vice-premier of the State Council.

Wang Zhongyu, deputy director of the Economic and Trade Office of the State Council.

Chen Jinhua, minister in charge of the State Commission for Restructuring Economic System.

Qi Huaiyuan, director of the Foreign Affairs Office of the State Council.

Tian Cengpei, deputy minister of foreign affairs.

Tao Siju, minister of public security.

Peng Peiyun (female), minister in charge of the State Family Planning Commission.

Liu Zhongli, minister of finance.

Han Zhubin, minister of railways.

Chen Minzhang, minister of public health.

Huang Zhendong, minister of communications.

He Guangyuan, minister of machinery and electronics industry.

Liu Zhongyi, minister of agriculture.

Gao Dezhan, minister of forestry.

Lu Ping, director of the Hongkong and Macao Affairs Office of the State Council.

He Chunlin, Office of Special Economic Zones under the State Council.

Zhou Nan, director of the Hong Kong office of XINHUA News Agency.

Jiang Zhuping, director of the Civil Aviation Administration.

Zhen Bijian, vice-president of the Chinese Academy of Social Sciences.

Nu Xin, vice-president of the Chinese Academy of Social Sciences.



## NATIONAL AFFAIRS, POLICY

### Interview With Gao Shangquan on Market Economy

93CE0114A Beijing LIAOWANG in Chinese No 41,  
12 Oct 92 pp 9-10

[Interview with Gao Shangquan by LIAOWANG reporter; place and date not given: "Basic Framework of Socialist Market Economy"]

[Text] Editor's Note: The subject of planning and markets has been the great issue of international discussion for nearly a century. Since China's reform and opening up, many discussions have taken place on this issue. Comrade Xiaoping's speeches after his tour of the south fundamentally solved this issue. There is a consensus among the people that socialism should also institute a market economy. What, then, is the exact relationship between the socialist market economy and the old planned commodity economy? What basic characteristics does it have, and how will this new system be established? Our reporter asked Comrade Gao Shangquan, deputy director of China's system reform committee, to expound on the socialist market economy in terms of the link between theory and practice. He is a well-known economist in China, and as early as 1987 he said that planning is not unique to socialism and that capitalism does not have a monopoly on the market. Both are regulatory methods and means, and do not reflect the social system's basic attributes. He advised using economic contracts and other means to gradually replace planning by decree. His statements are as follows. [end editor's note]

[Question] The target form of China's economic reform has gone through 13 years of practice and exploration, and it has developed from a planned economy to a planned commodity economy. Now it is said that the target form of China's reforms should be a new system, the socialist market economy. Many people don't really understand what the relationship is between the socialist market economy and the old planned commodity economy.

[Answer] I believe that the socialist market economy is the continuation and development of the planned commodity economy. The commodity economy and the market economy are difficult to distinguish; it can be said that modern commodity economies are market economies. Whether they are commodity economies or market economies, they must all abide by the principles of equitable exchange and establish relationships between enterprises and the relationship between the state and enterprises in contractual form. They must all carry out the principles of competition; without competition and without survival of the fittest, it is hard to improve enterprise performance and improve economic structures. Only by practicing survival of the fittest and letting enterprises fight for survival and development amid the competition, with the fit surviving and the unfit closing down, can the structures be regulated and performance be improved. They must all abide by

pricing regulations, carry out pricing reform, experience price fluctuations and implement pricing regulations. Aside from a very small number of commodities that still have state-set prices, the great majority of commodity prices should be opened up and determined by the market.

[Question] Why is the socialist market economy's formulation said to be more scientific, theoretically more thorough and far more advanced than the old planned commodity economy formulation?

[Answer] I believe that it is for these main reasons:

1. The market is objective activity, and is primary; planning is subjective activity, and is secondary. Therefore, a "socialist market economy" means that we respect the objective laws of economics and consider them primary. This thoroughly conforms to the theory of dialectical materialism and the perspective of historical materialism.

2. The "commodity economy" places greater emphasis on expanding production that leads to exchange—the "vigorous development of the commodity economy" that we often call for. The "market economy" places greater emphasis on ways in which resources are deployed and calls for using market mechanisms to deploy resources. It is clear that the latter formulation is more closely related to issues of the economic system, and can more accurately and scientifically reflect the goals of China's economic reforms than the previous formulation.

3. The "planned commodity economy" formulation was a great breakthrough compared to what existed before, but this breakthrough has still not been thorough enough because it has not reached the form in which the market system deploys resources; and it easily leads people to the mistaken belief that the old highly centralized planned economy can be joined with the market economy, and the mistaken belief that China's reforms consist only of making repairs to the old system. The "market economy" formulation means that China's economic reforms are no longer confined to repairing the old system; they are as Comrade Xiaoping says: truly carrying out "thoroughgoing revolution."

4. The "market economy" formulation is not only the culmination of our experience with human society and the reasons for rapid economic growth among developed nations in today's world, but more importantly, it is the scientific generalization and culmination of China's 14 years of experience with economic reform. China's economy has thus experienced new prosperity, particularly in the special economic zones, the Pearl River Delta and the Suzhou, Wuxi, Changshu and other areas of the Yangtze River Delta. Why has the economic development been so fast? One important reason is that through reform, the effects of the market were brought into play. China's economic development must reach a new level every few years; and in particular, to bring about the second and third stages of development strategy and to solve the problems associated with deepening levels of

economic activity, China must take lessons from perfected market mechanisms and realize improved resource organization.

5. The "market economy" formulation will have an even greater benefit for China's opening up, enabling us to participate in international competition and cooperate according to international practices. In past GATT negotiations, some foreigners have always pointed to China's highly centralized planned economy to block China's entry. If we clearly put forward a "market economy," it will not only help us recover our signatory status with GATT, but will also advance other aspects of opening up and help us participate more in international division of labor and international competition.

6. The "market economy" formulation we speak of is a modern, comprehensive market with macroeconomic management, and does not reject the function of planning. However, the planning we speak of does not refer to the kind of direct administrative decrees of the past, but instead refers to indirect economic methods of implementing guidance plans. The former type of planning rejects the market and precludes integrating with the market, and only with the latter type of planning can there be organic integration with the market.

[Question] The market economy we speak of is not the spontaneous market economy of the early, unrestrained capitalist period, and it is also not the market economy of private monopolies that some Western countries have, but instead is a modern socialist economy with macroeconomic management. What do you think its basic framework consists of?

[Answer] On the whole, the basic framework of the new socialist market economic system consists of:

First, the economy of public ownership is the principal part, and many kinds of economic elements coexist in the long term, and develop in cooperation. The publicly-owned economy should account for the greatest proportion, and its proportion should not be determined by artificial quantitative concepts but rather by whether or not it is able to advance the development of productive forces. Maintaining the economy of public ownership plays a leading role in the entire national economy. In modern economics, through control of stocks and other means, state-owned capital can control many times what the same amount of private capital can control.

Second, clarifying state property ownership and the representatives of the owners of state property. The state has assumed the ultimate right to control state property, and property management has mainly been entrusted to intermediary organizations (such as certain investment firms); and carrying out the true separation of these two powers is an important condition for connecting the state-owned economy and the modern market economy.

Third, all key production elements must enter the market. This is a basic condition of normal activity in a market economy. Not only must most products be commercialized,

but all kinds of key production elements, including capital, labor, real estate and others, must enter the market; otherwise, our market will be incomplete.

Fourth, have the market mechanism be the basic means of deploying social resources. The activity of the socialist market economy should conform to China's real circumstance, and should conform to international practices. Parameters should also be unified, and full and fair competition should be ensured. To this end, it is necessary to absorb, introduce and establish a set of market regulations and a legal system that conform to international practices and are suited to the activity of the market economy.

Fifth, jobs should be assigned to members of society according to principles that combine fairness and efficiency. During the initial assignments, the principle of efficiency should be upheld, with more pay for more work, to encourage some people to become prosperous first. During the subsequent assignments, the principle of fairness should be upheld, to solve the problem of large income disparities and to achieve common prosperity.

Sixth, on the foundation of a fully developed market, carrying out the integration of market regulations and planning regulations. It should be recognized that the market is not omnipotent, and that economic planning still has very important functions: the first is in the area of the general direction of actual economic development, primarily forecasting, industrial policy and regional distribution; the second is making up for inadequacies in market regulation and developing basic industries and public services; and the third is correcting the market's flaws.

[Question] The subject of planning and markets have been the great issue of international discussion for nearly a century. Since China's reforms and opening up, many discussions have taken place around this issue. Comrade Xiaoping's speeches after his tour of the south fundamentally solved this issue. There is a consensus among the people that socialism should also institute a market economy. How should we advance the achievement of and efforts toward this economic theory's great breakthroughs?

[Answer] In line with the Central Committee and the State Council's approach to accelerating reform and opening up, as well as the present state of China's economic reforms, I believe that the following aspects of reform should continue to be emphasized:

The shift toward a market economy should be carried out, the key elements of which are switching from the state enterprise system and pushing enterprises toward the market. This will enable enterprises to fight for survival and seek to develop in the rough seas of competition. Competition should be developed according to the principle of survival of the fittest. Whether or not enterprises are able to enter the market is a precondition and key to whether or not we are able to have a socialist market economy. Because of this, the autonomy of enterprise operations must be put into practice according to the requirements of the "Regulations on

Transforming the Management Mechanisms of Industrial Enterprises Owned by the People." This will enable enterprises to become true commodity producers and managers in the socialist market economy.

The pace of reform of the commodity circulation system should be accelerated, and the building of the socialist market economic system should be accelerated. Having a socialist market economic system requires wholehearted attention to the function of commodity circulation and accelerating the pace of circulation system reform. Establishing a socialist unified market system means not only a commodity market, but also a technology market, capital market, labor market, real estate market, property rights market, stock market and so forth. These markets must be standardized, and legislation must keep up with them.

Accelerating the pace of social security system reform. The reform of retirement insurance, unemployment insurance, medical insurance and other social insurance systems must keep up. Currently, there is already more than 2 billion yuan of capital in unemployment insurance; to make possible the integration of the unemployment insurance system and the application of bankruptcy law, the pace of consolidating enterprise organizations and industrial organizations must be accelerated. The government's function within the conditions of a highly centralized planned economy and within the conditions of a socialist market economy is not the same. The original function was direct management and reliance on directive planning and material distribution, and primarily managing microeconomic activity, approving projects, and allotting money and materials—what some people call the "economics of examination and approval." Now we must shift to a socialist market economic system, and the government's economic and management functions must shift from direct management to primarily indirect management; from managing microeconomic activity to managing macroeconomic activity; and from allotting money and materials and approving projects to using economic leverage and dealing with regulations, coordination, supervision and service.

Accelerate the pace of opening to the outside world. First, the previously designated five special economic zones, 14 open coastal cities, the Pearl River Delta, Yangtze Delta and the southern Fujian Delta Region must be successfully continued. At the same time, the opening of the border regions and the cities in the border regions of the northeast, northwest and southwest should be expanded. In the Yangtze River Basin, which is headed by Shanghai, five cities, including Wuhan, Yueyang and Chongqing, should be opened up. At the same time, the open territory should be expanded, and restricted areas and spheres such as the commercial, trade and financial spheres should be appropriately relaxed. In sum, our goals must center around establishing a socialist market economic system, and we must accelerate the pace of economic reform so that China's

national economy can develop even faster and in a few years can advance to a new level.

### Market Economy Challenges State Enterprises

93CE0168A Beijing JINGJI RIBAO in Chinese  
28 Nov 92 p 3

[Article by Liu Guoliang (0491 0948 5328): "Market Economy: State Enterprises Facing Serious Tests"]

[Text] It is commonly recognized today that it is necessary to practice socialist market economy. The basic requirement of market economy is the allocation of resources in the market place. This means a major change in the long existing central planning economic system is our country, posing a particularly rigorous challenge to state enterprises under central planning. 1. Market allocation of resources represents a blow to state enterprises. Under the traditional central planning economic system, operations of state enterprises (including production, supply, sale, personnel, finance, and materials) are carried out through plans formulated by government at all levels. The reform of more than a decade has broken the shield between market and enterprises. Market adjustment is playing an increasingly larger part in those enterprises' operation. But since the concept of "central planning as the key role" still dominates our beliefs, the extent to which state enterprises are controlled by central planning is fairly large. Now planned allocation of resources is changed to the mode of market allocation. This is no doubt a great challenge to state enterprises. Whether they are able to sustain such a challenge depends on how fast the enterprises can transform their behavior on the one hand and on how quickly the government can change its function, on the other hand. At present, changes in both aspects lag far behind the requirement of the market economy. We can not help but worry about the future of state enterprises.

2. State enterprises are faced with challenges from "foreign-funded enterprises," township, and private businesses (hereafter referred to as "the three enterprises"). Fair competition and survival of the stronger are important characteristics of market economy. Under such a system, state enterprises will compete with other enterprises of different ownerships. Compared with "the three enterprises" one prominent problem with state enterprises is their heavy burden. First, large expenses because of surplus personnel. Since currently state enterprises have the responsibility of taking in new employees, the number of employees far exceeds what is needed. Second, expenses for a large number of retirees. State enterprises are entirely responsible for retirement benefits, resulting in the other heavy burden. Third, payment of loans and interest. Not only is their circular fund dependent on loans, but the fund for renovating fixed assets also largely relies on loans, resulting in a heavy burden of payment. Some enterprises are unable to pay for interests, let alone pay for principals. They have to issue stocks for interest payment annually. Fourth, large contributions to "social activities." If such

burdens state enterprises incur are not soon relieved, they will be surely deprived of their position in the fierce market competition in the future.

3. The relationship between ownership and management in state enterprises does not meet the requirements of market economy. Objectively, market economy requires clarification of ownership, that is, during the use of assets, owners, managers, and users must be clarified in terms of rights, responsibilities and interests in order to reduce transaction costs and bring about maximum economic efficiency. There is, however, a great distance between market requirements and state enterprise conditions. Major problems involved are: First, it is not clear who are the representatives of state-owned assets. No agency exercises the right of ownership on behalf of the state and takes responsibilities for these assets. Although agencies of state assets management have been established during reform, little has been done because of the fuzzy relationship between ownership and management. Many government agencies function both as state administration and enterprises owners and managers. They are therefore able to intervene with enterprises in the name of owners, resulting in a situation where the inner relation between ownership and management is disconnected, with multiple management and much interference. Second, ownership does not go to enterprises, there is thus no mechanism of binding ownership inside enterprises. Their behavior is short-term, especially under the current contract system. Many enterprise managers one-sidedly pursue the increase of employee wages and bonuses, paying little attention to enterprises profits (in reality many have false profits but real losses), accumulation and increase of state assets values.

To sum up, the current condition of state enterprises is far from adequate in satisfying the requirements of market economy. These inadequacies must be resolved soon if state enterprises are to survive and develop as the role of main force under the condition of market economy.

(1) State enterprises have to completely get rid of the bondage of central planning, and develop market directed economy. The government must transform its function by discarding its traditional practice of issuing mandatory plans, exercising inspection and approval of such plans and interfering with activities of state enterprises, and giving enterprises a full free hand in order to have them face the market.

(2) Effective means have to be taken to relieve state enterprises of their heavy economic burdens. (a) Government finance agencies should establish social protection funds through social security taxation, budget, and society contributions to cover the expenses of unemployment allowances, disability and retirement benefits, and medical care, to take such burdens off enterprises. (b) People should be encouraged to run cultural, educational, and health affairs, and society together with the government should take over the responsibilities of

enterprises in operating their own kindergartens, nurseries, schools, and hospitals. (c) Commercial housing has to be speeded up to encourage individuals to build, buy or rent housing through governmental preferential loans, and mortgage, and change the traditional practice of enterprises being responsible for employee housing. (d) Based on the principle of separating daily budget from construction budget, profits from state assets will be put back into funds as part of construction budget on the condition that income tax is unified. The profits will be taken as returns to fixed assets. The mode of returns will be changed from loans to capital reinvestment, administered by specialized state assets agencies by way of stock purchasing and stock ownership. This way, enterprises' burden of paying for loan principals and interests upon which they maintain simple reproduction and expand reproduction will be released. Those measures will relieve state enterprises of their heavy economic burdens and create necessary conditions for them to compete in the market.

(3) The problem of ownership has to be resolved soon. First, the government function of administration must be separated from its ownership function. Ownership administration will be handed over to agencies of state assets management so that the process will be unified. Government agencies of administration will be merged and reduced, and their function is to adjust the economic operation at the societal level through macro-adjustment and regulation, not to directly intervene in state enterprises. This way, the problem of the confusing concept of representatives of state assets, disconnection between ownership and management, and much government intervention with enterprises. Second, on the part of enterprises, they will be gradually transformed into joint-stock companies to take in a certain proportion of public stocks through sale and expansion so that the enterprises will have multiple stock holders, who are to elect board of directors to act as representatives of enterprise ownership. The mechanism of ownership board thus can be formed to eventually solve the problem of enterprise short-term behavior. Agencies of state assets management of state enterprises should through other agencies of a brokerage nature by sharing stocks and sending representatives to enterprises in the name of stock holders to strive for value increase of the assets and maximum economic efficiency.

### Positive, Negative Aspects of 1992 Economy Reviewed

93CE0169A Beijing JINGJI CANKAO BAO in Chinese  
1 Dec 92 p 4

[Article by Bai Mingben: "There Are Both Joys and Worries - An Assessment of the Economic Situation in 1992"]

[Text] In analyzing the current economic operation, some argued that it was overheated, and should be cooled down; others maintained that it was normal, and operating at high quality. We believe that the former judgement is not consistent with the facts, and the latter

is over-estimated. In fact, economic growth is in a recovery. There are both joys and worries.

In studying the economic situation, it is necessary to pay attention to the dynamic trends and the main contradictions that affect the overall situation, and show greater concern for the quality of growth while stressing economic growth. Studying the situation of enterprises can be taken as an important window for observing the economic situation.

Assessing whether or not the economy was overheated, or whether or not it affected the economic development strategy for the nineties is an important basis on which a reform and development policy is formulated at present.

We hold that in order to observe whether or not the economy is overheated, the output value growth index, investment expansion, and the relatively strained situation in specific products and trades should no longer be taken as criteria for assessment. In regard to the question on quantity, a comprehensive analysis and comparison should be made.

In the last 14 years of economic restructuring, considerable progress has been made in the socialistic commodity economy, and remarkable changes have taken place in the laws governing economic fluctuations under the product economy. The impact of the relation between market supply and demand on the coordinated development of the economy has begun to play an important role. As a result, in assessing the economic situation, focus should be shifted to market supply and demand and economic efficiency. Only through comparisons and analyses in various aspects such as investment, credit, issuance of currency, price, and the situation of enterprises can a comprehensive and clear understanding of the economic situation be gained.

As for investment, it has remained on the low side in the last few years. Calculated on the prices of the same items in those years, from 1988 to 1991, GNP increased by 12 percent a year, and investment in fixed assets only increased by 5.5 percent, which related closely to the weak market. According to the plan, this year 570 billion yuan will be invested in fixed assets. This corresponds with the 6 percent growth in production at the beginning

of this year. The result of implementation may exceed 700 billion yuan, a considerable increase over last year. This investment growth is of a debt-repaying nature. According to a 11 percent increase in GNP growth, the investment in social fixed assets will amount to 710 billion yuan. The accumulation rate in 1992 is expected to be 34 percent, which is equal to the average level during the period of the Seventh Five-Year Plan. The investment rate (the specific value of investment in fixed assets and the GNP) is expected to be 30.5 percent, which is equal to the average investment rate of 30.7 percent during the 1984-1988 period when the economy advanced to a new level. As a result, although the debt-repaying element is not considered, investment and economic growth will go together. Hence, investment cannot be considered overexpanded.

As far as the scale of credit is concerned, the market was sluggish in 1991, and investment was inadequate. The scale of credit was a little small, and bank deposits were 34 billion yuan larger than bank credit. The volume of loans set in the credit plan for 1992 was smaller than that completed in 1991. Therefore, it was inevitable that the planned credit was exceeded. In the middle of the year, loans were readjusted to 350 billion yuan, which cannot be considered high. According to market economy laws, the scale of credit is determined by reasonable demand and supply capacity. In terms of demand, economic development was accelerated, the scale of investment was augmented, and both domestic and foreign markets expanded day by day, which led to a greater demand for credit. In terms of supply capacity, bank deposits had successively exceeded bank credit in the last two years. Most enterprises had overcapacity. With money and material as the backing, the scale of credit must be expanded to a wide margin so as to achieve a balance in supply and demand and accelerate development. Therefore, even if the scale of credit reached 380 billion yuan in 1992, as long as the money comes from bank credit and there are goods and materials as a guarantee, credit cannot be considered overexpanded.

As for currency issuance, the plan for the issuance of currency was not accurately worked out, mainly due to a lack of understanding of the objective laws during the period of structural transformation and high-speed development. See table below: (100 million yuan)

	1988	1989	1990	1991	1992
Planned Currency Issuance	400	400	400	400	600
Currency Actually Issued	680	210	300	533	850*
Retail Price Index (%)	18.5	17.8	2.1	2.9	6*
Growth Rate of Currency in Circulation (%)	46.8	10	13	20	27*

Note: \* refers to estimated figure for 1992

It was mainly the policies, not economic reasons, that caused a rush to purchase in 1988. There was a 46.8 percent currency growth, which led to inflation. During the three-year period from 1989 to 1991, demand was inadequate, the economy was excessively cool, the volume of currency issued was limited, and prices were unable to rise. They were not good signs at all. In 1992, the economy developed at an accelerated pace, and the volume of currency issued increased by a big margin, which is expected to reach 85 billion yuan. It is still reasonable. The reasons are: 1. The output and sales rate has increased, and materials in stock have been put on the market. 2. The GNP growth rate almost doubled over the plan. 3. The number of businesses engaged in the tertiary industry, three kinds of foreign-funded enterprises, and individual industrial and commercial businesses has enormously expanded, and the circulating funds needed for the expansion increased drastically. 4. The price index had a relatively big increase, which ranged from 6 to 10 percent. 5. The financial deficit occupied a commanding position. 6. The debt of issuing currency in 1989 and 1990 was made up. To conclude, although the issuance of currency far exceeded what was planned, it was still economically rational. The growth rate of currency issued was 32 percent during 1984 to 1988, and was 22.6 percent during 1988 to 1992. The main reasons for such fluctuation were economic growth and price reform. Only the portion of financial deficit was the result of the issuance of currency by supraeconomic means.

As for price, currently 70 percent of total commodities are subject to market-regulated price. Therefore, price signals can be regarded as a main criterion for examining whether or not demand and supply are balanced and whether or not the economy is overheated. Overall, the price situation in 1992 was good. The retail price index did not exceed 6 percent, 70 percent of the increase was the result of planned prices, and not caused by inflation. The prices of production means are expected to increase by 10 percent. This will be good for adjusting the structure, and containing the overexpansion of investment.

To sum up, economic development at present is basically normal, and is in a recovery. It was predicted that in 1992, the GNP will increase by 11 percent, industry by 20 percent, and agriculture by 4.5 percent. Financial revenues, and imports and exports will increase. The parameters of the major economic operations will be coordinated on a large scale. Hence, there is no danger of inflation.

In observing the economic situation, we must apply the notion that one divides into two. We hold that both joys and worries are found in economic operation because the deep-rooted contradictions hampered the sustained, sound, and high-speed economic development have not been resolved satisfactorily. They are manifested in the following:

1. The economy under the system of ownership by the whole people represented by industries and enterprises within the budget, still faces difficulties and poor efficiency, and is in a vicious cycle. After the efficiency index declined drastically in the past three consecutive years, it hit bottom in the first quarter of 1992. The profit rate on capital was only 1 percent, and it started to climb up in April. However, since the base figure in 1991 was very small, even though efficiency has risen sharply in 1992, according to calculations, the created profits and taxes will exceed the 1988 level, and the profits created will be no more than half of the level in 1988. The capital profit rate was only 2.3 percent. The net profits retained by enterprises will be under 16 billion yuan, and the rate of profits retained by the created profits and taxes will be less than 10 percent, which is lower than the level in 1980. Considering that the debts in circulating funds and capital construction went up to 600 billion yuan, and the bank interest was four times the profits retained by enterprises, even though both productions and sales are brisk at present, and efficiency is improving, enterprises under the ownership of the whole people are still working for financial institutes and banks, and they are trapped in a vicious cycle. According to our calculation, in the coming three years, the profits, and net profits retained by enterprises under the system of ownership by the whole people will increase progressively at a rate of 25 percent, they still cannot reach the level of 1988 by 1995. Because the exchange tax will increase enormously, the ratio of profits retained by enterprises will fluctuate at 10 percent. Under such distribution pattern, enterprises will be unable to operate independently, not to mention self-development. This shows that the situation is grim, the prospects are gloomy, and public ownership system is in trouble.

2. In 1992, increases in investment and credit were very high. This was considered normal because striving for a better economic cycle will be beneficial to economic growth. However, judging from structural reform and social reproduction, investment and credit are indeed overheated and carry risks to a certain extent. The reason was that the efficiency of the industrial enterprises under the system of ownership by the whole people was very low, and the profit rate on capital during the reform was under 6 percent, which was less than the bank interest. At present, the situation of the enterprises under the system of ownership by the whole people is not efficient enough to support loans investment on a large scale. Under the situation that enterprises do not have money and the government all the more does not have money, key projects, local projects and enterprise projects are being undertaken on a large scale. Obviously, it is a drawback of the traditional structure, that is, enterprises are not genuine economic entities that operate independently and assume full responsibility for profits and losses, and the government still exercises the power to invest in enterprises. With power in hands, the government can get loans, launch new projects, and show off its achievements. As for investment responsibility, no one has ever bothered about it, and there have always been soft restrictions in this regard. It showed that the reform on investment structure was slow. The lagging

transformation of government functions are manifested in the lagging transformation of enterprise mechanism. Under the condition of an enterprise with low efficiency without given decision-making power, the upsurge of borrowing-based investment pushed by the governments at all levels will surely result in more input but less output. This is where the danger of inflation lies.

3. In the 30 years before reform, the dialectical relationship between accumulation and consumption, and between production and livelihood were not handled well. From 1980 to 1988, efforts were made to develop production and improve livelihood by starting with harmonizing the distribution relationship, enabling production and consumption to promote each other, agriculture and industry, and rural and urban areas to develop in a highly vivid and convincing way. Nevertheless, problems occurred in the last few years. Since the ratio of financial revenues was raised and the distribution of national income in favor of individuals was corrected, enterprises were in critical days. The real income of workers and peasants grew slowly, and the residents' purchasing power lagged behind production growth. The shortage in end demand led to a weak market. In 1992, social commodity retail prices are estimated to increase by 15 percent. Deducting price factors, this growth rate is below output growth. It will continue to aggravate the contradiction of supply exceeding demand in consumer goods, and ultimately hamper the production increase in inputs, and forbid the economic development from entering a good cycle.

All in all, the economic situation is growing in a good direction. The year 1992 is a year of big advances. A faster growth rate is a good thing. There is no problem of an overheated economy, and no risk of inflation. However, there are serious problems that restrict a sound economic development. To accelerate the speed of economic development, we must start by continuing reform to achieve a breakthrough. Only when firm and powerful steps are taken in transforming government functions, harmonizing the distribution system, invigorating large and medium enterprises, and improving residents' living standards in urban and rural areas can we avoid the economy from becoming overheated and eliminate the root cause of inflation, and ensure that the national economy will be lifted to a new level in the nineties.

### **Current Theories on Socialist Market Economy**

93CE0069A Beijing JINGJI RIBAO in Chinese  
26 Sep 92 p 3

[Text] The objective of China's economic reform is to establish a socialist market economy. Opinions on this subject have attracted the attention of theorists everywhere, becoming the most fervently discussed question in recent times. Based on the nature of these discussions it can be seen that they have mainly developed from the following questions.

At present, the idea that socialism can also have a market economy is accepted almost unanimously by theorists.

But different opinions exist as to whether any kind of adjective is needed in front of the word market economy, and if an adjective is needed which would be best. Some comrades recommend using the term "market economy based on socialist conditions," some agree with the term of "planned socialist market economy," and some comrades advocate the term of "modern market economy," but most comrades believe that the suggestion of using the term of "socialist market economy" is better.

Comrades who recommend "market economy according to socialist conditions" believe that the term of "socialist market economy" still links the market economy with socialism, thus allowing people to easily realize that a market economy falls within the nature of socialism. However, the expression of "market economy according to socialist conditions" does not directly connect the market economy with the nature of socialism, and furthermore it states that a market economy exists under socialist conditions. Thus this last expression is better.

Some comrades don't agree with adding the attribute of "planned" in front of "market economy." They believe that the attribute of "socialist" implies the planning meaning. Besides, some western economists also define a market economy as a planned (or macro-controlled) market economy. Although there is a great difference in terms of planning (or macro-controlling) between socialist and capitalist countries, the word "planned" cannot show the obvious differences between these two market economies. In addition, as to the proposal of the concept of a "planned commodity economy" made at the 12th Session of the Third National People's Congress, it has long been understood that only when the plan of a noncommodity economy is used to restrain the commodity economy is the commodity economy socialist. As a result the usage of "planned socialist market economy" may possibly lead to misunderstandings. Thus, the term "socialist market economy" is better.

At present most theorists consider that the current term of socialist market economy does not conflict with the term "planned commodity economy," but is rather the inheritor, and further development of "planned commodity economy." These two terms are not contradictory, but identical. Regardless of whether it is commodity economy, or market economy, the main economic entity and its requirements are the same. The rules and regulations of the two economies are the same. Both economies should obey the rule of equal value exchange, competition principals and the law of value. The functional range and results of the commodity and market economies are also the same. Therefore, based on these observations, the commodity and market economies have no significant differences. The planned commodity economy is the same as the planned market economy.

Advancement of the expression of "socialist market economy" compared to that of "planned commodity economy" is that the commodity economy reflects one



kind of product exchanged in the course of production and trade during the natural economy time period. Under our actual current conditions, the commodity economy is the opposite of the production economy. In the late primitive society, the commodity economy had already appeared. However, before the commodity economy took the leading position, it can be said that only the exchanges related to commodity production and commodity exchange existed, but no market economy existed. The market economy is the outcome of the commodity economy at a certain stage of development, and the economic methods that allocated resources according to market mechanisms. Its opposite concept is the planned economy or controlled economy. The market economy not only reflects the commodity economy's average nature, but more importantly it can reflect the characteristics of economic transactions and mechanical structures. This special nature of the market economy is very difficult in the concept of "commodity economy." Of course, the "market adjustment" from the "combination of planned economy and market adjustment" cannot take the place of "market economy," because "market adjustment" is only one part of "market economy." Therefore, the expression of "socialist market economy," compared to the two expressions of "socialist commodity economy" and "planned commodity economy," is a more accurate and mature scientific way of meeting the requirements of large scale social production.

In terms of how to understand the meaning of "socialist market economy" theorists have different opinions.

One opinion states that to implement a market economy in China, instead of copying the western market economy, major developmental trends in the world market economy must be followed and take into account China's real situation, and properly combine the condition of a normal market economy with China's special socialist economic conditions to build a socialist market economy with Chinese characteristics. The main contents and fundamental attributes of this kind of socialist market economy with Chinese characteristics can be presented as: 1. Public ownership is the main force, with private property, private economy and other economic ingredients as supplements. Various economic elements exist together for a long time, and coordinate with each other in the development of a market economy. 2. The market takes the place of government as the main force of the economic system, and government controls and adjusts the entire market system by implementing a market economy controlled by government with central control by the central government, but with local government making the actual adjustments. 3. A complete and well-developed financial market is the main core of the market economy, and different production materials are commercialized in one market system. 4. A market economy where distribution according to labor is the main method of compensation, and other means of distribution are supplemental.

Another opinion believes that the task of China's economic reform is to detach itself from the centralized planned economy as soon as possible and transfer to a modern market economy facing the large global market, and to make China's market economy become an important component of the world market economy. The meaning of modern market economy refers to a planned economy, government control, the appearance of international corporations, coordinated economic plans of different countries, the elimination of customs duties under trading agreements promoting one global market economic system, and the integration of every country's economy into one world market economic system. No country's market can exist if it is not integrated with the global market economic system, any fluctuation in one country's market can cause a global market fluctuation. Such a market system has four characteristics: informative, financial, knowledgeable and global. This opinion emphasizes the regular market economy.

As to whether the socialist market economy is different from the capitalist market economy, theorists have different ideas.

Some comrades believe that the socialist market economy and capitalist economy have different starting points. The socialist market economy was transformed from the base of the traditional planned economy, however, the western developed capitalist market economy was formed from the early commercial economy which was primitive, individualistic and subject to nongovernmental controls.

Some comrades believe that the fundamental differences between the socialist market economy and capitalist market economy is due to different forms of ownership. The socialist market economy is based on public ownership of the means of production, but the capitalist market economy is based on private ownership.

Some comrades divide the development of the market economy into four stages to explain the differences between the socialist market economy and the capitalist market economy in terms of their quality, characteristics, and way of functioning. These four developmental stages are 1) a complete market economy (free competition stage); 2) a market economy under government's monopolizing intervention; 3) a socialist market economy emphasizing society's control (i.e. the German economy); 4) the socialist market economy, which is based on public ownership.

Other comrades believe that it is difficult to say what the difference between the socialist and capitalist market economy is unless we totally separate the domestic market from the international market, because it is difficult to ascertain whether the international market is a socialist or capitalist market economy. As long as socialist countries make contact with outsiders, they generally have to obey the standard regulations and practices of the international market. Therefore, if we



say that the two economies are different, the only difference is that the two kinds of market economies have different political systems. Otherwise there are no differences between the capitalist market economy and the socialist market economy.

Other comrades believe we should not emphasize too much the differences between the socialist market economy and the capitalist market economy. However, if at this point we over-emphasize the ideological form, it is not beneficial for striding forward with the development of the socialist market economy.

To establish the new system of the socialist market economy, there are at present several important problems that must be solved. The theorists' thoughts in this matter are more or less the same. Generally, they include three aspects.

1. The change of management systems in large and medium state-owned enterprises should be carefully carried out. We really need to push state enterprises into the market economy, and make enterprises actually become the main force in market competition, and the legal person for making profits. Also, enterprises should be self-managed, responsible for their own profits and losses, self-developing, and self-constrained commercial producers and managers. This is the micro foundation for nurturing the market system and building a socialist market economy. To make the enterprises become "four self" commercial producers and managers, the current difficulties that need to be overcome are the ambiguities of ownership and current limitations on forms of ownership. This problem requires that publicly owned enterprises, especially state-owned enterprises, reorganize their ownership, and make their ownership more clear, and varied. The reorganization of ownership actually refers to making the most competitive state-owned enterprises become more like private companies. Based on the survey and evaluation of stated owned assets, according to the country's law, they should be reformed into limited corporations or publicly owned limited corporations. Furthermore, we should establish economic and legal relationships between owners, managers, and workers that are mutual and inter-dependent within the state-owned enterprises.

2. Establish a well-developed socialist market economy. In China at present the level of commodity development not only is low, but also a great amount of the means of production have either not yet entered the market or have not completely entered the market. Also the growth of other materials in the market has just begun. Since the market system is not complete it will be unavoidably, and seriously inhibited from assuming its role. Therefore, we should build a complete market system as soon as possible, including a financial market, labor market, technology market, information market and real estate market, etc. We should make various kinds of production materials exchangeable and marketable, and establish a foundation for the market system to play its role.

At the time of nurturing and building the market, we should also realize that the market economy functions according to the law of value. Also, the law of value should reflect market fluctuations, thus price reform needs to be carried out faster. Besides the unequal situation of supply and demand, and smaller amount of commodities that need to be priced by government, most commodities should be open, unregulated, and subject to the market price.

An entire set of customary and scientific market rules and regulations are the fundamental base for realizing open competition, equal exchange and proper management so as to maintain healthy market economic developments. To supplement the shortcomings of the market, we should establish socialist market principles and policies, and rules and regulations. Under the rules of the law the market can be properly developed.

3. Establishing and completing our macro control system, and emphasizing government economic adjustment functions. First, as central planning within the scope of the whole society is decreasing, the market adjustment's proportion is continuously increasing. All levels of government must change their old working methods of placing the main efforts on setting up quotas, approving projects, assigning salaries, distributing materials, and gradually change to concentrating on comprehensive planning, making policies, organizing and adjusting, providing services, using economic adjustment methods, and strengthening checks and safeguards to separate governmental economic functions from those of business management functions. Second, we must establish a micro adjustment system where treasury and financial organizations can be either separate or united according to the requirements of the socialist market economy. We should remove financial organizations from the current situation where they depend on treasury organizations. The amount of currency in circulation and the scope of financial credit should not be directly interfered with or affected by the budgetary deficits. Banks should become actual independent currency suppliers. At the same time we should establish a regulatory and adjusting system of treasury and financial organizations in order to interchangeably use both treasury and financial policies in the course of economic work. Moreover, this kind of a well-developed plan and form of control will no longer inherit planned economic functions in a traditional economic system, but will respect the law of value and the market situation of supply and demand. We should extricate the planning functions from the old methods of material distribution, approval of projects, order quotas, etc., and change to adjusting and control functions where the main force is macro economic methods for comprehensively utilizing currency, interest rates, taxation, currency exchange rates, and macroeconomic policies for employment, total investment, total savings, total price level and industrial production.

## PROVINCIAL

### Anhui To Speed Up Economic Development

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p 3

[Article by Guo Wanqing (6753 8001 3237): "Accelerating Development: Main Theme for Anhui's Economy in the Nineties"]

[Text] As Comrade Jiang Zemin pointed out, in his report to the 14th National Party Congress, the goal for economic development in the 90s was originally set at six percent annual growth in gross national product. Now in view of the setting for economic development created by the present state of affairs both domestically and internationally, we can go a little faster. According to preliminary projections, a growth rate of eight to nine percent is possible, and we should advance toward that goal. This is a realistic assessment and a scientific decision of the 14th National Party Congress. Looking at Anhui Province with this in mind, people cannot help but feel that the economy of Anhui is especially in need of speedier development.

#### 1. Two Points of Comparison Between Growth Rates

From 1981 to 1989, Anhui's gross provincial product grew at an average rate of 8.5 percent per year. This growth rate was slower than that of the surrounding provinces, and also slower than the average for all of China. Anhui's backwardness in the pace of its economic development is obvious, and easy to see. Anhui's original 10-Year Plan, and the outline of the Eighth Five-Year Plan, both call for Anhui's gross provincial product to grow at an average annual rate of seven percent in the 90s. Although this is faster than the six percent growth planned for all of China in the same period, it is much slower than the pace attained in the 80s. There is, of course, a particular background to, and particular reasons for, the decision to set these goals. If we proceed according to these plans, the result can only be to widen the gap between Anhui and its neighboring provinces. Anhui must speed up its economic development; for this reason, we must obtain universal recognition of the need to speed up development, on the basis of guidance and theory from the leadership.

#### 2. Anhui's Present Stage of Development

According to historical studies of economic development, a country (or region) will grow at sharply different rates, at different stages of its economic development. The famous American economist Walt Rostow divides economic development into six stages: traditional society, the preconditions for take-off, the take-off, the drive to maturity, the age of large-scale consumption, and quality of life. Rostow believes that the take-off stage is a time of decisive importance. It is a major turning point in the transition of a country from stagnation and backwardness, to growth and development. It is a kind of industrial revolution. In this stage, net investment rises,

modern technology and organizational management are applied to production, and revolutionary changes occur in the rate of production. Large quantities of agricultural labor power are transferred to urban industry, and per capita income or output value rises greatly. The reason it is called a "takeoff," is that, in this stage, all the old obstacles and obstructive forces that constrained economic growth are finally overcome, and from this point on the economy can ascend to a new area of development. Hollis Chenery, an adviser to the World Bank, further points out several distinguishing features of the "takeoff stage." They are: per capita income is \$280 or more, manufacturing makes up at least 19 percent of gross domestic product, and the rate of economic growth is at least 6.2 percent.

In 1990, gross national product per capita in Anhui was 1,071 yuan. Based on the exchange rate for that year, it is approximately \$210. But economists both in China and abroad point out that this calculation is unreasonable. If we adopt the World Bank's method of equalizing price parities, then per capita gross provincial product for Anhui, in 1990 was almost \$1,000. If we adopt the dynamic method of equalizing price parities developed by the Canadian economist Meinonggedeng, then it was nearly \$1,100. Looking at it this way, Anhui has long since crossed the \$280 reference line. In 1990, Anhui's secondary industries accounted for 40 percent of GNP, and according to calculations, manufacturing generally accounts for between 75 and 90 percent of secondary industry. Even if we calculate according to the lower end of that range, the proportion of manufacturing in Anhui province still comes to 30 percent. Therefore, whether in terms of its rate of economic growth, per capita GNP, or the proportion of its manufacturing industries, Anhui has already entered the stage of industrialization where economic growth will accelerate. To put it another way, Anhui's economy has already taken off.

In the eighties, Anhui's economy passed an important economic milestone. On this basis, Anhui's economy will have an inherent tendency to maintain rapid economic growth in the nineties. On the supply side, first of all, the province has almost 50 billion yuan in funds for industry on hand, urban and rural residents have more than 20 billion yuan in savings, and there is considerable capacity for the formation and supply of capital. Second, the large-scale transfer of surplus rural labor out of agriculture will reach a peak in Anhui in the 90s; more than 10 million new and surplus workers will need to be placed in nonagricultural industries. On the demand side, to begin with, the 90s will be the time when Anhui will advance more rapidly from bare sufficiency to affluence, and there will be a third wave of personal consumption, to follow up the two waves of 1979 to 1984, and 1985 to 1989. Third, in the 90s, the driving force behind China's economic growth will be mainly investment demand, instead of being mainly consumer demand, as it has been for 10 years, and investment demand will expand on a large scale. Anhui's pattern of growth of the 80s, not only will not slow down in the 90s,

but should accelerate further, being pushed and pulled by the overlapping supply-side and demand-side factors mentioned above.

### 3. The Environment for Development in the Nineties

One major reason why, in the past, Anhui's development was not entirely as one would wish, was an unfavorable external environment. Up to the end of the 70s, China's national investment policy stressed the interior, but Anhui was classified as a coastal province. In the 80s, when the strategy of coastal development was introduced, and China's policy and investment tilted toward the coast, Anhui was classified as a central province. Anhui has almost always been placed outside the "spotlight."

In the 90s, because of changes in China's macroeconomic policy, and because the pace of reform and opening up is quickening, the environment for development in Anhui is better than ever.

First, as the focus of opening up to the outside world shifts from the coast to the banks of the Chang Jiang and the border regions, Anhui will be on the front lines. The cities of Hefei and Wuhu will receive the same treatment as coastal open cities, signalling that the difference in status between Anhui and the coastal districts, so far as the policy environment is concerned, has narrowed greatly. On the one hand, this will give a powerful boost to Anhui in attracting foreign investment, and introducing advanced foreign technology to propel Anhui toward faster development from the supply side. On the other hand, it will also bolster Anhui's export capability, and provide impetus, in the area of export demand, to Anhui's accelerated development.

Next, since the second half of the eighties, shortages of energy and raw materials have become a bottleneck that seriously constrains China's economic growth. In view of this situation, China has formulated an industrial policy of giving priority to development of the energy and raw materials industries, and moreover has made central China the major area where these industries are to be developed. Anhui is one of 10 Chinese provinces and regions that are relatively well-endowed in mineral resources. But for a long time, due to a lack of funds, the level of development and use were very low. The above-mentioned change in China's industrial policy and economic deployment could, on the one hand, cause Anhui to receive a larger portion of China's investments, and on the other hand, could also cause Anhui to benefit from preferential policies designed to advance the development of these industries. This will forcefully impel growth in Anhui's mining and raw materials industries, and even the whole economy of the province.

Third, with the gradual establishment of a socialist market economic system, the effectiveness of the market in its basic function of adjusting supply and demand, and the deployment of natural resources, will greatly improve. Because supplies of energy, raw materials, and many agricultural sideline products, cannot meet the

demand, there will be large-scale price increases for these products after prices are decontrolled. This will strengthen Anhui's position in inter-regional trade, so that Anhui can make a basic change in the previous state of affairs, where it suffered a two-fold income loss, because it shipped out raw materials at low prices, and then brought in manufactured goods at high prices. Changes in the pricing system will also further alter the relative profitability of the various industrial departments. Now that the profits to be expected from investments in energy and raw materials, are looking better and better, Anhui with its basis in plentiful mineral resources, will be able to draw in more capital and human talent from other provinces.

### 4. Speeding Up Development on a New Basis

Anhui's need to speed up its development is not merely what the people subjectively desire; it is also an objective necessity. What we must get clear now is: on what basis should we accelerate development?

There was one conspicuous problem with economic growth in the eighties, namely that there was a boom and bust every few years. The major reason for this cyclical fluctuation was that rapid growth depended on large amounts of investment spending. Because the traditional system still had considerable usefulness, and because there were distortions in the market mechanism, large amounts of investment resulted in rapid growth for a time, but did not result in a corresponding high output. When we encountered the bottleneck of constraints in resources (such as shortages in funds, foreign exchange, energy, and raw materials) and high levels of investment were hard to maintain, then we had to carry out forceful retrenchment, producing great economic declines.

To get out of this trap of alternate growth and contraction, Anhui must speed up development in the 90s. It must give a high degree of attention to the following several areas:

First, more rapid growth must be established on a foundation of orientation to the market. We must speed up the establishment of the new socialist market economic system, and enlarge the role of the market mechanism in guiding readjustments in the deployment of resources, by transforming the function of government, perfecting the market mechanism, and making enterprises more market-oriented. Reforming the orientation of the market, and broadening the channels for raising and mobilizing capital, will stimulate an acceleration in economic growth. Whether in the approval and construction of a new project, or the expansion of an established enterprise, an eye must be kept on the market at all times, so as to adapt to changes in supply and demand.

Second, quicker development must be established on a foundation of rising efficiency, and structural optimization. On the one hand, we must raise quality and improve efficiency by transforming the system of enterprise management and improving management. On the other hand, we must speed up technological progress,

raising the degree to which technological progress contributes to economic growth on the basis of improving enterprises in production technology.

Third, quicker development must be founded on a realistic estimation of our abilities. Beginning with the situation as we find it, we should move quickly when we can, and when we cannot, then we should work to create the conditions. If there are no large projects to be done, then we should begin with smaller projects. If we cannot start with advanced technology, then we should use the technology available. Right now, what we need most is to keep our feet on the ground, proceeding one step at a time. If we do things carefully and thoroughly for a few years, then there are excellent prospects that Anhui's economy will ascend to a new plateau.

### **Hubei Province Opens Up to Outside World**

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[Article by Li Yongchang and Zhang Songqing: "Hubei: Now an Opening-Up Area"]

[Text] With the adjustment in China's strategy of opening up, Hubei with the key central city of Wuhan taking the lead and with links to Pudong in the east and to the Three Gorges region in the west, is now an opening-up area of China.

### **Tigers Out of the Woods and Dragons in the River**

Ten years ago when Shanghai and Wuhan were still having their hands tied by the product economy, Guangdong was occupying the entire stage of reform and opening up and doing creative work, thereby becoming the base camp of socialist commodity economy. At the time when commodity economy is sweeping across central China, with the center's approval, Wuhan has become part of the Yangtze River opening-up area of China, but is still lagging behind Guangzhou, Fuzhou, Ningbo, and Tianjin by one step in terms of the opening-up effort.

Nevertheless, the opening up of Wuhan has provided a large arena of competition for the shrewd Hubei people. In fact, even before the opening up of Wuhan, there was Wuhan's First Smeltery Southern Company which was the only enterprise under the government of the then newly established Shenzhen Special Economic Zone [SEZ]. Those Wuhanese, who had completed the 07 Project of Wuhan Steel (1.7-meter rolling mill system), were the earliest group to engage in the building of the SEZ in the lake-side reed marshes of Shenzhen, while living in asphalt felt tents. They created the famous "Shenzhen speed." In the Shekou Industry Zone of which the people of Shenzhen are very proud, over one-third of the regular work force came from Hubei, and the Wuhan dialect has become the "Putonghua of Shekou."

A countless number of the Hubei people who move around China have become heroes, but Hubei, at the time of a new round of opening up, is immersed in hard thinking.

At the end of 1991, after becoming secretary of the CPC Wuhan Municipal Committee, the deputy secretary of the CPC Hubei Provincial Committee Qian Yunlu felt with personal understanding that the rigidity of the operating mechanisms of state enterprises was a major obstacle to the development of enterprises and Wuhan as a whole.

During inspection, Guo Shuiyan, deputy secretary of the CPC Hubei Provincial Committee and governor, found that in this old industrial base many enterprises were incurring losses or hidden losses, and was also of the view that the fundamental cause was the rigidity in the operating mechanisms.

After Spring Festival this year, in order to implement the principles enunciated in Comrade Deng Xiaoping's statements made in Wuchang, Shenzhen, Zhuhai, and Shanghai, the CPC Hubei Provincial Committee secretary Guan Guangfu led a group of officials in charge of the relevant departments in the CPC provincial committee and the provincial government to make five inspection trips. Starting from mid-February, they visited such cities along the river as Wuhan, Huanggang, Ezhou, Huangshi, Yichang, Jinzhou, and Shashi. They conducted in-depth investigation and study on such issues as the economic construction of the Yangtze River economic region and the economic construction of the opening-up area along the river, and in-depth analysis of the experiences and lessons from the past work on industrial development. He held: "It does not pay to develop in a scattered way. Now we develop a whole block in a concentrated way, and thus there can be overall arrangement and coordination on electricity supply, heat supply, natural gas supply, and training. All this makes intensive operation possible."

With Wuhan a part of the opening-up area, the people of Hubei are now like tigers out of the woods and dragons in the river, and are running after the pioneers of the opening-up movement at an even faster pace. According to the latest statistics provided by Wuhan customs, in the decade 1981-1990, 224 foreign-financed enterprises were established province-wide. In 1991, according to records, 175 foreign-financed enterprises were established—close to 80 percent of the total number for the preceding 10 years. In the first five months of this year, 147 enterprises received foreign investment, with a total amount of investment of \$250 million which is larger than the total amount of investment for last year.

### **The Emerging Locomotive Region in Central China**

"The sea-coast regions are the bow; the regions along the rivers are the arrow; the frontier regions are the string." The arrow is now pressed against the string, and is ready to be shot.

On the latest blueprint for China's opening up, the region stretching from Huangshi to Wuhan and from Yueyang (north of the river is in Hubei) to Yichang—an area of 1,062 kilometers in length along the middle section of the Yangtze River—in the “major Yangtze River province” of Hubei was made a key opening-up and development area in terms of state policy.

The Yangtze River valley cuts across the three major economic regions—the east, central, and west—and is the cream area of China, accounting for half of the gross nation product of China. The major Yangtze River province of Hubei contains the entire northern coast and much of the southern coast of the middle section of the Yangtze River. The “Yangtze River strategy” is a strategy the people of Hubei want earnestly. The Bank of China, the Agriculture Bank, the Construction Bank, and the Communications Bank are extending their credit operations to the Yangtze River economic region one after another. The Industry and Commerce Bank system is also tilting towards the Yangtze River economic region in terms of its investment decisions, and has issued loans of a cumulative amount of 3.2 billion yuan by the end of April this year; 1.8 billion yuan has been invested in several zones of economic and technological development along the river, with 207 projects having been completed or approved. Cumulatively, the province has by the end of April approved foreign investments for 664 enterprises, with a total investment amount of \$1.08 billion. The investments are concentrated in the 29 cities and towns along the Yangtze River and its tributaries.

The “golden triangle” region at the middle of the Yangtze River formed by the merging of the Yangtze River and the Han River has always been the “heart” on the economic map of China. This heart is now arousing attention again because of being next to the Yangtze River and being linked up to the two “hot spots” of Pudong and the Three Gorges region. The 29 large, mid-sized, and small cities along the river form a corridor of automobile, iron and steel, electrical power, and new and high technology industries. As a result, this region, with less than 40 percent of the population of the province, has 86 percent of the scientific and technological research personnel and 71 percent of the engineering and technical personnel, and creates nearly 60 percent of the GNP. The density of the value of industrial output for the region along the river is 670,000 yuan per square kilometer, a density higher than the average level of 629,000 yuan per square kilometer for the 11 coastal provinces and cities. The total volume of surface water in the region and of fresh water passing through the region is 25.4 percent of the total volume for the entire country. At the time when “North China is crying about water shortage,” the Yangtze River region has become China's largest industry-concentrated corridor with high energy-consumption and water-consumption, owing to the “golden waterway” across the region.

Based on the advantages available, the Yangtze River economic region in Hubei has further improved its investment environment. In Wuhan which has always

been known as the “communications hub for the nine provinces,” the new railway station in Hankou, the largest passenger terminal on the Yangtze River, and the foreign-trade dock area and deep-water berths at Qingshan, Wuhan, have all been put into operation or trial operation. The project of the Tianhe airport of Wuhan which will be good for the landing or taking off of any large aircraft has passed the stage of outdoor construction and entered the stage of equipment installation and interior finishing. The opening of the Wuhan-Huangshi expressway has made the “golden triangle” region at the middle of the Yangtze River smaller. Driving from Wuhan to Huangshi is now as easy as driving across the three cities of Wuhan.

The efforts to “build nests to attract birds” on the part of the region along the Yangtze River and the Han river have resulted in the initial improvements of the hard environment, while bringing about a good situation of “birds being attracted to come to build nests.” Businessmen from Hong Kong, Macao, and Guangzhou have crossed the Nan Ling mountains to get to the region along the Yangtze River, thus becoming the earliest comers. For instance, the Baoan Enterprise Group Inc., of Shenzhen has invested 400 million yuan in the block development of the Donghu New Technology Development Zone. Foreign businesses are having ever high interest in investment in the region along the middle section of the Yangtze River. They are coming to conduct investigations and negotiations one after another. The number of economic projects with which Hubei Province and foreign businesses have agreed to proceed since the beginning of last year equals the total number for the preceding 10 years, and most of the projects are producing good returns. In Ezhou City with an urban population of only 180,000, all foreign-funded enterprises in operation are making profits. Agreements have been reached on 104 projects with foreign investment.

Meanwhile, a group of state key projects—such as the 40,000-ton dewaxing cracker project and the Sino-French jointly-financed 30,000-unit passenger car project—are also coming to be located in the economic region along the middle section of the Yangtze River. Recently the state has formally approved increasing the total amount of investment for this passenger car project from 4 billion yuan to 7 billion yuan. Before the state has given official approval, Wuhan City has been proceeding with a project with four items of opening and one item of leveling for the “car city” based on its own finances, and the project is now near completion.

The acceleration of the development and opening up of the Yangtze River economic region has also brought new opportunities for introducing new technologies and mechanisms to the old industrial base of Hubei. A group of old and small enterprises are now developing in a healthy manner amidst the introduction and reform efforts.

Opening the doors among cities and between cities and the countryside, the mutual stimulation between

industry and agriculture, and the simultaneous booming of the entertainment industry and other industries are the Hubei characteristics of the Yangtze River economic region. For example, the Three Gorges tour, the Three Kingdoms tour, and the Li Shizhen humanities and medicine street in Jinzhou have attracted large numbers of Chinese and foreign tourists.

#### **To Accelerate Development Does Not Mean Rushing Into Mass Action**

Based on the data for the five typical years of 1952, 1962, 1978, 1985, and 1989, an economist at Wuhan University analyzed the situation of per capita national income for the provinces along the middle section of the Yangtze River. The analysis shows that in 1952-1989 the per capita national income for the people of the mid-stream provinces increased by 1,110 percent on average. Of those provinces, Hubei grew the fastest, with an increase of 1,390 percent. In 1952, the per capita national income for the mid-stream provinces was 84 yuan, lower than the national average (104 yuan). In none of the several later typical years of 1965, 1978, 1985, and 1989 was the per capita national income for the provinces along the middle section of the Yangtze River higher than the national average. This indicates that although the provinces along the middle section of the Yangtze River—including Hubei—created huge amounts of wealth for the state in the past four decades, the pressure of population growth dragged the feet of the provinces along the middle section of the Yangtze River in terms of their economic development throughout the years.

It is worth noting that Hubei is an "island" of economic growth in the region along the middle section of the Yangtze River. In 1989, China's per capita national income was 1,178 yuan, while Hubei's per capita national income was 1,164 yuan. The Hubei figure was 14 yuan lower than the nationwide per capita national income, but Hubei's increase in per capita GNP in 1952-1989 was larger than the increase in nationwide per capita GNP for the same period. And the growth rate was also higher than the national growth rate. This shows that one should not underestimate the development momentum of the golden-triangle region along the middle section of the Yangtze River and the Yangtze River-Han River plains with Wuhan as the leading city.

However, Hubei, at the middle of the Yangtze River, is not satisfied with achieving the average national standards in economic growth. Recently, a top official of Hubei pointed out: "We cannot remain at the mid-stream position forever!"

Obviously, accelerating the development of Hubei cannot be delayed for another moment. But the new round of development in no way means just simple addition and accumulation of output value. While inspecting the Yangtze River development and opening-up area, the secretary of the CPC Hubei Provincial Committee Guan Guangfu, looking at the large and small development zones and industry zones densely

dotting the area, reminded local officials in charge to keep a cool head in a "hot" atmosphere, to combine enthusiasm with a cool head, not to carry out ordinary projects everywhere, and not to disregard local special conditions in terms of finance, resources and industry. Presently the province as whole has only limited funds and materials, and therefore it is impractical to have people across the 185,000-square-kilometer land of Hubei Province to get into action at the same time in economic construction. On this issue, it is necessary to keep a cool head, be scientific, and try to achieve breakthroughs on key projects. Only in this way is it possible to advance swiftly while preventing the occurrence of blindness amidst the high tides of economic development which would have to be corrected through future readjustments. According to Guan Guangfu, that does not mean slowing down reform and opening up; rather, the purpose is exactly to make reform and opening up advance faster and produce more results.

The saying "talents are from Chu, but used by Jin" is an old one, but can describe the reality in the land of Jing-Chu where large numbers of trained personnel are produced and then go away. Trained personnel is the fundamental propelling force for economic growth. Large numbers of trained personnel go wherever the operating mechanisms are open. The tide of a new round of opening up has come to the middle section of the Yangtze River, thus severing the "path of retreat" for the people of Hubei. Whoever opens up will be able to develop. No advance means going backward. The "major Yangtze River province" of Hubei cannot but fight with its back against the wall, and must give first priority to emancipating the mind. Based on considerations of Hubei's conditions, people from top to bottom in the province must distinguish between political and economic concepts; between the unprecedented and the impossible; and between pursuing enterprises' interests and pursuing exclusively "one-time" benefits.

People can see now that the Yangtze River economic region is becoming an important area of market economy.

## **FINANCE, BANKING**

### **Banks Increase Loans to Western Rural Enterprises**

93CE0156C Beijing JINRONG SHIBAO in Chinese  
19 Nov 92 p 1

[Report by Li Qian (2621 0241): "Bank To Provide Additional 45 Billion Yuan in Loans in Nine Years To Support Township Enterprise Development in Central, Western Regions"]

[Text] To fulfill the State Council's unified program for accelerated development of township enterprises in the central and western regions, the head office of the People's Bank of China recently decided to provide an additional 5 billion yuan in loans annually for nine years

from this year to 2000. These loans, totaling 45 billion yuan, will be used to support the development of township enterprises in the central and western regions.

Since the inception of the reform and opening-up drive, township enterprises have sprang up as a new and significant sector of China's national economy. For the sound and fast development of these enterprises, banks at all levels have created favorable financial environments. Statistics show that loans extended by banks and rural credit cooperatives to township enterprises now stand at 176.68 billion yuan. Especially since 1986, loans to township enterprises have increased by an average annual rate of 36 percent, which exceeds the average annual increase of the total amount of loans for this period by 7 percentage points. This also surpasses the average annual growth of township enterprises' output value for the same period.

It is reported that the vast central and western regions with two-thirds of the country's population only contribute to one-third of the total output value of township enterprises nationwide. To expedite the development of township enterprises in these regions is a key to the invigoration and prosperity of the local economies. The State Council has, therefore, decided to adopt effective policies and measures to support and promote the development of township enterprises in these regions. This year the People's Bank of China has added 2 billion yuan to the original bank loan program and 3 billion yuan to the rural credit cooperatives' loan program to support the development of these township enterprises. A decision has also been made to set aside 5 billion yuan each year to be used for such loans, beginning next year until 2000. The People's Bank of China will include this in the state credit plan, and the money will go to the related specialized banks, which will, in turn, distribute it as loans to qualified township enterprises in the central and western regions as stipulated by the policy. Meanwhile, in arranging their credit loan programs, rural credit cooperatives are requested to lay emphasis on supporting the development of township enterprises in the central and western regions. They should use the loans to support the most qualified township enterprises. Other financial institutions are also urged to put stress on supporting the accelerated development of township enterprises in these regions when extending credit loans.

#### **Financial Conditions Stable in First Half of 1992**

93CE0156B Beijing JINRONG SHIBAO in Chinese 2  
Nov 92 p 1

[Report by Jin Rong (6855 5554): "China's Financial Conditions Remain Relatively Stable"]

[Text] China's financial conditions remained relatively stable during the first half of 1992, according to financial statistics released by this paper today with authorization from the People's Bank of China. In accordance with the demands put on financial work by the party Central Committee and the State Council, banks went all out to

solicit deposits, adjust their credit compositions, and devote more efforts to financial reform and opening up. This way, they supported effectively the relatively fast progress of economic construction, reform, and opening to the outside world.

**All kinds of deposits increased steadily; the makeup of loans was adjusted.** As of the end of June, deposits held by banks and credit cooperatives amounted to 1,953.17 billion yuan, up 287.38 billion yuan over the record at the beginning of the year and showing an increase of 94.71 billion yuan, or 17.3 percent, compared with the same time of 1991—an indication that enterprises had a better payment ability as a result of the further improvement of production and invigoration of market. By the end of June, urban and rural residents' savings deposits amounted to 1.0441 trillion yuan, an increase of 133.4 billion yuan over the last year-end figure and 11.11 billion yuan more than the same time of 1991. Residents' consumption expectations were basically met.

Loans of banks and credit cooperatives totaled 2,156.06 billion yuan. This was 175.02 billion yuan more than the figure at the beginning of the year and 78.73 billion yuan above the record at the same time of 1991. Of this, bank loans were 1,929.88 billion yuan, exceeding the figure at the beginning of the year by 125.49 billion yuan and being 67.38 billion yuan more than the same time of 1991. In the main, the increase in loans was due to the rational needs for funds to support various undertakings based on the state industrial policy and key requirements, such as agricultural production and procurement, productive activities of large- and medium-sized enterprises as well as township enterprises, increase in the state's special material reserve, production and procurement for foreign trade development, and liquidation of "debt chains." Loans for the above-cited purposes were 40.09 billion yuan more than a year ago. As to loans for fixed asset investment, the amount outstripped the record at the beginning of the year by 32.67 billion yuan and was up 19.03 billion yuan, or 10.7 percent, over the same time of 1991.

**The state foreign exchange reserve continued to grow.** As of the end of June, our country's foreign exchange reserve totaled \$45.1 billion, up \$2.43 billion compared with the beginning of the year, or an increase of 5.7 percent. Of this, the state exchange reserve was \$25.23 billion, surpassing the amount at the beginning of the year by \$3.51 billion. The Bank of China's foreign exchange account had a balance of \$19.87 billion, showing a \$1.08 billion drop from the level at the beginning of the year. The above was indicative of the further expansion of China's economic exchange and trade with foreign countries.

With the economic growth and the acceleration of reform and opening up, the first half of this year witnessed some new conditions and problems in implementing our monetary and credit plans. The withdrawal of currency from circulation was not so satisfactory. There was a rather remarkable growth of bank loans, and



especially loans for fixed asset investment increased pretty fast as demand for funds gradually intensified. As of the end of June, a net amount of 2.19 billion yuan in currency had been withdrawn from circulation. This was 10.52 billion yuan less than the amount withdrawn during the same period last year. Industrial production grew at a rather quick rate, but there was a relatively large stockpile of unsold products and the problem of low economic efficiency was not completely corrected. In view of this, all levels of banks should continue to uphold the monetary and credit policy of "controlling the total and adjusting the structure." They should focus their attention on meeting key requirements, support the superior, restrict the inferior, and make reasonable plans to use their funds in extending loans within the limits approved by the People's Bank. In particular, they should ensure that the need for funds for the procurement of agricultural and sideline products is met. In extending loans, they should continually adhere to the principle of "giving loans to those who can minimize the funds tied up by unsold products." In addition, they should strive to make flexible use of capital, prevent the occurrence of new overdue accounts following the settlement of old accounts, and appropriately control the scale and guide the orientation of fixed asset investment.

### **Insurance Companies To Operate as Enterprises**

93CE0156A Beijing JINRONG SHIBAO in Chinese 9  
Nov 92 p 1

[Report: "Accelerate the Process Toward Enterprise-Type Management of Financial Institutions—Specialized Banks, Insurance Companies Study 14th CPC National Congress Documents, Continue Financial System Reform"]

[Text] After spending the past few days studying the documents of the 14th CPC National Congress, comrades of specialized banks and insurance companies have gained a pretty deep understanding of how to further reform the financial management system and speed up the development of the insurance business. They have come to understand that managing specialized banks as enterprises is an important task in reforming the financial system. Specialized banks should, on the one hand, implement state financial principles and policies. On the other hand, they should try to make as much profit as possible while developing the economy, supporting production, and ensuring harmony between social benefits and their own interests. On this premise, China's specialized banks and insurance companies have made valuable explorations to improve their operations over the past few years. Today when efforts are being made to develop a socialist commodity economy, banks are actually on a par with enterprises in status. Enterprises can choose their banks; banks can also choose enterprises to serve. In addition, under the central bank's macro-regulation and control, specialized banks must be free from government interference and

operate independently. Information obtained from some specialized banks and insurance companies has fully borne out this point.

According to the pertinent departments of the Agricultural Bank's head office, the rural financial reform will progress still faster following the 14th CPC National Congress. Adhering to the direction of enterprise-type management, the reform will start with the improvement of operational mechanisms, focus on raising efficiency in using capital, and emphasize the invigoration of branch banks in counties (cities) and credit cooperatives at the grassroots level. To accomplish this, comprehensive and coordinated reform measures will be put in high gear. Meanwhile, efforts will be made to improve and perfect branch banks' and credit cooperatives' operational mechanisms of self-management, risk-taking, self-restraint, and self-improvement.

Focusing on enterprise-type reform, the Agricultural Bank will gear up its efficiency-centered operational incentive mechanism to stimulate its inner operational vitality. The concrete method is as follows: An operations-evaluation system with emphasis on efficiency will be established for the management responsibility system. To evaluate operations under the management responsibility system, the bank will set up a target for macro-regulation and control. Targets for specific operational results will be simplified, but rational profits will be a dominant factor in evaluating the operations. The original profit-retention and distribution system will be replaced by a policy of "a low guaranteed minimum without fixed ceiling." Beginning in 1993, the measures to be implemented will consist of "a guaranteed progressive rate of increase in the basic profit plus a corresponding increase in the profit-retention rate, proration of extra profits, and transfer of retained capital to lower levels." The basic profit figure, once set, will remain unchanged for three years. Extra profits will be prorated at a "3:7 ratio," and no ceiling will be set. The basic percentage of profit retention will be determined by the number of personnel, business volume, and profits weighted at a "3:3:4" ratio. Also, the administrative expense system will be reformed. Expense authorized for each branch bank will be based on its number of personnel, size of organization, and business volume weighted at a "4:3:3" ratio. The expense figure so obtained will then be considered with the revenue of the particular branch to arrive at a comprehensive expense rate, which once established, will not be changed for three years. Based on the standard financial system, branch banks at the county level will independently manage their operating costs and expenses and use the special-purpose funds they have retained according to the regulations. As to credit and development funds derived from profits, the profit-generating branch bank will get the lion's share.

As for the Industrial and Commercial Bank, which serves industrial and commercial enterprises nationwide, its leading cadres, staff, and workers have seen clearly the serious and demanding nature of the current



situation of reform and opening-up after studying the documents of the 14th CPC National Congress. They have made the following proposal: Their business scope should be expanded. While consolidating and promoting the traditional business, they should go all out to develop new areas of operations. The Industrial and Commercial Bank should develop in the direction of comprehensive and multifunctional operations. In addition, efforts should be made to change the internal operational mechanisms, exercise enterprise-type management, and gradually put into effect the "four self" mechanisms [self-management, risk-taking, self-restraint, and self-improvement]. It is also necessary to change the ways of operations and optimize the makeup of assets.

With the development of the commodity economy, demand for comprehensive, multifunctional service from financial circles is a quite obvious trend in our country. To meet this demand, the Industrial and Commercial Bank, in addition to consolidating and developing traditional business, will do its best to explore new areas of operations, such as making all-out efforts to promote international business, actively providing long- and short-term loans in both domestic and foreign currencies to various open cities and export-oriented enterprises, and offering international fund-raising and financing services. It will carry out an ambitious program internationally. Apart from these, it will go all out to develop trust and investment projects, home mortgage and real estate businesses, as well as various intermediary undertakings. Services provided to industrial and commercial enterprises will develop from single-phase services to comprehensive, combined, multifunctional, and package services.

Reviewing the past against the documents of the 14th CPC National Congress, comrades of the Construction Bank have come to this conclusion: Remarkable results have been achieved in stabilizing the diversified fund-raising methods. Now, deposits held by this bank have exceeded 270 billion yuan. In 1981 when bonds and stocks first appeared in China, the Construction Bank issued construction bonds, the first of its kind in our country, on behalf of the Longkou Power Plant in Shandong. It thus opened a path of raising construction funds through the securities market in new China. Over the past decade or so, the Construction Bank has gone all out to develop the securities business as a major way to perfect its banking function and raise funds for long-term usage. For itself and on behalf of others, it has issued all kinds of bonds that the state has approved since the start of the reform and opening-up drive. The aggregated amount of various bonds issued has exceeded 73 billion yuan. Indeed, the Construction Bank ranks first among all financial institutions in the variety and amount of bonds issued. To meet the needs of reform and opening to the outside world, the Construction Bank is paying attention to reforming the bond-issuing mechanism and advancing ceaselessly toward internationalized and market-oriented operations and standardized management. Through successful bidding, it became the

first general agent to issue and negotiate bonds for enterprises. It was also the first to issue enterprise bonds by the paperless [as published] method and the first to issue enterprise bonds nationwide by public bidding. It has actively participated in the experimental campaign for the shareholding system by acting as a stock-issuing agent. Plus, it has strived to develop the securities trade market and perfect its financial consultation service. Comrades of the Construction Bank have pledged that they will continue to open new avenues to promote diversified fund-raising so as to better support key industries and construction projects in such fields as energy, transportation, and raw materials in accordance with the demand for building a socialist market economic system as set forth by the 14th CPC National Congress.

The 14th CPC National Congress has set forth the demand for building a socialist market economic system, thus brightening the prospect of China's insurance industry. This, however, has also put a higher demand on China's still-imperfect insurance market. As a main force in our country's insurance industry, the People's Insurance Company of China has prepared well for struggling in the market economy ocean. It has set the goal of focusing on developing the insurance business while boosting its strength. A policy of "emphasizing one main field while diversifying operations" has been adopted so as to lay a foundation for competing in the great international market. On the one hand, the company is conducting an internal structural reform. This reform will do away with the previous "centralized" planned economic systems at various levels and delegate power to grassroots subcompanies so as to enable them to meet the demands of market economic development as early as possible. On the other hand, it has formed the "China Antai Insurance Development Corporation" and "Electronics Software Science and Technology Corporation" as a way to diversify its operations and strengthen its underwriting ability. All these are aimed at turning the People's Insurance Company of China into a collectivized and diversified international company.

## SMALL-SCALE ENTERPRISES

### Report on Development of Private Economy

93CE0178A Taipei CHO-YUEH [EXCELLENCE] in  
Chinese No 99, 1 Nov 92 pp 104-108

[Article by Lu Chi (7627 0370): "Mainland Private Economy Becomes Vigorous"]

[Text] The rapidly developing individual and private economic sector on the Chinese mainland since the beginning of the reform and opening-up drive has drawn world attention.

Latest figures released by authoritative sources reveal that the number of the self-employed and those working for private enterprises has now reached 24.419 million, equivalent to 17 percent of the personnel employed by

state-owned firms and collectively owned enterprises in urban areas. Production from the individual and private economic sector amounts to 161 billion yuan, accounting for 5.7 percent of the mainland's total industrial output. Its retail sales volume stands at 184.44 billion yuan, or 19.6 percent of the total commodity retail sales on the mainland. The annual amount of taxes paid by this economic sector has reached 17.9 billion yuan, accounting for 6 percent of the country's total tax revenue. In some counties and cities, taxes paid by individually operated businesses and private enterprises have become a major revenue source for local governments. In certain localities, such taxes constitute as much as over 50 percent of government revenue.

### Rapidly Growing Private Enterprises

Compared with the mainland people's longstanding practice of relying on the iron bowl, the performance of young people in the current tide can be regarded as outstanding. Now, 9.755 million youths have joined the ranks of the self-employed. In addition, a sizable number are working for private enterprises.

More and more people of minority nationalities are working on their own or running private enterprises. This is another aspect of the tide. According to statistics covering Yunnan, Kwangsi, Sinkiang, Inner Mongolia, Ninghsia, Tsinghai, and Kweichow—provinces and regions where minority people are rather concentrated—557,000 minority households, involving 799,000 people, are running private businesses, accounting for 31.9 and 32.6 percent, respectively, of the numbers of households and people working on their own in these localities. In addition, there are 1,066 private enterprises established by minority people, employing 23,000 people. These account for 14.9 and 14.3 percent, respectively, of the total number of local private enterprises and their employees. In these provinces and regions, the annual industrial output from individually operated businesses and private enterprises totals 6.29 billion yuan, and their sales volume 13.32 billion yuan.

In the general opinion of the departments concerned, development in this field has the following characteristics:

1. Private enterprises have increased their input and output to a great extent.

In 1991, private enterprises across the country had an average registered capital of 114,300 yuan, surpassing the previous year by 17.5 percent. As far as those engaged in industry, communications, transportation, and building trade are concerned, the output value per enterprise averaged 190,000 yuan, or 12.4 percent more than the previous year. In the commercial, catering, service, and repair trades, the average revenue earned by an enterprise was 231,000 yuan, showing a 10.8 percent rise over the previous year.

2. Private enterprises have developed faster in coastal areas. In the 11 coastal provinces and municipalities,

including Tientsin, Liaoning, Hopei, Shantung, Kiangsu, Shanghai, Fukien, Kwangtung, Kwangsi, and Hainan, the number of private enterprises, their registered capital, and their employees all account for about 7 percent of the totals on the mainland.

Broken down into categories, private enterprises in the three categories of industry, communications and transportation, and the building, service, repair, and other trades constitute 71.5, 26.4, and 2.1 percent, respectively, of the total number of private enterprises on the mainland.

### A Major Way To Absorb Capital

The great headway made by the mainland's individual and private economic sector in recent years is mainly attributable to its irreplaceable role in national economic development. It has four functions as follows:

1. The individual and private economic sector has opened a way to absorb and employ surplus labor.

According to estimates, the mainland now has some 100 million laborers looking for jobs. Undoubtedly, private enterprises and individual-owned workshops and stores can serve as major job providers for the 3 million plus new working people emerging in cities and towns each year and for the surplus personnel resulting from the "optimization" and "streamlining" campaigns of enterprises and institutions.

2. Development of the individual and private economic sector is becoming a significant method for pooling private funds to establish economic entities.

Everyone knows that the mainland has long been short of funds for construction. But money in the hands of the people now amounts to 1.3 trillion yuan, equivalent to the aggregated value of the mainland's industrial assets over the past four decades or the total government revenue for the past four years or six times the actual amount of current foreign investment in China (nearly \$30 billion).

3. The individual and private economic sector is a main force in developing the tertiary industry.

The mainland's tertiary industry has developed slowly and is still at a rather low level. At the end of 1991, its output value was only 26.8 percent of the gross national product, while commercial, catering, and service units run by individual households and private enterprises numbered more than 10 million, accounting for over 80 percent of the total number of such units in society.

According to information obtained, over 10 million farmers on the mainland have taken up the jobs of supply and marketing. They transport goods over long distance for sale, engage in transportation and warehouse businesses, and undertake the heavy tasks of buying raw materials and selling products for township enterprises. They also shoulder such tasks as information

feedback, after-sale service, collection of accounts for goods sold, and development of new products.

4. The individual and private economic sector is becoming a major pillar for building towns and fairs and developing markets.

During the past few years, trade fairs in both cities and countryside have continued to increase in number and expand in size. In 1991, the total trade volume of 60,784 rural fairs on the mainland reached 154.3 billion yuan. Among the busiest and the most active and eye-catching in the trade fairs, the majority are members of households running their own businesses and owners of private enterprises.

#### **Development Hampered by Public Opinion**

Inspiring as it is, the development of the individual and private economic sector is not entirely satisfactory, and problems do exist in some areas.

First, there is a biased opinion: Some people believe that the development of the individual and private economic sector has impacted the public economic sector. They attribute public-owned enterprises' setbacks in competition partly to the existence and development of the private economic sector. Because of this biased opinion, individually operated businesses and private enterprises are not adequately understood and supported by people of various communities.

No sound laws governing private enterprises and individually operated businesses have been formulated and enforced. As a result, individually operated businesses and private enterprises are in an unfavorable position in case of lawsuits, and enterprise property cannot be well protected. With regard to the tax system, there are the problems of irrational tax structure, over-complicated tax categories, and excessive tax rates. Some restrictions are too strict and rigid.

In addition, fees of one kind or another and compulsory contributions collected from households running their own businesses and owners of private enterprises have become a heavy burden on them. According to surveys in various localities, on the average, more than 30 different kinds of extra fees are collected from these households and enterprises. In certain localities, there are more than 50 kinds of fees imposed on them.

Another big problem faced by individually operated businesses and private enterprises is the relatively poor basic conditions under which they operate. In general, they have to pay higher prices for raw materials, water, and electricity than their public-owned peers.

The above problems have caused some individually operated businesses and private enterprises to act toward short-term goals instead of making long-range plans.

#### **Chinese-Style Socialist Economy**

In spite of the above, development of the individual and private economic sector still has a broad prospect on the mainland. In the mid-1980's, insightful people in economic circles affirmed time and again the significant role of the individual and private economic sector. Individuals running their own businesses, they stressed, are not exploiters, but laborers; the individual and private economic sector is an integral part of the socialist economy at the current stage. These concepts are being accepted by more and more people.

In recent years, the All-China Federation of Industry and Commerce, a mass organization in the nature of a general chamber of commerce, has made the following proposal about the individual and private economic sector after considering the current reality: "Politically, it should not be discriminated against. There should be a stable policy to deal with it. Economically, it should be developed. And its management should be strengthened."

Of late, the Federation of Industry and Commerce has come up with a new proposal: In developing the non-public economic sector, further efforts should be made to emancipate the mind and gain the correct understanding that the individual and private economic sector is an integral part of the socialist economy with Chinese characteristics. Under the new circumstances where the pace of reform is being quickened and the development of the whole national economy is going to enter a new stage and in the process by which the socialist market economic system is being perfected, a more active policy should be adopted for the development of the individual and private economic sector. To perpetuate the existence and ensure the sound development of this economic sector, it is necessary to take feasible and effective measures, including the fostering of public opinion and the institution of appropriate policies, laws, and systems.

Meanwhile, the government has taken positive action in this regard. Recently, in its proposal on "improvement of industrial and commercial administrative work to promote reform, opening-up, and economic development," the State Administration for Industry and Commerce has stressed the need to energetically encourage the development of the individual and private economic sector and give full play to its useful, supplementary role within the limits allowed by the state.

In particular, the proposal points out: It is necessary to guard against indiscriminate restriction of the development of the individual and private economic sector, the practices of "buying out," "turning over to the government," and "transition to public ownership," or any other action that impairs the stability and continuity of the policy of developing this economic sector. Individual-owned workshops and stores and private enterprises should be permitted to enter all lines of business and deal in all kinds of commodities that are not expressly prohibited or restricted by the state. Besides, efforts should

be made to simplify the registration procedure, do away with improper restrictions and rules, and strengthen the supervision and management of private businesses.

#### **A Top Cadre's Support Assures a Bright Future**

Tien Chi-yun, vice premier of the State Council, recently made an unequivocal remark: The existence and development of the nonpublic economic sector is a result of the development of productive forces at the present stage. We should neither artificially suppress its development nor ignore the objective reality and blindly lead it to the road of transition to public ownership. He added: The individual and private economic sector is a supplement to the public economic sector. We should give full play to its role instead of using prohibitive measures to restrict its development. We can only beef up our efforts to manage and guide it.

It is reported that following the remarks made by Deng Hsiao-ping when he inspected the south, many provinces and municipalities, including Peking, Shanghai, Tientsin, Kiangsu, Heilungkiang, and Hopei, each have drawn up a series of preferential policies for the development of individually operated businesses and private enterprises. Accordingly, the individual and private economic sector in these localities has shown a strong tendency to develop on a still larger scale with more people going to run their own businesses or work for private enterprises. The future is very bright.

#### **Commentator on Developing Rural Enterprises in West**

*93CE165A Beijing RENMIN RIBAO in Chinese 6 Nov 92 p 1*

[Commentator's Article: "Promote Development at Different Speeds, Join Hands To March Forward Together—Again on Developing Central, West Township Enterprises"]

[Text] On 30 March, RENMIN RIBAO carried a commentator's article pointing out the unbalanced development of township enterprises in different parts of China and the need to accelerate the development of township enterprises in central and western parts of the country. Since the beginning of this year, there have emerged two new special features in the development of township enterprises in the country. 1. Whether in the eastern, central or western parts of the country, the pace has been obviously quickened in the development of township enterprises. This favorable situation is publicly recognized. 2. The gap between the central and western parts and the eastern part of the country has further widened. This has touched off profound debates among the people, and the voice to accelerate the development of township enterprises in central and western parts of the country has become louder and louder. In view of the new situation and new issues, we need to foster the guiding ideology of promoting developments at different speeds and joining hands to march forward together in

executing the strategy for the development of township enterprises in different regions.

In the course of carrying out reform and opening to the outside world during the past 14 years, there are apparently three different levels in the development of the national economy in east, central and west China. The difference in the development of township enterprises in different regions corresponds to that in the development of the national economy. We recognize this fact, but there is no need for us to worry about it. Difference is not something bad whether it exists in the overall development of China's economy or it appears in different regions at different levels of economic development. According to the law of development, there will be no faster and better developments without differences. Why do we say that? It is because our country is a vast one, and really there are tremendous differences among different regions in terms of foundation, conditions and environment. The ideal of letting the entire nation march forward in step and the nation's entire population of 1.1 billion grow rich simultaneously is naturally good, but it is an unrealistic one. Our past experience has already proven that if we bundle all the regions together and take from those who have too much and give to those who have too little, the rich will become poor and the poor will become poorer. It is precisely this kind of lesson that has made us gradually form the strategy of promoting developments in different ways in the course of carrying out reform and opening to the outside world. That means, we promote developments at different speeds in regions where conditions are different; and let those localities where conditions permit prosper first.

On the strategy of promoting developments at different speeds, comrade Deng Xiaoping had some brilliant expositions. In the early stage of reform, he said: "In making economic policies, I believe that we should allow some regions, some enterprises and some workers and peasants to earn more and lead a better life first because they work harder and score greater achievements." He also believes that this is a major policy that will affect and help develop the entire national economy. In his talks which he gave earlier this year during an inspection tour in South China, he once again pointed out: "Areas where conditions permit should develop first, and some areas will develop later. Areas that develop first will bring along those areas that develop later in eventually achieving common prosperity." Our experience in the past 14 years shows that township enterprises in the east region have taken the lead in developing themselves, while those in central and west regions are also quickening their tempo in developing themselves. The widening gap between the two areas is not caused by the fact that the rich becomes richer and the poor becomes poorer. It is caused by the fact that the speed in attaining prosperity is faster or slower. Facts prove that the strategy of promoting development at different speeds is correct.

In his report delivered at the 14th National CPC Congress, comrade Jiang Zemin pointed out: "The territory

of China is so vast that conditions vary greatly from place to place, and so does the level of economic development. We should try to achieve a rational pattern of industry and promote the healthy development of regional economies under the guidance of unified planning by the state. We should proceed in the light of local conditions and in accordance with a rational division of labor, with all the regions exploiting their own particular advantages for mutual benefit and prosperity." To reaffirm the strategy of promoting developments at different speeds does not mean to advocate polarization in "making the rich become richer and the poor become poorer." It only serves to reaffirm the differences in "achieving prosperity earlier or later and faster or slower." Thus, on the one hand, township enterprises in the east region with conditions to develop themselves faster should develop themselves as fast as possible, exert strenuous efforts to promote the export-oriented economy and leave some territories for the central and west regions to develop themselves. On the other hand, we must not ignore some central and west regions that are economically backward. In accelerating the development of township enterprises in the central and west regions, an important point is to ensure that the east regions join hands with the central and west regions, and the rich areas join hands with the poor areas to march forward together, while we carry out the strategy of promoting development at different speeds.

The central and west regions must continue to bring into full play their fine tradition of making unremitting efforts to improve themselves and of waging arduous struggles, and energetically develop township enterprises with the kind of vigor they have shown in developing the contract system of responsibility linked to production and in pushing agriculture to a new height. All the comrades in those regions where township enterprises develop themselves first should take a broad view and help the backward areas develop themselves even more rapidly. All this is required for the well-to-do regions to develop themselves. The central and west regions account for 89 percent of China's vast territories and 64 percent of the population and most of the natural resources. If such vast areas cannot prosper, the east region will lack natural resources and vast markets, and its own development will certainly be hampered.

The township enterprises in the east region should join hands with those in the central and west regions along the track of the socialist market economy. Following the so-called track of the market economy means to establish economic links among regions at different levels of economic development, and to act according to one's own economy to benefit all areas. The conditions in the central and west regions differ from those in the east region. Thus, the central and west regions should not follow the same pattern of the east region. Nor should they vie with the east region in pursuit of a higher growth rate. However, they should draw on the experience of the east region and try their best to avoid taking a roundabout route. Either the east region or the west region has

its own particular advantages. The people have already reached an unanimous understanding on this point after drawing on their past experiences. The present issue is how to use action to establish relations among various regions to exploit their own particular advantages for mutual benefit and prosperity. The link between the European and Asian Continents and the opening up of the economic zones along the Yangtze River have provided an excellent opportunity for the township enterprises in China's east region and central and west regions to join their efforts in a big way. While heading for the world market, the coastal region has also turned its eyes on the interior. While catering to the coastal region, the interior has also turned its eyes to its neighboring areas. Cooperation among various regions, provinces and enterprises is being rapidly developed. All these are favorable signs. We must carry out our work even more boldly. However, as a whole, the township enterprises in central and west regions have lower standards and their conditions are relatively poor. The township enterprises in the east region have the responsibility to exert even greater efforts to help the backward regions, while coordinating and competing with them.

Promoting development at different speeds and joining hands are two aspects of a single issue. Without differences, it will be impossible to bring about faster developments, and without joining hands, it will be impossible to march forward together. It is wrong to emphasize a single aspect only. As seen from the current situation, the tendency to accelerate the development of township enterprises in the coastal areas in east China is quite powerful. Therefore, the issue of accelerating the development of the township enterprises in the central and west regions has become more urgent and salient. Joining hands is something important for the township enterprises in the east region to do. It is also something that all state-owned enterprises, government departments, the media, and theoreticians are obliged to do. We should pay more attention to the central and west regions, and help the township enterprises there or even the entire central and west regions to develop their economies as soon as possible.

#### **Jiangxi Township Enterprises Increase Output Value**

*93CE165B Beijing RENMIN RIBAO in Chinese 6 Nov 92 p 1*

[Report by Yu Qingchu: "Jiangxi Seizes Opportunity To Develop Township Enterprises—Rate of Taxes and Profits Rose by 29.8 Percent Between January and October; How Can Old Revolutionary Base Areas and Poor Districts Quicken Pace in Becoming Well-to-Do?"]

[Text] How can old revolutionary base areas and poor districts quicken their pace in becoming well-to-do? An important experience in Jiangxi Province which has a late start and weak foundation is to seize the favorable conditions provided by the reform and open policy to go all out and try its best in developing township enterprises

by leaps and bounds. From January and October this year, the total output value of all township enterprises in the province reached 24.5 billion yuan, up 53.3 percent over the same period in 1991. The tax contributions and profits of key township enterprises during this period rose by 29.8 percent, and they were among the best in the whole country in terms of the speed in development.

Compared with those in well-developed provinces, township enterprises in Jiangxi still lag far behind. The Jiangxi Provincial CPC Committee and the provincial government have seized the best opportunity to bring about a complete change of their thinking, overcome their fear of difficulties and educate everyone about the situation in Jiangxi in which "there are differences, potentials and opportunities for the development of township enterprises." They regarded the development of township enterprises as something crucial in fulfilling the strategic task of rejuvenating Jiangxi's entire economy and in doing their work. All departments in the province have pooled their efforts in developing township enterprises. It is now a common practice to carry out various tasks in this connection genuinely and in a down-to-earth manner.

The establishment of the system of socialist market economy provides the township enterprises in Jiangxi with ample scope to display their abilities. They rely on the market to develop themselves and flourish. They boldly organize conglomerates and rely on their abundant natural resources and manpower to form nearly 100 large enterprise groups with each enterprise's output value exceeding 10 million yuan and organize more than 500 shareholding and cooperative enterprises worth more than 300,000 yuan each. Their major products make up a large portion of the market. For example, their products such as coal, cement, glazed tile, alcoholic beverage, machine-made bricks and fireworks account for more than two-thirds of the market in Jiangxi. They have become highly competitive leading products on the market. Township enterprises in Jiangxi have also boldly entered the tertiary industry such as commerce, service trade, transportation, real estate and tourism; and become a major force in Jiangxi's tertiary industry.

To enhance their abilities for future development and increase their competitiveness, Jiangxi's township enterprises which were weak in the past have made breakthroughs in attracting foreign investments. From January to September this year, the number of Chinese-foreign joint ventures and cooperative and wholly foreign-funded enterprises reached 98 and the amount of foreign investments totaled \$60 million. The export-oriented economy is taking shape. The output value of export goods from township enterprises is expected to exceed 600 million yuan this year. A number of small districts are being built for the development of township enterprises. Over 300 varieties of new, outstanding and readily marketable high-tech products with extra added value that are able to collect more export proceeds will distinguish themselves on the domestic and international markets.

### Report on Liaoning Rural Enterprises

93CE0163A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 11, 1 Nov 92 pp 36-39

[Article by Liang Hsueh-chu (2733 1331 0443): "Small Fish Eat Big Fish: Changes in the System of Ownership"]

[Text] Township enterprises are using "money" as a lubricant. They are established by farmers arriving in villages and towns, their rapid development is expanding, and there is a trend towards such enterprises swallowing up state enterprises. Centrally managed state-run enterprises have been losing money for a number of years in succession, and immediately become money makers when swallowed by township enterprises. It is also very easy for collectively owned township enterprises to change into privately owned enterprises.

The author recently visited several township enterprises in Liaoning Province, and got a clear view of the fact that under the impetus provided by these enterprises, a fundamental transformation has been wrought in the economic structure of the countryside, and the gap between laborers and peasants has narrowed, as has the gap between cities and towns on the one hand, and the countryside on the other. In terms of economic income, these township enterprises have already surpassed the city.

During the civil war, Mao Zedong used the strategy of "the rural areas encircling the cities," to achieve victory. In the same way, at present Deng Xiaoping's economic reform is also using the same strategy. Under the liberal economic policies of opening and reform, a huge peasant contingent numbering in the hundreds of thousands has left the barren land on which they had subsisted for generation upon generation, and gone into industry and commerce, transferred into tertiary industries, gone towards developing urban areas, and a small fish eating the big fish situation has emerged whereby state-run enterprises have been nibbled at and then wholly swallowed by these township enterprises.

### A Township Enterprise That Manufactures Magnesium Products

Liaoning Province's magnesium production served as the focal point for the author's observations and study.

Liaoning is a base of heavy industry and is richly endowed with magnesium deposits. A major belt stretches over Yingkou, Haicheng, and Xiuyan, an area which possesses 90 percent of the country's mineral deposits.

Magnesium is a refractory material that is used in metallurgy to make high temperature fire brick, in high temperature kilns in the iron and steel industry, in nonferrous furnaces and in sintering kilns used in the silicate industry, chemical industry, machine building industry, and power industry, and as a bottom and inner liner for kilns.

At a moment when the free market economy is flourishing, here rural individual households and township enterprises centered on the abundance of magnesium ore, are engaged in mining and forging, producing a string of magnesium products: heavy burn magnesium, light burn magnesium and capacitive magnesium, etc., supplying the entire country's iron and steel industry and smelting industry, and supplying large quantities of magnesium products for export and foreign exchange.

On the highway from Liaoning Province's Anshan to Haicheng and Xiuyan, all along the route one can catch glimpses of high flying posters stretching across the highways emblazoned with slogans exhorting people to come to this place or that to see a diversified economy.

"If you want to get very rich, please come to Pailou." (Pailou is a small town near Haicheng City)

"If you want to do pioneering work and develop great talent, please come to Nanshan." (Nanshan is a small town near Yingkou)

All of these are small towns rich in natural resources with convenient and flexible transportation, and the government, in order to stimulate and accelerate development here, has given all these districts special policies (local land policies). For example, when investing here it is possible to enjoy reduced tax rates, and avoid resource fees, etc. Therefore, slogans such as "special district" and "preferential policies" can also be seen everywhere.

"This is a special district." "We have preferential policies here."

Liaoning peninsula is one of China's heavy industry bases, and due to the promotion of "special zones" and "preferential policies," there has been a rapid development of township enterprises, and they are in conflict with state run enterprises: In the not too distant future, township enterprises will replace state-run enterprises, and collective ownership will replace ownership by all the people.

#### **Peasants Carry Leather Portfolios in a Hurry**

Now I would like to introduce the Haicheng City Pailou Magnesium Mine.

Ten years ago, the countryside began engaging in a transformation of the economic system, and a series of commune and production team enterprises was set up (namely, enterprises based on a commune and production brigade ownership system). In the early period of their establishment, these enterprises only had 10,000 yuan in funds, and only around 10 people. The enterprise leadership and personnel were peasants, and used local magnesium ore resources, while employing indigenous methods to construct a very simple furnace, and forge the magnesium ore to produce heavy burn magnesium, and sold it to refractory brick factories near the town. Having been established now for some 10 years,

this peasant initiated enterprise has an economic efficiency that far exceeds that of state-run enterprises in the nearby districts.

The current general manager, Liu Shijun [0491 0013 6511], was originally a farmer, and when the enterprise was being established, he served as a purchasing agent, and though he completely lacked experience in business and industry, people all said he is a "real go getter." Now he is a big wheel, and an entrepreneur with a great reputation.

Over the last two years, the total output value of this factory has risen each year by 50 percent. This year, its annual output of magnesium will reach 200,000 tons, with products that include heavy burning magnesia, light burning magnesia, and capacitive magnesia. The total output value in renminbi is 70,500,000, with profits and taxes paid to the government totalling 10,200,000 yuan. The main factory has four branch factories, including one purchased from the state-owned Liaoning Magnesium Mine.

Total factory personnel amount to 2,180 people, and local peasants have already become the management and technical leading cadre of this enterprise. All the workers used for opening up a new mine and doing the civil engineering come from other provinces, primarily Anhui and Sichuan. The workers are paid more than 300 yuan a month, more than two to three times what they would have earned in their native places working as farmers. Outside laborers also are housed free of charge, and at the end of the year get a bonus. The leadership and high-level technical personnel make more than 1,000 yuan a month, and their share out bonus numbers in the 10,000s of yuan. State-run enterprises are fundamentally unable to match this.

The Pailou Magnesium Mine has the best resources in the area. Two years ago, it used 10,200,000 yuan to purchase a nearby mine that is the best in all of Liaoning Province.

In terms of transportation, the factory and mines have superior conditions, with a special-purpose railroad line from the factory direct to the port of Dalian (300 kilometers). In addition, the enterprise has a subordinate transportation production brigade, which has 75 trucks (primarily eight ton), with a drive of 60 kilometers to the port of Yingkou from the factory, and 113 kilometers to Baoyuquan.

This year the factory invested 35 million yuan to produce high purity magnesium (magnesium content of 97-98 percent), and provide foreign exchange from exports; this will go into operation in October this year.

To coordinate the demands of market development, this enterprise is preparing to straddle its original metallurgical industry circle, and starting to set up spinning and weaving factories, clothing factories, and shoe factories (primarily athletic shoes). The enterprise leadership believes that at present it is necessary to coordinate



peoples' needs to develop production, and in this way it will be possible to have a very profitable business.

Within the mine area, a four star hotel is now under construction to serve those guests from outside who have come to discuss business. It will probably be completed by early this year.

In 1993, the Pailou Magnesium Mine's goals are to achieve four "ones": an output of 100 million yuan, the generation of \$1 million of foreign exchange, the payment of 1 million yuan in taxes, and a profit of 1 million yuan.

#### State-Run Enterprises Count on Payment for Goods

The Western Refractory Material Company, another of Haicheng City's successful township enterprises, is located near Pailou, and is on the same scale more or less as the Pailou Magnesium Mine. It has a staff of over 2,300, and an annual output of 250,000 tons.

Prior to 1988, this enterprise only had one rather decrepit furnace, and used local methods for producing refined low-grade heavy burning magnesia. In 1988, cadres from this town raised 1 million yuan in funds, and greatly expanded this enterprise. After four years of hard work, this enterprise has already developed into a medium-sized enterprise which produces an annual output value of 100 million yuan, and accounts for 2 million yuan in taxes and profits.

General Manager Zhou Furen [0719 4395 0088], and Deputy General Manager Wang Jingfan [3769 3878 3879] are both of farmer background. Monthly wages for engineer and technician level personnel is 1,000 yuan, while management level employees year-end bonuses reach 8,000-9,000 yuan. These are figures bound to motivate people. In addition to wages and bonuses, workers (who were originally farmers) also can engage in sideline agricultural businesses, and the leadership level also can also develop partnerships with outside circles to develop other businesses.

In sharp contrast to the flourishing development of township enterprises, state-run enterprises appear to be on a dead end street, shrinking more and more, losing money year after year, forced to rest on the body of the nation, relying on payments for goods to get by day by day.

In the vicinity of the Pailou Magnesium Mine and the Western Refractory Materials Company, lies the state-run Magnesium Ore Company, which has been asked to vigorously develop magnesium mines, and originally had a staff of over 500. Yet it has run up losses year after year, and within a three year period losses amounted to 4.75 million yuan, while workers salaries only amount to several tens of yuan. Later, the Pailou Magnesium Mine purchased this state-run enterprise, transformed the organization, also overhauled the complete production management and allocation systems, and suddenly losses became surpluses, which in one year amounted to 3 million yuan.

Another state-run enterprise, the Liaoning Magnesium Mine, has the longest history of any mine in Liaoning Province, and is on the scale of the largest magnesium company. This is an old line state run mine, and which very early on seized the largest and best magnesium mine ore deposits. It is located near the Pailou Magnesium Mine and the Western Refractory Materials Company. Several years ago it seemed to have monopolized the magnesium ore industry export market, and ruled magnesium production with authority, a real "big brother." Recently, under the influence of the reform and opening policies, with township enterprises developing vigorously, this "big brother" has been gradually shrinking, and its five subordinate factories are all suffering losses, which amounted to 20 to 30 million yuan annually. Because these losses were so serious, they attracted the attention of the Ministry of Metallurgy, which sent a specialist to the mines to investigate, with the hope of finding a new way, and turning around the situation.

This old-line magnesium outfit has the best mines, first class production equipment, the largest scale contingent of workers, the most outstanding technicians, the longest production history, the long-standing and broad domestic and foreign trade ties, is a favorite of the state. The rising township enterprises are really far from it in terms of a comparison of production conditions. However, this favorite of the state is on the verge of being purchased and carved up, while its five subordinate factories at present are targets for being swallowed up by township enterprises. The situation is just as if a school of small fish surrounded a large and feeble breathing fish, and were preparing to devour it, in order to strengthen themselves.

#### How Will the Small Fish Be Able To Devour the Big Fish?

Small fish eating big fish, and cooperatives eating state managed enterprises, this is a current trend in the reform of the system of ownership.

And how are township enterprises able to swallow state-run enterprises? It is also for the reasons that under conditions of reform and opening up of the economy, township enterprises have been able to rapidly develop:

##### 1) Structural issues.

State-run enterprises are structured with the government at the base, and the factory director, and general manager are both political appointees, and have been brought in from the overall party government system. In addition to production, they also have a considerable amount of political duties, a fair amount of administrative meetings, and must also accept upper level supervision and inspection. The factory director and general manager are tantamount to bureaucrats. Doing the job well has no relation to their own benefit, at best they can



win promotion and serve as an office chief, if they do badly they will be criticized, demoted, and disciplined. Under these circumstances, the best method for handling things is to stick to convention, and not look for success, but look to avoid failure.

Township enterprises are enterprises which have been set up without any contact with the party and government system. Their proprietors are not officials, and their gains and losses also bear no relation to the rises and falls of officialdom. On the contrary, whether they enterprise flourishes is related to the interests of the individual. Speaking of the system of organization, the system of state-run enterprises is ossifying, while that of township enterprises is extremely flexible.

## 2) The issue of distribution.

The staff of state-run enterprises has for a long time been accustomed to eating from the same bowl, "whether they were good or bad, it amounted to the same thing, whether they worked or did no work, it amounted to the same thing," and the enthusiasm of workers and cadres has not been given full play.

Township enterprise distribution does not accept any high-level limitation, and decisions are made by several of the primary leaders of the enterprise. It is possible for wages to be determined by the actions of the workers. For example, in the magnesium ore production link chain, the most important figures are technicians, and the Pailou Magnesium Mine and the Western Refractory Materials Company both are very attentive to this, and have adopted high pay policies, as far as possible looking after and satisfying the needs of the technicians. The Pailou Magnesium Mine invited three technical experts to be responsible for production in order to increase quality, and their monthly wages exceed 1,000 yuan.

Compared with this, the monthly wages of specialists, and engineers and technicians at state-run enterprises is almost the same as for normal staff, approximately 200 yuan per month.

Under this irrational distribution system, the talent that the state-run enterprises have has been discovered by the leaders of township enterprises. State-run enterprises are gradually losing their top people. But this situation also exists because the prospects for economic opening and development are at an early stage and are still not clear cut, and some technical personnel at state-run enterprises do not want to give up the iron rice bowl, and township enterprises use the method of purchasing their spare time, and transfer their energy to their own enterprises, therefore the following phenomenon also emerges: "loafing during the day, working all out at night."

## Having a Profit Allows Planning for Moving Ahead

3) Township enterprises are able to flexibly transfer funds, make money, pay taxes, while the remainder goes back to the enterprise, and is of benefit in that those

things planned can immediately be done, and this can push forward the development of the business. For example, the Pailou Magnesium Mine can set up textile, clothing manufacturing, and shoe factories, areas completely unrelated to magnesium-related metallurgical industries. All state-run enterprises are national, and transferring of funds must be done in accordance with the central plan, and wanting to stray from development of the metallurgical industry would simply be sheer fantasy.

## 4) Stressing quality.

All township enterprises are capable of developing and expanding, and their experience cannot dispense with "stressing quality."

When it comes to the mainland's export products, the common issues are quality and insufficient reliability.

The success of the Pailou Magnesium Mine lies in its having grasped the key link of quality, and it has won a reputation within the magnesium industry. In addition to inviting their technical people to check on the product, they also stress training product inspection personnel, send three experienced staff workers to the Dalian Laboratory to train and study for three years. In addition, they also obtain the support of laboratory personnel, who often come to the enterprise to assist in properly handling product quality.

This is opposed to the year after year losses of state-run enterprises, which teetering on the verge of bankruptcy, put the issue of product quality quite low on their list.

## Money as a Lubricant

5) Market economics are taking decisive effect in township enterprises.

Township enterprise products can be brought to market and freely regulated according to the supply and demand relations of the market. State-run enterprises lack this flexibility. When the market is weak, because pricing is rigid, the products of state-run enterprises have nowhere to go, and they accumulate, creating overstocking.

For example, in 1991, the international market for refractory materials was depressed, and the price of magnesium ore tumbled. It was clearly a buyers market for magnesium ore. But in the late spring of that year, Li Lanqing, the Minister of Foreign Economics and Trade issued a directive concerning exports of magnesium ore: magnesium ore exports must be priced according to the state plan, and whoever priced exports lower than the state plan would be making a mistake, and would be subject to strict disciplinary action. The Liaoning Magnesium Mine is a state-run enterprise specialized trade company, and was not able to violate state export regulations. Under these circumstances, it could only cease trading, and it could not sell a sizeable quantity of magnesium products, and became overstocked. During this period, the township enterprises were very active,

repeatedly changing products, using every means to establish relations with other export companies that did not have with the Liaoning Magnesium Mine, searching for where they could see space, and could squeeze into the international market.

6) Using a capitalist management formula, take "money" as a lubricant, to transport products in the supply and marketing process. This is a tool state-run enterprises do not have. With ordering products from a township enterprise there is a legal sales commission, and there can also be a secret sales commission, which can be anyone one pleases. Township enterprises promote sales of products to large enterprises in order to obtain long-term contracts. They can give gifts such as a car, or a dwelling. To obtain favorable production conditions from the relevant state or township organs, or get loans from banks, etc., they can construct dwellings for the personnel of these state organs, allocate funds for setting up schools, setting up hospitals, repairing bridges, roads, etc.

State-run enterprises lack this ability to use money as a lubricant, and for this reason when the "machinery" operators, there is a lot of friction, and it is easy for the "machinery" to not work properly, and even come to a grinding halt.

When a magnesium mine enterprise cannot mine sufficient ore it must purchase it from households engaged in production or another company, and decisionmakers can get a rebate or look outside to develop joint shares in addition to establishing a company. Means of transportation are also insufficient, it can also use this type of method, and several people can organize and establish a company to purchase means of transportation, establish contact with an enterprise, and resolve the deficiency.

#### Township Enterprises Are Bound To Flourish

At present, on the Chinese mainland, there are three types of ownership of the means of production: ownership by all the people (state-run enterprises), collective ownership, and individual ownership. Township enterprises (in the past called commune and production team enterprises) are for the most part of the collective ownership type (there are also many individually managed). This is at present the most dynamic type of enterprise, and possesses the most vitality. Though there are many positive factors for the individual economy, there is also great potential for developing its latent power. But under present circumstances, the individual household (though they could have hired laborers) has limited manpower, and limited natural and financial resources, while a township enterprise has formidable local natural resources and powerful political backing. When local labor power is insufficient, it can straddle provinces and counties and on a large scale invite in laborers. Under advantageous conditions, they can very rapidly combine with, annex and even eat up and replace state-run enterprises. Under certain conditions, collective enterprises can also change and become privately managed enterprises owned by small numbers of people, and the

enterprise's chairman of the board and general manager can control the economic lifelines of the entire enterprise. Because the legal system has not yet been perfected, collective ownership can be very easily changed to private ownership by a few people.

A major reason why township enterprises have been able to develop rapidly is that the collective ownership system still falls under the category of a socialist ownership system. Under current conditions, ownership by the whole people—state-run enterprises are already difficult to develop and support, and certainly will gradually collapse. If the system of ownership by the whole people "retrogresses" to a collective ownership system, which will still retain some socialist quality, when it comes to the communist party, it will be relatively easy for it to fall out of power. If state-run enterprises were to suddenly crumble and collapse, or driven into the hands of individual households, the reputations of the authorities would be on the spot in a big way.

Given these political factors and current economic conditions, township enterprises are bound to be able to rapidly develop.

#### Dalian Township Enterprises Increase Exports

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OVERSEAS EDITION in Chinese No 45, 9 Nov 92  
pp 14-15

[Article by Liu Dongping (0491 2639 1627): "Dalian's Township Enterprises Marching Toward the World"]

#### [Text] A Rural 'Trust'

In Xinzhazi Town in suburban Dalian is a village called Xiaoxinzhazi, which has an area of four square kilometers with some 1,000 households. If you drive through the village, you will see rows of big and high factory buildings; modern aquatic farms; deluxe commercial mansions, hotels, and restaurants; hostel-type kindergartens; karaoke dancing and musical halls.... It is no longer a Chinese village of the past. Absent are thatched cottages, men leading oxen and carrying hoes, and women who had to tend their children while toiling at household chores.

Before 1978, here was still a typical agro-economic village with vegetable growing as the main undertaking, supplemented by grain production and hog raising. At that time, the village's average per-capita income was only 200 yuan per year, and most families could only get a bare subsistence.

After China put into practice the reform and open policies, news came from time to time that other cities, towns, and villages became better off by enlivening their economies. The people of Xiaoxinzhazi Village could no longer remain still.

Led by Feng Jiazhi, originally a vegetable grower, Xiaoxin-zhaizi Village established a new-type township enterprise—Huaxin Group. "Xin is composed of three characters for gold, meaning immense wealth," said Feng Jiazhi.

To farmers who used to work on farms, it was an entirely unfamiliar and brand-new thing to run enterprises and engage in business and trade. A Sino-Japanese joint venture, Zhongguang Woodcraft Corporation, which has now become a backbone enterprise of the Huaxin Group, started from scratch at that time. Its personnel traveled to every part of the forestry zones in Northeast China and contacted every related unit to negotiate for the export of lumber. Finally, the corporation opened several lumber export channels for its customers and struck out a revenue-earning path for itself.

Since 1989, in a joint investment project with Japan, the corporation has carefully selected fine-quality timber from the Jilin and Heilongjiang forestry zones and made it into panels, furniture parts, decorative materials, and other wood products. Because of their fine quality, these products are exported to over a dozen countries and regions, including Japan, Thailand, Taiwan, Belgium, and Hong Kong.

Like a rolling snowball, the development of the backbone enterprise has stimulated the rapid economic growth of the village. Now, Xiaoxinzhaizi Village (Huaxin Group) has become one of the country's 100 famous villages with an output value of more than 100 million yuan. Now, the village has 72 enterprises engaged in machine building, processing industry, construction, chemical industry, commerce, service trade, and production of fruits, vegetables, poultry, eggs, and meats. It is really a big rural trust.

#### Entrance Into the International Market

The money envelopes made by the Xinyang Arts and Crafts Corporation, another Sino-Japanese joint venture in the Xiaoxinzhaizi Village, are known to everyone in Japan. This product is a necessity for people visiting relatives and friends as well as for weddings and funerals.

Workers in the workshop are all female. Through their swift and skillful hands, specially made threads are formed into various designs and affixed to the envelopes. No one could imagine that these rural girls could make more than 400 different designs of money envelopes and earn \$2 million foreign exchange each year.

Five years ago, the precursor of this arts and crafts corporation, Dalian Shell Carving Picture Works, was on the verge of bankruptcy because it could not sell its products. It was at that time that Japan's Mukaiyo Company Limited, which deals exclusively in money envelopes, came to China to seek a cooperative partner. The two sides immediately agreed to set up the joint venture.

Every small decoration on the money envelop looks simple, but requires delicate workmanship. In the initial test-production period, the corporation recruited some

70 female workers from the village. They came in great delight, but in less than a week most of them quit, weeping as they left. At last, only four remained. The girls complained that the job was too hard for them; their hands which had been accustomed to holding hoes could not do the fine art work. This in no way discouraged the factory manager, however. He selected five capable female workers and sent them to Japan to learn the skill. After their return, these five girls became the factory's backbone master workers and started to train other female workers, one lot after another. This way, dozens of skilled workers were cultivated in less than a half year. Products made by them are delicate and beautiful.

The first batch of products were sent to Japan. The Japanese side was very satisfied with the quality of the products. Then, the second and third batches were delivered, the rate of up-to-standard products being 100 percent. Greatly impressed, the manager on the Japanese side immediately placed more orders. What is more, he later retrieved several processing work orders from factories in other countries and gave the work to "Xinyang."

In 1990, the output value of this enterprise soared to 12 million yuan. Its line of business now included more than 400 varieties of processing work as against some two dozen at the beginning. Because of its capability and credibility, the Xinyang Corporation won the trust of its customers.

That year the Mukaiyo Company Limited of Japan offered to invest in two new production lines, one for making waterproof garments and the other for ordinary garments. The production lines soon went into operation and yielded better-than-expected results that very year. In 1991, the gross output value of "Xinyang" jumped to more than 30 million yuan, and the amount of foreign exchange earned reached \$5.84 million.

Now, the corporation's new factory covering an area of 8,000 square meters has been erected. Arrangements are under way for new projects with investment from abroad.

The Hongda General Corporation, a township enterprise group in Hongqi Town of Ganjingzi District, started on the basis of an automotive transport team of a people's commune. Today Hongda has become a large economically strong conglomerate, making giant strides into the international market.

In spring this year, Wang Qingke, general manager of the Hongda General Corporation, went to Toronto, Canada, and bought 60 hectares of farmland and a modern chicken farm capable of producing 100,000 broilers per year, both on the outskirts of the city. These, plus the shares in the three transnational companies of "China Breeding Stock (Canada) Corporation," "Hualun

Holding Company Limited" and "Shicheng International Development Corporation," have brought Hongda's total assets to \$970,000.

Manager Wang Qingke said: "We are the first township enterprise in Dalian to establish transnational companies. We will use these transnational companies as windows and channels to introduce Dalian's products to the international market as quickly as possible."

#### Mountain Village Farmers Engage in Tourist Industry

"You are not visiting Dalian if you do not go to the Bihai Mountain Villa." This is said by some people. The Bihai Mountain Villa is a resort established with funds pooled by farmers and township enterprises of Dalianwan Town. Its fixed assets now amount to 100 million yuan. The villa is located on a mountain by the sea amid picturesque surroundings of verdure and blue. Looking into the distance from the mountain top, one can see the boundless sky and sea stretching to the horizon. The villa attracts thousands upon thousands of tourists. The year 1991 saw 1.65 million visiting tourists and a profit of 20 million yuan.

In 1987 when the Bihai Mountain Villa—which comprises a hotel, a shopping mall, a swimming beach, an aquarium, and a number of recreational facilities—was built, it was visited by very few tourists. The income could not cover the expense, and the repayment of the more-than-40-million-yuan loan became a big problem. Yao Chunshan, the town leader and manager of this mountain villa, said: It was not easy for us farmers to start this tourist project. To learn and grasp the way of running the tourist business, we should put in more efforts. After some planning, it was decided to build a "Pilgrimage to the West" palace in the villa to attract tourists. According to the plan, this palace would present the characters and scenes of the popular Chinese classical novel "Pilgrimage to the West" accompanied by sound, light, and dynamic effects. The purpose was to let the tourists feel the artistic effects so vividly as if they themselves were making the "Pilgrimage to the West."

In only three months, the elaborately designed and interesting "Pilgrimage to the West" palace was completed and opened to the public. It created a sensation in Dalian. No less than 30,000 visitors came per day during the peak tourist period. The investment was entirely recouped within that year, and the name of the Bihai Mountain Villa became well-known.

Since then, farmers of this mountain village have shown unquenchable enthusiasm in developing tourist projects. In 1991 they invested 6 million yuan in building a "Huicui Palace," which features Chinese classical literature. In addition, they built similar "Pilgrimage to the West" palaces in eight other places, including Shenyang, Harbin, Wuhan, Chengdu, and Baiyangdian.

In spring this year, Yao Chunshan traveled to Japan and visited the Japanese Disney World. A new idea struck him. He decided to build a third palace in the Bihai

Mountain Villa—the Great Amusement World of China. Meanwhile, the "Pilgrimage to the West" palace has aroused the interest of tourist entrepreneurs in Japan, Singapore, Thailand, and other countries. They have expressed the intention of asking Yao Chunshan to build similar palaces in their respective countries.

#### Xizang Township Enterprises Develop Quickly

92CE165C Beijing RENMIN RIBAO in Chinese 17  
Nov 92 p 1

[Report by Liu Wei and He Guanghua: "Xizang Quickens Pace in Developing Township Enterprises—Number of Xizang's Township Enterprises Now Exceeds 8,000"]

[Text] Township enterprises in Xizang are rapidly developing. According to statistics compiled by departments concerned, their total output value this year is expected to exceed 250 million yuan, an increase of 20 percent over 1991. They would become a major force that is most active and fast developing in invigorating the local economy.

During the entire 1980's, Xizang's township enterprises were still in the embryonic stage. Township enterprises were nonexistent in approximately 60 percent of the townships and more than 70 percent of the villages in the autonomous region.

Proceeding from the actual local conditions, the Xizang Autonomous Regional CPC Committee and the autonomous regional government have realized since 1990 that to develop township enterprises is the only way in rejuvenating the economy in the agricultural and pastoral districts, changing the backward outlook in Xizang and invigorating the township enterprises. In 1991, the number of township enterprises in the entire autonomous region reached 8,369 with 46,300 employees and a total output value of 202 million yuan.

The guideline laid down by comrade Deng Xiaoping's important talks which he made during an inspection tour in south China in early 1992 has greatly inspired the people in the snow-covered highland to energetically develop township enterprises. The autonomous regional government timely announced the "Decision on Energetically Developing Township Enterprises," and held, in August, the first regional meeting on the work concerning township enterprises. It also decided to invest 40 million yuan each year from 1992 in the form of bank loans and public fund-raising for the support and development of township enterprises. It also helped township enterprises set up training centers; worked out preferential policies; energetically recruited qualified personnel from the inland areas; and encouraged scientific and technological personnel in Xizang to lead and run township enterprises. It also delegated the power of examination and approval of projects to the lower levels; and laid a solid foundation in pushing Xizang's township enterprises to a new level.

The enterprises flourish when the government introduces a good policy. Various localities in Xizang have brought into full play their own favorable conditions, boldly opened themselves up; persistently designed a "four-wheel drive" by organizing townships, villages and households or even a single household to run township enterprises. They have developed a large number of new projects and attained fairly good results.

## AGRICULTURE

### Minister Says 1992 Forest Coverage 13.63 Percent

HK0701073393 Beijing CHINA DAILY in English  
7 Jan 93 p 3

[Report by staff reporter: "Forest Coverage Up to 13.63 Percent by the End of 1992"]

[Text] Rapid progress in afforestation last year has pushed China's forest coverage up to 13.63 percent from 13.4 percent of the country, according to a senior forestry official.

About 4.54 million hectares of forests planted last year have reached the national standard, Gao Dezhan, Minister of Forestry, said recently.

The number of trees cultivated to accepted standards improved from 65.6 percent in 1988 to 82.6 percent last year.

Now China has some 131 million hectares of trees with 10.9 billion cubic metres of storage timber.

"The rapid increase in forests has resulted from reforms in the forestry industry and strict checking and management," an official from the Afforestation Department of the ministry said yesterday.

And the wide use of new technology, such as container nurseries, seed cleaning, root-growing powder and project-style afforestation, was another reason for the quick growth in forests and the improvement in quality, added the official.

Since the early 1980's, China has quickened its nationwide afforestation drive.

The four national key shelterbelt projects, including the northern forest project, the coastal shelterbelts, the shelterbelts in the upper and middle reaches of the Yangtze

River and those along farmlands in plains, have contributed to a sharp increase in forests, the official said.

The 14-year-old northern forest project has afforested 11.73 million hectares while more than 2.8 million hectares of trees have been planted in the upper and middle reaches of Yangtze River since 1989.

In addition to the national projects, local authorities have also launched tree-planting campaigns, which are considered one of the most important ways to boost the local economy.

Southern China's Hainan Province is planting a coastal shelterbelt.

According to the latest data, trees have been planted along 1,024 kilometres of coast and another 33 kilometres will be planted this year to complete the project.

A local official said the project is expected to cost more than 38.54 million yuan (\$6.65 million).

The shelterbelt has already played an important role in protecting the grain harvest from wind and in helping water conservation.

Guangdong Province finished afforesting all its barren hills in 1990, becoming the first province in the country to do so.

Fujian, Jiangxi and Anhui provinces had aimed to afforest all their barren hills suitable for tree-growing by end of last year or this year.

The official predicted that China would see a steady quantity increase and quality improvement in afforestation in the next few years.

Stimulated by the reform and market economy, the planting of such cash trees as gall, tea, mulberry and lacquer has been a rapid increase in recent years.

Some 16,870 hectares of cash trees and plants were grown in Xinjiang Uygur Autonomous Region last spring, accounting for 32 percent of the total.

Meanwhile, industries depending on afforestation also developed rapidly last year.

The total output value of tree-related industries, including lumber processing, paper-making, fruits and nuts, herbal medicine and spices, tourism and the taming and utilization of wild animals, hit 126.5 billion yuan (\$21.1 million).

**Public Attitudes Toward Sino-British Relations**

93CM0082A Hong Kong KUANG-CHIAO CHING  
[WIDE ANGLE] in Chinese No 242, 16 Nov 92 pp  
52-63

[Article by Liu Zhaojia, Visiting Professor of the Department of Sociology of the Hong Kong Chinese University and Deputy Director of the Hong Kong Asian-Pacific Research Institute: "Hong Kong People's Attitudes Toward Sino-British Relations in Later Stage of Transition Period"]

[Excerpts] This research paper is a part of the research project on Hong Kong's social indexes under the auspices of the Hong Kong Asian-Pacific Research Institute of the Hong Kong Chinese University with funds from the institute. [passage omitted]

**Attitudes Toward Sino-British Relations in Later Stage of Transition Period**

In spite of Hong Kong people's distrust of the Chinese government and their doubt about the motives and abilities of the Hong Kong government, they, nevertheless, cannot but recognize the increasingly significant role of the Chinese and Hong Kong governments in Hong Kong during the later stage of the transition period. Hong Kong people also fully realize that there is no force in Hong Kong that can influence the policies of the two governments of China and Britain. Moreover, with the increasingly close relations between China and Britain and Hong Kong's increasing dependence on China in many ways, Hong Kong people have also gradually realized that the support and cooperation of the Chinese government are extremely important in maintaining Hong Kong's stability and prosperity and in solving a number of serious problems in Hong Kong (such as public security). In addition, in spite of the fact that Hong Kong people have less trust in the British government, they still cannot find another force that is more powerful and capable in administering Hong Kong. It is true that Hong Kong people do not want the Chinese Government to regain sovereignty in Hong Kong ahead of schedule. Meanwhile, they are also unwilling to see the British-Hong Kong governments administer Hong Kong jointly with another political or social force.

Hong Kong people fully understand the importance of the harmonious cooperation and the close relations between China and Britain to Hong Kong. However, they do not seem to clearly understand by what means a fine Chinese-British relation and on what kind of foundation this relation should be built. In general, they believe that Hong Kong will benefit, if the Chinese and British governments can sincerely cooperate with the people in Hong Kong. According to a survey, nearly 60 percent of the respondents agreed with the inference that "generally speaking, can the Chinese and British governments work together with the people in Hong Kong to solve the various problems facing Hong Kong?" Only 16.2 percent of the respondents disagreed, while more people answered: "I don't know." They accounted for

23.4 percent. The fact that there were so many people who said: "I don't know" may possibly reflect the following two situations. First, they feel that even if China, Britain and Hong Kong cooperate with one another, they may not be able to solve the problems in Hong Kong which are complicated and arduous. Second, due to Hong Kong people's lack of sufficient confidence in the Chinese and British governments, they have doubts about whether the three sides can fully cooperate with one another.

Even if the Chinese and British governments can cooperate with each other, Hong Kong people are also not without worries, because they fear that such kind of cooperation may be detrimental to Hong Kong to a certain extent. According to a survey, 27.4 percent of the respondents believed that Hong Kong people's interests will be sacrificed if China and Britain closely cooperate with each other to administer Hong Kong. Thirty (30.4 percent) percent of the respondents disagreed with this argument; 16.5 percent of them took an equivocal attitude; and about 20 percent (21.9 percent) of them answered: "I don't know." Due to the fact that Hong Kong people still have doubts about Britain and China, they naturally hesitate to unreservedly support the Sino-British cooperation.

Nevertheless, as of now Hong Kong people still feel that the Chinese and British governments have not established the appropriate relations of cooperation. According to a survey, nearly one-half (45.6 percent) of the respondents believed that at present the Hong Kong and the Chinese governments had not exerted enough efforts to cooperate with each other, while only 12.2 percent of them felt that they had done enough. In addition, the people in Hong Kong generally believe that the Hong Kong government should handle its relation with the Chinese government with moderate means and use this relation as a foundation to promote the Sino-British cooperation. According to a survey, slightly over 60 percent (61.1 percent) of the respondents said that the Hong Kong government should adopt an attitude towards compromise in exchange of the support and cooperation of the Chinese government, while only 11.7 percent of them endorse the adoption of a hardline stance by the Hong Kong government.

What merits attention is the fact that less Hong Kong people now reject the participation by the Chinese government in Hong Kong affairs as compared with the past. On the contrary, there seem to be more people who advocate more active participation by the Chinese government in Hong Kong affairs. According to a survey, approximately half of the respondents (51.1 percent) endorsed or enthusiastically endorsed more active participation by the Chinese government in Hong Kong affairs during the later stage of the transition period, while only 17.4 percent of them disagreed. In general, those who are older and less educated and who belong to a low-income bracket or lower social strata tend to advocate more active participation by the Chinese government in Hong Kong affairs. On the contrary, those

who are younger and more educated and who belong to a high-income bracket or higher social strata tend to oppose the participation of the Chinese government in Hong Kong's affairs.

No matter whether they like it or not, Hong Kong people also realize from a realistic point of view that China's active participation in Hong Kong affairs is an irreversible trend. According to a survey, right now 76.6 percent of the respondents admitted that increasingly active participation by the Chinese government in Hong Kong affairs is something inevitable, while only less than 10 percent (8.7 percent) of them thought otherwise.

However, in spite of the fact that Hong Kong people endorse more active participation by the Chinese government in Hong Kong affairs and regard this participation as an inevitable trend, they still cannot precisely determine whether such participation will yield good or bad results because they have not enough confidence and trust in the Chinese government. When we asked the question: "Will the increasingly active participation by the Chinese government in Hong Kong's affairs mean more advantages or disadvantages to Hong Kong?" During a survey, 15.7 percent of the respondents said that there were more disadvantages; 38.7 percent of them said that advantages and disadvantages were half and half; while 23.4 percent of them believed that there were more advantages. Meanwhile, as many as 19.2 percent said "I don't know" or "I have no idea." This outcome indicates that in spite of the fact that Hong Kong people have reaffirmed and accepted the de-facto active participation by the Chinese government in Hong Kong affairs, they have markedly diverse views on the after-effect of such participation.

Furthermore, so far as Hong Kong people are concerned, what kind of relations should China and Britain maintain with the increasingly active participation of the Chinese government in Hong Kong affairs? Our survey indicates that Hong Kong people dislike to see China and Britain jointly running Hong Kong in the later stage of the transition period. They still hope that the British and Hong Kong governments will maintain independence and initiative in administering Hong Kong. However, they hope that the Chinese and British governments will step up their efforts in negotiating and cooperating with each other on some individual issues.

During our survey, we asked the following question: "Some people believe that during the second period of the later stage of the transition period, the British-Hong Kong governments should have the consent of the Chinese government in making any major policy decision. Do you agree with such a statement?" Slightly less than half of the respondents (48.1 percent) said yes; only 15.5 percent said no; and 19.5 percent of them remained neutral on this issue. This result indicates that a considerable number of Hong Kong people approve that a certain type of veto power be delegated to the Chinese side on any major issue. In general, those who are older

and less educated and who belong to a lower income bracket and a lower social strata tend to agree with the aforementioned statement.

Entrusted by Hong Kong's SIN TAO JIH PAO, the poll organization also asked a similar question during its two telephone surveys conducted in April and July 1992. During the survey conducted in April, pollees were asked the question as to whether or not the new Hong Kong governor (Chris Patten) needed to have China's consent in carrying out any major project. Among the 617 pollees, 34.7 percent of them believed that he had the need to do so; 46.7 percent of them believe that he had no need to do so; and 18.6 percent of them expressed no opinion. A total of 1,017 people were called during the telephone survey conducted in July. When asked the question: "Do you think that in carrying out a major project, Governor Patten should have the consent of the Chinese side first," 20 percent of respondents answered "he definitely should"; 33.5 percent of them answered: "he somewhat should"; 20.5 percent of them answered: "he somewhat should not"; 11.5 percent of them answered: "he definitely should not"; and 14.6 percent of them answered "I don't know or it is hard to say."

Due to the different forms adopted in conducting the survey and the difference in wording, it is difficult for us to accurately compare the results of the survey. However, in general, Hong Kong people basically agree that the Hong Kong government should have the support and consent of the Chinese side before it decides on or implements a major policy.

Although Hong Kong people are willing to give the Chinese government the right to speak and to some extent the veto power on a major project, they still believe that during the later stage of the transition period, the British-Hong Kong governments are fully responsible for administering Hong Kong. They also realize the importance in upholding the political leading role of the British-Hong Kong governments. Therefore, when asked the question: "Some people believe that if the Hong Kong government plans to do something that we oppose very much, we should ask the Chinese government to step forward to prevent the Hong Kong government from doing so, do you agree"; 38.9 percent of the respondents answered no; 23.9 percent of them answered yes; 11 percent of them adopted an equivocal attitude; and 20.9 percent of them answered: "I don't know." It can be said that in general Hong Kong people are unwilling to see the Hong Kong government excessively held back by the Chinese government.

A survey conducted by SIN TAO JIH PAO also reflected a similar situation. During its telephone survey conducted in April, 36 percent of the respondents believed that Hong Kong Governor Chris Patten has the "need" to adopt a hardline stance, if necessary, to ask China not to interfere in Hong Kong's internal affairs, while 48.1 percent of them believed that he "has no need" to do so. During its telephone survey conducted in July, 57.9 percent of the respondents believe that Chris Patten



should ask the Chinese side not to interfere in Hong Kong's internal affairs, while only 27.1 percent of them believed that he should not do so. Due to the use of the word "interfere" in the context, it is easy to make those interviewed think that the Chinese side plans to do something detrimental to Hong Kong. Therefore, more people tend to support the British side. In spite of all this, Hong Kong people obviously hope that the British-Hong Kong governments will maintain its independence instead of becoming a "lame-duck" government slavishly depending on the Chinese side.

The results of some other surveys have also proven the aforementioned points. In a survey conducted in 1991, we tried to find out Hong Kong people's attitude on how they feel about the efforts made by the British government in seeking cooperation with the Chinese government and the XINHUA Hong Kong Branch in administering Hong Kong. On this question, 25.9 percent of the respondents supported the Hong Kong government in seeking cooperation with the Chinese government in administering Hong Kong; 25.4 percent of them do not support; 20.2 percent of them adopted an equivocal attitude; and as many as 24.7 percent of them replied: "I don't know." In addition, 21.2 percent of them supported the Hong Kong government in seeking cooperation with the XINHUA Hong Kong Branch to administer Hong Kong; 27.2 percent of them did not support; 19 percent of them adopted an equivocal attitude; and nearly 30 percent (27.4 percent) of them replied: "I don't know." These two results show the fact that although Hong Kong people endorsed more participation by the Chinese side in Hong Kong affairs during the later stage of the transitional period and they are willing to delegate the veto power to the Chinese government on major issues, they still think that the Chinese government should not be "on an equal footing" with the British-Hong Kong governments to jointly administer Hong Kong.

What we have discussed above is the Hong Kong people's general attitude towards the Sino-British relation during the later stage of the transitional period. Our discussion has not touched any specific policy or issue. In the following paragraphs, we will use some specific issues as examples to study Hong Kong people's views on the Sino-British relation.

A serious problem that troubles Hong Kong people right now is the lack of political leaders. There are only less than five years before 1997, but there have not yet emerged a group of trustworthy people in Hong Kong who will become political leaders and form a foundation to put the principle of "letting Hong Kong people administer Hong Kong" into practice. This cannot but make Hong Kong people worry. Their attitude towards political leaders is extremely contradictory. On the one hand, Hong Kong people are keeping a wary eye on the Chinese and British governments. They demand that political leaders attach importance to Hong Kong interests and play their role well in supervising and restraining the Chinese and British governments, while

on the other hand, they also fully realize that since the political power is in the hands of the Chinese and British governments, these political leaders who are not in good graces of the Chinese and British governments can hardly become promising leaders. This kind of contradiction is reflected in two aspects. Hong Kong people respect democratic politicians of an opposition faction nature, but at the same time, they fear that such politicians will offend the Chinese government, and stir up trouble for Hong Kong. As for those political characters trusted by the Chinese side or the British side, Hong Kong people despise them, fearing that such political characters will "betray" Hong Kong interests.

However, as 1997 is gradually approaching, Hong Kong people seem to have adopted a realistic approach on political leaders. During the two surveys conducted in 1990 and 1992, we asked those interviewed a question: "Some people say that Hong Kong's future political leaders must be supported by the Chinese government, the British government and the citizens in Hong Kong. Only then can they become promising leaders. Who's support is most important?" The answers given by those interviewed were very interesting. During the 1990 survey, 17.7 percent of the respondents believed that the support from the Chinese government is most important; 35.6 percent of them believed that the support from the citizens in Hong Kong is most important; 5.6 percent of them believed that the support from the British government is most important; 29.7 percent of them believed that the support from all three sides is most important; and 8.7 percent of them said: "I don't know." During the 1991 survey, 22.7 percent of the respondents believed that the support from the Chinese government is most important; 26.9 percent of them believed that the support of the citizens in Hong Kong is most important; 4.2 percent of them believed that the support of the British government is most important; 29.2 percent of them believed that the support from all three sides is most important; and 15 percent of them said "I don't know." Apparently what surprises us is the fact that Hong Kong people have greatly played down the role of the British-Hong Kong governments in cultivating Hong Kong's future political leaders. These figures also reflect the fact that Hong Kong people fully understand the importance of the Chinese government support to the future leaders in administering Hong Kong and that there are more people who understand the significance of the Chinese government support.

Since one of the conditions of a promising leader is the support from the Chinese government, then conversely, what kind of approach do Hong Kong people adopt in dealing with those political leaders who are not supported by the Chinese government? The answers from the respondents on another question may provide us with some clues. This question is: "Would you support those future political leaders in Hong Kong whom the Chinese government dislike?" During the 1991 survey, 27.2 percent of the respondents said that they would support; 29.4 percent of them said that they would not;



and as many as 36.9 percent of them said that "I don't know." We asked the same question during the 1990 survey in which there were slightly more interviewees than 1991, who said that they would support those whom the Chinese government dislikes in becoming Hong Kong's future leaders. Such group made up 30.8 percent of the total number of people interviewed. As compared with 1991, more people interviewed would not support those whom the Chinese government dislikes, making up 33.1 percent of the total number of people interviewed. Only 28.2 percent of them answered: "I don't know." In short, Hong Kong people still remain undecided whether they should support those political leaders whom China dislikes. However, the results of the surveys also serve as a counter-evidence that in Hong Kong people's mind, in order to become a promising political leader, an important point is whether or not he can maintain a good relation with the Chinese government.

Due to the fact that Hong Kong people understand the significance of China's support in cultivating political leaders and the seriousness in the shortage of political leaders at present, they have done things from a realistic point of view. They not only put up no resistance to the Chinese government in helping Hong Kong cultivate political leaders, but also seem to hope that the Chinese side will join the British side in performing this task well. According to a survey, 60 percent (59.6 percent) of the respondents said that they would let those political leaders trained by the Chinese government and the British-Hong Kong governments on a cooperative basis to administer Hong Kong; only 9 percent of them said no; and 27.4 percent of them said: "I don't know." However, results from other resources show that although Hong Kong people reaffirm the importance of the Chinese side in cultivating political leaders, they do not want to see a group of leaders who are absolutely obedient to the Chinese side. Hong Kong people perhaps believe that if these political leaders are trained by both the Chinese and British sides on a cooperative basis, they might be more independent politically.

To promote democratic political reforms is a thorny subject facing both China and Britain. Although Hong Kong people entertain no illusion on the actual effectiveness of a democratic political system, and their enthusiasm for democratic reforms is not too high, they still appear to support democracy as a future orientation for the development of any political system. Hong Kong people generally believe that the forces for organization of the Chinese government and Hong Kong hamper the development of democracy in Hong Kong, but without the support of the Chinese government, it is hard to score achievements in reforming the political system. Under this situation, Hong Kong people tend to support the British side on the issue of promoting democratic political reforms. Meanwhile, the British side can also make use of this tendency to skillfully handle this issue and gain something in the Sino-British dispute. On the contrary, the Chinese side has often become passive on this issue.

A series of telephone surveys conducted in the past several months by a poll organization on behalf of the SOUTH CHINA MORNING POST also showed the British predominance in public opinion on the issue of political reform. According to the April 1992 survey, 83 percent of the respondents hoped that Governor Chris Patten would quicken the pace of democracy in Hong Kong prior to 1997 even to the point of not hesitating to have a confrontation with China. According to the survey conducted in June 1992, 66 percent of the respondents agreed with Chris Patten in increasing the number of directly elected seats in the Legislative Council, even though this may lead to a Sino-British clash. According to another survey conducted in June 1992, 67 percent of the respondents supported the British government to make a suggestion to the Chinese government for a debate on the increase of directly elected seats for the Legislative Council. Sixty-two percent of these respondents said that the British side should make such suggestion as soon as possible. Fifty-eight percent of the respondents even said that if Hong Kong people request to increase the directly elected seats in the Legislative Council, China should amend the "Basic Law" in coordination with such request. According to the survey conducted at the end of July, 73 percent of the respondents believed that Chris Patten should unilaterally increase the number of directly elected seats in the Legislative Council regardless of all consequences. Naturally it is hard to say whether Hong Kong people will still support efforts to accelerate the pace in promoting democratic political reforms when a major confrontation occurs between China and Britain on the issue of political reforms. However, it is an irrefutable fact that the British side has a "public opinion card" to play on the issue of promoting democratic political reforms.

The telephone survey conducted by a poll company on behalf of SIN TAO JIH PAO also got similar answers. In a survey conducted in April, 50.9 percent of the respondents believed that it is necessary for Chris Patten to negotiate with the Chinese government to increase the number of directly elected seats in the Legislative Council, while only 26.1 percent of them said: "not necessary." However, in its July survey, 60.3 percent of the respondents believed that Chris Patten should negotiate with the Chinese side to increase the number of directly elected seats in the 1995 Legislature, while only 26 percent of them said that he should not do so.

Although the Chinese government is in a disadvantageous position on the issue of democratic political reforms, the new airport issue, nevertheless, gives the Chinese side a fine opportunity and a favorable position in the fight for public opinion. Not long after the 4 June incident, the British-Hong Kong governments put forward a plan to build a new airport and harbor at Chek Lap Kok. At first, they had won enthusiastic support from the people of Hong Kong. However, following some debates on the plan for the new airport, a series of questions have cropped up one after another. These questions involve the negative economic and social

effects caused by the new airport and raise a question on the new airport's cost effectiveness. Thus, Hong Kong people feel that the new airport is not only a costly engineering project, but it will also impose heavy short-term and long-term financial burdens on Hong Kong. In addition, the British-Hong Kong governments have continuously increased the budgets for the various projects of the new airport, and planned to reduce other expenditures on public utilities for the building of the new airport. All this makes Hong Kong people more suspicious of Englishmen's final goal. When decisions were announced one after another by the British-Hong Kong governments to award most of the contracts for consultation and engineering for the new airport to British-funded companies or conglomerates with British financial resources, naturally Hong Kong people have become more suspicious of Britain.

The new airport issue gives the Chinese government a break in seeking the support of public opinion and a chance to improve, to some extent, its image in the minds of Hong Kong people. Due to the fact that the arrangements for financing the new airport will be carried over beyond 1997, the Chinese government naturally will have the right to speak and the veto power on the airport project. By using the right to speak and the veto power, the Chinese government has tried to convince the people of Hong Kong that interests of China and Hong Kong coincide, while those of Britain and Hong Kong do not. The Chinese government also tried to convince Hong Kong people that only the Chinese government can and has the ability to represent their interests and to restrain Englishmen's selfish behavior. Hong Kong people themselves realize that they lack a political force to influence the British-Hong Kong governments, but at the same time, they are worried about the British intentions. Therefore, although on the issue of the new airport, the Chinese side incessantly queried the new airport plan of the British-Hong Kong governments and the relative financing arrangements, and it tried to prevent the new airport project from being developed according to the schedule worked out by the British-Hong Kong governments, Hong Kong people in general have not blamed the Chinese side. Instead, they feel that the Chinese interference had, to some extent, prevented the British plans from being successfully carried out. In a way, this would be of advantage to Hong Kong interest. The telephone survey conducted by the SOUTH CHINA MORNING POST in June 1992 discovered that Hong Kong people were quite suspicious of Englishmen's intention on the new airport project. As for the reason for the deadlock in talks between China and Britain on the issue of the new airport, 39 percent of the respondents blamed the British side; 19 percent of them blamed the Chinese side; and as many as 42 percent expressed no opinion. Although new Hong Kong governor Chris Patten tried his best to change the unfavorable public opinion after he took office, he has not succeeded so far. According to a telephone survey conducted by the SOUTH CHINA MORNING POST in July 1992, 32 percent of the respondents blamed the

British side; 24 percent of them blamed the Chinese side; and as many as 44 percent expressed no opinion. In short, the Chinese government has taken the initiative to win the support of the people of Hong Kong on the issue of the new airport and change their impression of the Chinese government. In fact, it has already scored some achievements in this respect. Naturally so far as the overall public opinion is concerned, the British side is still comparatively predominant. However, this predominance is no longer an absolute one as in the past. [passage omitted]

### Analysis of Governor's Policy Proposals

93CM0056A Hong Kong CHING PAO [THE MIRROR] in Chinese No 184, 5 Nov 92 pp 12-17

[Article by Hong Kong Baptist College's Sociology Faculty Senior Lecturer Huang Chih-lien (7806 2655 6647): "Bull in a China Shop? A Look at Hong Kong Governor's 'Policy Address' and Political Culture in the Period of Transition"]

[Excerpt] [passage omitted] Policy Address as "Political Guidelines"

#### 1. "Policy Address" Is a Well-Crafted Set of Political Guidelines

In fairness, one has to admit that Patten's "Policy Address" is a well-crafted and enlightened political treatise, humane in tone and solid in content, that highlights the main topic!

It should be noted first of all that projecting "plans for the next five years" is a farsighted move; by taking this posture, Patten has seized the high ground and set the stage for his entire address (in other words the entire political concept) to deal with policy proposals and implementing steps which follow.

Immediately after stating the main topic, the second paragraph of the address focuses on "safeguarding Hong Kong's way of life." Although the term was not explicitly defined, its content can be inferred. In so many words, the address stresses that this way of life not only has brought us "impressive material and cultural benefits," but is the very "foundation" of our future stability and prosperity. This is something we can "point to with pride"; and because of it we can look to the future with greater "confidence." Like Beethoven's symphony "Eroica," variations on the address' main theme were developed in different sections, and the thematic elements recurred throughout until they were brought together toward the end in paragraphs 152-153. One cannot help but admire the ways the ideas were orchestrated in the address.

To continue and further develop this "Hong Kong way of life" will naturally require certain material conditions and an economic foundation; without them, would it not be cooking without rice? Therefore, the 20 paragraphs (5

to 24) of the "Policy Address" are devoted to an analytical discussion of Hong Kong business enterprises and business policy. The thrust of this discussion is to develop the tertiary industry to serve the Asia-Pacific region. Therefore, there are small but important differences from former Governor Lord Wilson's emphasis of developing a cooperative economic relationship between Hong Kong and the Pearl River Delta and China's southern provinces. Although the "Governor's Business Council" idea (paragraph 8) which Patten favors also implies an arrangement to expand the economic relationship with China, but how it would function in terms of the international scope of Hong Kong business policy and structure was left unsaid. That being the case, some of the proposed changes in the educational system (paragraph 18), in teachers re-training plans (paragraph 31) and in increasing funding support for research in the universities and specialized training institutes (paragraph 24) would not necessarily be shaped as a force for promoting the birth of an "enterprise system for the new era!"

After discussing economics, including the question of inflation (paragraphs 14-17), the "Policy Address" then examines the considerable amount of work required at the various levels of social services, work that must be done so that "the Hong Kong way of life" may continue. These include strengthening the educational system (paragraphs 25-32), giving support to the poor, impoverished families and the handicapped (paragraphs 37-41), and expanding programs in rehabilitation, social welfare and security as well as hospital and health care, all of which also cannot be neglected (paragraphs 42-57).

To improve and insure a quality of life in the society will depend, of course, on a healthy environment; "priority handling" of problems of environmental pollution is therefore required, for which 7.3 billion dollars has been budgeted (paragraphs 64-72). It is therefore more meaningful to discuss within this context the questions of housing shortage and inadequate living space (paragraphs 59-63).

But solving the housing problem alone is not enough, for the extent to which the citizens can function outside of their homes will depend on the question of public safety. If robbery and theft are rampant, and if police and criminals exchanging gunfire in the street is a common occurrence, then what can one say about the "Hong Kong way of life?" Therefore, questions of public security, criminal justice system and crime eradication need to be dealt with seriously. In this area, cooperation between the Hong Kong and mainland Chinese authorities is essential (paragraphs 74-80).

There is a particularly meaningful section in the "Policy Address," paragraphs 85-96, in which the relationship between the Hong Kong civil servants and citizens was analyzed from a sociological standpoint, and a number of specific proposals regarding the former's service attitude, work style, administrative efficiency and social benefits were announced. For example, on meeting a

citizen, civil servants will identify themselves by position (and name); an interim response will be sent within 10 days of receipt of a citizen's letter of inquiry; and various government forms and reports will be simplified... The government in short will be required to give attention to programs of training, rewarding and disciplining the civil servants.

It is only fair to state that many of the specific measures in this section (paragraphs 18-96) originated in the administration of former governor Lord MacLehose in the seventies, and it was his programs which pulled Hong Kong out of the slump it had been in since the sixties. Therefore, the foundation of what Patten called "the Hong Kong way of life" was laid 20 years ago. Beginning in the decade of the eighties, the Hong Kong government began to invest in the various social services (such as environmental health, housing construction, middle school education, etc.), but funding has not kept up with needs. In recent years therefore, to cope with the increasingly serious problems of improving the social environment or the quality of life, a "major push" is needed, for without it, in the 21st century Hong Kong may well resemble a "living hell" and be far from a "Shangri-La!"

#### **A Second Set of Dowry, the "Elected Representatives System"**

##### **2. "Elected Representatives System" Is a Second "Dowry" of the "Egyptian Queen"**

There is no denying that discussions of the freedom of the press (paragraphs 97-99), constitutional measures (paragraphs 101-102) and development of the political system (paragraphs 103-147) constitute one-third of the "Policy Address" (totalling 153 paragraphs). This section is placed in the last third of the address, so arranged to highlight the substance of the address.

Analyzed closely, the intent of the drafters was clear: the address leads off by using the period of next five years as the parameters, and "safeguarding of Hong Kong's way of life" the objective. Then, with government policies based on "Four Key Principles" (paragraph 3) until the turn-over, the address uses the maneuvering room to discuss the needs of the economy, concrete measures in social services and reorganize the civil service ranks. Are efforts in these areas sufficient? The answer is of course "no." If decisive steps are not taken to develop the political system, and to push forward the democratization process, then after "1997," and change to rule by a "nondemocratic" government and sovereign nation, all this will be for naught, and there is no sense talking about "not changing the Hong Kong way of life!"

It is the structure, future direction and expressed desire that enable Patten's "Policy Address" to jump from one level discussing Hong Kong internal politics and operation to another level involving the U.K.-China relationship. It is because this type of question obviously exceeds the framework of Article 4 of the "Sino-English Joint Declaration" which states that prior to 30 June, 1997, the United Kingdom-Hong Kong government is

"responsible for Hong Kong administrative management." Furthermore, the "Hong Kong Basic Law" has incorporated the political system as the English practiced it during the eighties (Section 1 to 3, Article 4), and that any change in the political system within "the time frame" of articles in the Basic Law is to be controlled by the latter.

On preliminary examination, the implementation of Patten's "proposals" can certainly be either sweeping or limited. Taken in the context of relevant remarks made by the British prime minister and foreign minister before and after the "Policy Address," it is clear that Patten was not doing a "one-man show." It is felt that what he presented is a fine piece of work of the "hawks" which now have the upper-hand. But there are the following crucial points:

Based on the United Kingdom's preference and judgment, Hong Kong's democratization process must be developed quickly, and anything obstructing its path must be removed, including (if necessary, taking steps to revise) the relevant articles in "the Basic Law of the People's Republic of China for the Hong Kong Special Administrative Region."

The goal and format of "democratization" require moving toward a direct election system; and aside from struggling with the Chinese to increase the number of directly elected seats, it also involves changing the appointed positions to elected ones so that functionally differentiated representatives on the Executive Council will also be directly elected (paragraphs 133-137).

All legislative bodies whose members were not directly elected, such as the municipal councils and district boards, will have to be reformed (paragraphs 131-132).

Based on the same line of reasoning, since the Executive Council is not elected directly, it cannot accommodate Legislative Council members who are so elected; a decision is therefore made to split the Executive Council in two: one where the appointed members will continue to serve, the other where committees of directly elected Legislative Council members will bear and exercise some executive responsibilities (paragraphs 112-119).

At the same time, given the unclear "elected status" of members in the district boards since the late 80's, reform is called for; and "all district board members should be directly elected" which would enable the district boards to become basic-level political bodies below the Legislative Council. In that scenario, the municipal and village councils will be "neither fish nor fowl" and therefore can either be kept or be dispensed with (paragraphs 138-141).

Starting with the relevant "functional committees" in the district boards, Legislative Council and Executive Council, the restructuring will go forward. When completed, the Hong Kong political system and machinery as we know them today will be fundamentally transformed. The stage having been set, the objective in sight, efforts can then be directed toward dealing with the 1995 elections, (especially

the directly elected seats question). In this respect, Patten is emphatically the kind of Englishman who "operates on the basis of principles." He says: "I very much hope we can at the same time analyze how to develop our representative system to its fullest within the framework of the Basic Law and Joint Declaration" (paragraph 126); he also says that he wants to negotiate and discuss with China and to enable the latter to see that even "socialists can endorse a government with a special representative characteristic" (paragraph 127).

Patten, however, did not address or resolve such questions as:

Why is it that before and after he assumed the Hong Kong governorship, a "democratic tide" suddenly hit Hong Kong and a "democracy movement" suddenly appeared?

Which faction of the Hong Kong politicians are anxious to have "a government possessing a special representative characteristic?" Which conglomerates' interests and what public opinion do they represent (or reflect)?

The approach taken will certainly put pressure on (indeed attack) the relevant articles of the Basic Law so that they must be revised; once revised, and the safety door swung open, anything is possible. What are the consequences?

Using "direct democracy" and carrying out "programs based on people's will" are forcing the Chinese side to do likewise. Can it really be done? Would the Hong Kong citizens assembly "go all the way?"

At this time, would bringing the three parties into contention (getting them in a fight) really serve the interest of the United Kingdom or those of the U.K.-Hong Kong? [passage omitted]

### Interview With Legislator Lu Gonghui

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MAGAZINE] in Chinese 31 Oct 92 pp 47-49

[Interview with Legislator Lu Gonghui by Jin Zhong; place and date not given: "People of Hong Kong Must Quickly Grow Up"]

[Excerpts] Editor's note: Lu Gonghui, a 36 year old legislator, has recently become a new media figure in the Hong Kong political arena. In KAIFANG she states that she will support the citizens of the Hong Kong during any conflict of interest between the people and the governor. [end editor's note] [passage omitted]

[Question] What is your "definition of independence?"

[Answer] Politically, I interpret "self-rule and a high degree of autonomy for the people of Hong Kong" as equivalent to a "high degree of democracy." I feel the Sino-British Joint Declaration and the Basic Law have not heeded the popular will, the people of Hong Kong want a democratic government.

[Question] The governor delegates power and authority to legislators appointed to office. In a conflict or division of opinion between the governor and the people, whose side would you take?

[Answer] Naturally, I would side with the people. I have no legal responsibility to the governor. When the governor met with me, he pointed out quite clearly that "legislators are unconditionally appointed to office." In other words, he's not ordering me to do anything. Even in the Legislative Council, I am totally free to oppose the government. I've been politically borderline since the days of the "Watchdog Agency" in 1979. The pressure group which we formed after 1986 fought to secure civil rights for the people of Hong Kong and attempted to reflect the will of the people to the British government.

[Question] The Chinese have accused Chris Patten of challenging the Sino-British Joint Declaration. Do you agree?

[Answer] No, I don't. Many parts of the Basic Law violate the Joint Declaration. For example, the final power of interpretation for the Basic Law belongs to the NPC (the Standing Committee of the Chinese National People's Congress). This isn't right because the Standing Committee is a political body, not a legal body. This violates the parts of the Basic Law which state that Hong Kong is supposed to have an independent judiciary. Another example is the issue of "linkage." What is linkage? I have absolutely no idea. The Basic Law states that a preparatory group is to be formed in 1996. However, how many people are in this group? How will they be selected? What standards will be used to decide who gets to ride through trains?

[Question] Recently, the Chinese and British released the contents of seven diplomatic letters written in 1990. Do these letters have any legal effect?

[Answer] I've studied law, and participated in business negotiations in mainland China for a few years. The Chinese people are very adept at negotiating. However, the way they understand a contract can be extremely arbitrary and ambiguous. You can talk principle with them until the next century and you still may not be able to get them to understand. At present, those seven letters you mentioned are not the most important issue. The most important issue is whether we, the people of Hong Kong, need Chris Patten's proposals? They have promised "self-rule and a high degree of autonomy for the people of Hong Kong." However, this issue hasn't been mentioned for a long time. Even if we look at these seven letters as a kind of contract, it's not a complete and finalized contract. However, my personal opinion is these letters cannot be considered a contract.

[Question] Some people criticize Chris Patten for manipulating the circumstances to play the role of hero. Once he departs in 1997 the people of Hong Kong will be the ones left behind to cope with the CPC.....

[Answer] We ought to take stock of events, not personality nor motives. Li Peng has to say this. He's threatening the citizens of Hong Kong; he must feel the people of Hong

Kong are idiots. There are also certain business people. Don't forget, if Hong Kong goes under these individuals will immigrate to a democratic country and won't go to the mainland. They're speaking against their own consciences.

[Question] Do you believe the governor's promises?

[Answer] Not exactly. What we have to do, however, is force him to come through on any promise that he makes. We have to make sure he doesn't go back on his word. From the seven diplomatic letters it's obvious that the British are not actively trying to secure democracy for Hong Kong. At the time, the Legislative Council suggested that 30 seats in the council should be open to direct election. However, the fact that the letters only proposed 24 seats was disappointing. The people of Hong Kong have to grow up fast. They must stop entreating the Chinese not to take action against them. It's time to stop playing the role of obedient colonists. To protect themselves, they have to start fighting for their own rights.

[Question] Economically speaking, the people of Hong Kong are quite worldly and sophisticated. Politically, however, are they still immature?

[Answer] No, they're not. Politically, we can compare the people of Hong Kong to a highly educated young person. This has been the situation since 1982. Judgement, not age, is the standard we use to measure an adult's level of maturity. I believe the people here possess very good political judgement.

[Question] In your estimation, when will the present controversy between the Chinese and British end?

[Answer] The present situation will be stalemated for a while longer. Hong Kong is an important diplomatic issue for China and Great Britain. Both sides will be forced to talk about any differences in views that exist. I put forth a motion on the 12th which proposed negotiations between the Chinese and British.

[Question] Do you think the powers to be on both sides will allow Chris Patten to be sacrificed out of mutual interests?

[Answer] If he's not sacrificed, then he may do an about face and go back on the promises he has made. We're extremely worried about the latter because this kind of thing has occurred before. The seven diplomatic letters are an example of this. When the British negotiated with China in the past, they never paid attention to the Hong Kong people's opinions. Everything the British did was dictated by what the Chinese wanted. This is why I've emphasized the point that the people here in Hong Kong have got to grow up. We have to put the governor in a position where he will find it extremely difficult to go against the will of the people. This is also the Legislative Council's responsibility.

[Question] How far do you think the Chinese will take their hard-line stance?

[Answer] The governor has also addressed this question. In the future, will the Chinese go from verbal condemnation to controlling Hong Kong's fresh water supply? Or will they create other kinds of disturbances? I really can't say. However, I don't think they would resort to such measures. Any attempt to threaten Hong Kong in this manner will certainly evoke strong opposition among the people.

[Question] Do you believe the Basic Law can be changed?

[Answer] The 14th Party Congress' political report was changed repeatedly. Why can't the Basic Law be changed? All of China is experiencing great change. In light of this situation, why can't Hong Kong follow present world trends and demand a little democracy? Therefore, to say the Basis Law can't be changed is ludicrous. [passage omitted]

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