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## GENERAL

### Political Dynamics of Asia-Pacific Region Shifting

93CM0172A Beijing XIANDAI GUOJI GUANXI  
[CONTEMPORARY INTERNATIONAL RELATIONS]  
in Chinese No 38, 31 Dec 92 pp 32-36

[Article by Yan Xiangjun (3601 5080 0689): "Cursory Analysis of Asia-Pacific Situation During the 1990s"]

[Text] During the 1990s, the Asia-Pacific region has been relatively stable by comparison with Asia and other regions. A relatively good political situation unprecedented in the more than 40 years since the end of the world occurred, and economically, it became the world's most lively area. How could such a situation occur in the Asia-Pacific region? What will the trend of its development be? This article makes a cursory analysis of these matters.

#### I.

The relatively stable situation in the Asia-Pacific region is closely bound up with the changes that occurred in the world pattern and the development of the region's economy during the 1990s.

#### (A) Strategic balance among four nations helpful to stability in the Asia-Pacific region

With the end of bi-polarity, very great changes occurred in the strategic situation in the Asia-Pacific region. The triangular relationship among China, the United States, and the USSR was gone, and the role of China, the United States, Japan, and Russia became more pronounced. These four nations strove to exert their own influence, but none of them was itself able to dominate the Asia-Pacific region. Today a generally balanced, mutually limiting situation exists that helps avoid major upheavals and confrontations in the Asia-Pacific region.

1. The United States strives for a dominant role in the Asia-Pacific Region, but its ambition is greater than its reach. Simultaneous with its cooperation with Japan, the United States has increased competition with and restraints on Japan; while cooperating with Russia, it seeks to maintain superiority over it; and while continuing a military presence in the region, strategically it stresses a change toward economic development.

With the decline and dissolution of the USSR, the United States became the sole superpower. In an effort to expand influence in the Asia-Pacific region, competition between the United States and Japan came increasingly to the fore. Although the United States' main ally in the Asia-Pacific region, Japan also became the United States' main competitor. Not only did the United States intensify economic competition with Japan, but it also increased political precautions and restraints. In the United States today, there is no lack of people who are apprehensive and concerned as to whether Japan's rapid economic development might adversely affect the

United States' security interests, and whether Japan might move from being a major political power to becoming a major military power. The United States' disfavor of a region-wide economically integrated organization and security system in the Asia-Pacific region is related to its fear of and its being on guard against Japan's achievement of economic and political dominance in the region. The United States' continued emphasis on the "United States-Japan alliance," and its "global partner relationship" with Japan also stems from its intention to tie down Japan.

America's strategic need for China has declined; however, it does not ignore China's role in the Asia-Pacific region. While continuing to pressure China on trade, military sales, and human rights, it continues to maintain and develop American-Chinese relations. It emphasizes both that "a substantial degree of common strategic interests" continue between the United States and China, and the crucial importance of maintaining the strategic balance in the Asia-Pacific region.

The former confrontation between the United States and Russia has given way to cooperation. However, in March 1992, the NEW YORK TIMES disclosed that Americans feel that Russia is still "the only country in the world that has the power to destroy the United States." They fear that an internal change in Russia may result in a change in current policies; thus, they are still wary, and hope that Russia is weak but does not fall. While providing a certain degree of economic assistance to Russia, the United States strives to weaken Russia's military might and seeks military superiority over Russia.

Because of the abatement of the confrontation between the United States and Russia in the Asia-Pacific region, except for the maintenance of a certain military presence in the region, the United States has gradually shifted its attention to the economy. Bilateral trade between the United States and the Asia-Pacific region has grown very rapidly. It already exceeds the volume of trade with Europe (one-third more) and is predicted to double by the end of the present century. America has invested more than \$60 billion in the Asia-Pacific region, and its assets in the Asia-Pacific region also amount to more than \$300 billion, or one-fifth of America's total investment abroad.

2. Japan quickens the pace of advance toward being a "political power"; looks forward to "playing a key role" in the Asia Pacific Region. Japan is actively mending its fences with China and easing relations with Russia. It shares cooperation as well as rivalries and restraints with the United States in the Asia-Pacific region.

Since Miyazawa came to power in 1992, Japan has striven to become a world political power and to play a leading role in the Asia-Pacific region. *Japan Foreign Relations Blue Book*, published in 1991, explicitly calls for Japan to "play a central role" in the Asia-Pacific region. Japan seeks to become a member of the United Nations Security Council within five years. It has already

approved the sending of troops abroad to take part in United Nations peace-keeping operations, and it has proposed the idea of "creating an Asia Security Conference," and of holding an "Asia and Pacific region heads of state conference." Although these ideas and methods of Japan do not entirely run counter to America's interest, to a certain extent they are a challenge to America's hopes of playing a leading role in the Asia-Pacific region.

During 1992, Japan continued to develop friendly neighborly economic and political relations with China, advancing further friendly cooperation between the two nations through General Secretary Jiang Zemin's visit to Japan, the Japanese emperor's visit to China, and activities in connection with the 20th anniversary of the establishment of diplomatic relations between China and Japan.

In its relations with Russia, Japan's methods are more flexible and relaxed than formerly. After Russian President Yeltsin postponed his visit to Japan, Japan did not further stress "an immediate package resolution" of the four northern islands issue. Instead, it "changed to only wanting a recognition of sovereignty over the four islands, the time and method of return to be considered in a flexible way." (TOKYO SHIMBUN 3 October dispatch). On the economic front, Japan is preparing to agree to "parallel discussions" with Russia about the northern territory and economic cooperation issues. Apparently, because Yeltsin was forced to postpone his visit to Japan because of substantial domestic obstacles about solving the northern territory issue, Japan had to adopt a flexible attitude about the return of the islands.

**3. In its effort to solve domestic economic problems, it is extremely necessary for Russia to improve relations fully with the United States, Japan, and China.**

The decline of Russia's national power in the wake of the dissolution of the USSR and economic collapse makes it necessary for Russia to devote all of its efforts to extricating itself from domestic difficulties and improving its economy. It has neither the will nor the strength for a contest with the United States. On the contrary, it is actively seeking to build a "partnership relationship" with the United States to obtain western assistance.

Not only is Russia pulling back militarily in the Asia-Pacific region, (it has withdrawn its forces from Afghanistan and Mongolia, and has reduced some of its units on the Sino-Soviet border), but it is actively developing trade relations with surrounding countries including China. Russia's relations with China and Korea have improved further.

Russia originally planned to make a diplomatic breakthrough in the Asia-Pacific region beginning with Russo-Japanese relations. Its attitude about the four northern islands issue relaxed, and it acknowledged that a dispute exists with Japan about sovereignty over the four islands. It intended to agree on the basis of the 1956 Japan-USSR

joint declaration to resolve the four islands issue gradually in stages (first returning Habomai and Shikotan). However, action on the four islands issue was held back by various factors inside Russia, which resulted in the postponement of Yeltsin's visit to Japan. Therefore, whether the four islands issue can be resolved in the way that Yeltsin envisions and what progress will be made toward a solution are still up in the air. While preparing to resolve the four islands issue with Japan, Russia further expanded economic relations with Japan.

**4. By maintaining an independent and sovereign peaceful foreign policy, by accelerating the pace of reform and opening to the outside world, and by concentrating energies on the development of the economy at home, China has become a major force safeguarding the stability of the Asia-Pacific region.**

To summarize the above, during the period of transition from bipolarity to multi-polarity in the wake of the cold war, America, the sole superpower, finds it difficult to attain hegemony; although very ambitious, Japan is hemmed in on all sides; Russia is striving to extricate itself from internal economic difficulties; and China has no intention of gaining hegemony and also opposes hegemony. Thus, the four nations have shaped a pattern of balance and mutual restraint that is favorable to the stability of the Asia-Pacific region.

**(B) All of the nations of the Asia-Pacific Region pay close attention to "a vital economy" and regional economic cooperation; and the need to create a peaceful climate.**

During the 1960s, most of the nations of the Asia-Pacific region began to turn their attention to the building of their domestic economy. During the last half of the 1960s, Japan raised the slogan "build the country on trade." During the United States' war of aggression against Vietnam, Japan vigorously developed its own economy. This enabled the Japanese economy to enter a period of "high speed growth." During the 1980s, it vaulted into the position of a first class world economic power. By 1990, Japan's GNP was 62.8 percent that of the United States, and per capita GNP was 25 percent higher than in the United States. The "four small dragons" of the Asia-Pacific region—Singapore, South Korea, Hong Kong, and Taiwan—have worked since 1965 on the development of their own economies, each of them drawing up intermediate and long-range strategic plans. As a result of their substantial economic achievements, they have been hailed as models of "new industrialization." During the 1960s the ASEAN nations shifted their attention to the building of their domestic economies and began putting into effect economic development plans on various scales, the economies of each of them showing substantial growth.

As a result of the efforts of all the countries in the Asia-Pacific region to develop their own economies, the economic growth rate of the Asia-Pacific region during the past 30 years has been much higher than the world average. Statistics show an average six percent annual

average economic growth rate during the past 20 years in the Asia-Pacific region, twice that of other regions of the world. In recent years, each of the countries of the Asia-Pacific region has increased economic cooperation in different degrees, at different levels, and in different forms, thereby spurring common economic development. Forecasts call for a 3 percent growth rate for developed countries between 1990 and 2000, and a between 6.3 and 6.6 percent growth rate for the "four small dragons" and the ASEAN countries—more than double that of the developed countries. It is this steady economic growth that ensures that the people may live and work in peace and contentment, thereby engendering relative social and political stability in all of the countries of the Asia-Pacific region.

**(C) Policy changes in Asia's socialist countries help Asia-Pacific region stability.**

Following the dissolution of the USSR, Vietnam, Korea and China continued along the socialist path. Perseverance in reform and opening to the outside world, and taking the initiative in the readjustment of internal and external policies have played a positive role in the stability of the Asia-Pacific region.

**1. Vietnam's policy readjustments looked upon as national policy for development of its economy, and for reform and opening to the outside world.** Following detente between the United States and the Soviet Union during the last half of the 1980s, Vietnam began to change, pursuing a policy of reform and opening to the outside world. During the seventh party congress of July 1991, Vietnam's leaders made some major readjustments to both domestic and foreign policies. They made development of the economy the prime domestic objective, and in foreign relations, they changed to the adoption of a line of peace and cooperation to "make more friends and create fewer enemies" as a means of creating a favorable international climate for domestic reform. With the peaceful solution of the Cambodia problem, Vietnam normalized relations with one after another of the ASEAN nations, and became an ASEAN observer. In November 1992, Vietnam General Secretary Do Muoi and Council of Ministers Chairman Vo Van Kiet led a high-ranking Vietnamese delegation on a formal visit to China to bring about the normalization of Sino-Vietnamese relations. In addition, Vietnam is making use of the favorable international climate in active development of external economic relations. Since the end of the Cambodia conflict, it has signed more than 20 economic and trade agreements with Asian countries and regions. Changes in Vietnam's policies will, no doubt, help ease the situation in Southeast Asia.

**2. Relaxation of the situation on the Korean peninsula results from the joint efforts of north and south Korea, and policy changes by the Peoples Democratic Republic of Korea are particularly important.** Since the last half of 1991, new ground has been broken in the situation on the Korean peninsula. The fifth meeting between the prime ministers of north and south Korea brought to an

end the mutual estrangement, and the confrontation of large numbers of troops during the split up of Korea for the past 46 years. Thus, the potential hot spot area, which the Korean peninsula is, began to move from tension toward detente. Naturally, the advent of this situation is related to changes in the international atmosphere, but even more directly it was brought about by changes in the policies of both north and south Korea against the international backdrop. The role of North Korea was particularly marked as shown primarily in the following ways: (1) Diplomatically, the north began to recognize the south and to advocate mutual nonaggression between north and south. In September 1991, both north and south Korea entered the United Nations. In December, the north and the south signed *Agreement on Reconciliation Between North and South, Mutual Nonaggression, and Cooperative Exchanges*; (2) adoption of a flexible attitude in the dialogue and negotiations between north and south in keeping with the changed situation following the cold war in a change from the previous "diametrically opposed" positions. Appropriate accommodations and compromises were reached on some former sticking points, thereby making possible the *Joint Declaration on the Nonnuclearization of the Korean Peninsula*, and agreement to sign a nuclear safeguards agreement with the International Atomic Energy Organization and to accept inspection; and (3) North Korea's economic policies were also readjusted, and economic contacts with South Korea begun for the purpose of breaking free from economic difficulties. In 1992, bilateral trade totaled nearly \$200 million, a 10-fold increase over the previous year. At the same time, economic and trade relations between North Korea and United Nations economic organizations and with surrounding countries improved. At the end of 1992, the North Korean State Council decided to establish two free economic relations and trade zone areas at Nakun and Sonpong in the north where foreign businessmen were welcomed to establish three-way venture enterprises. North Korea also took active part in United Nations Development and Planning Office-sponsored development of northeast Asia region economic cooperation in the Tumen River basin. The foregoing adjustments of North Korean policies were helpful to the stability of the situation in northeast Asia.

**3. China's perseverance in reform and opening to the outside world, and its development of neighborly and friendly foreign relations created a fine international environment for economic development and promoted stability in the Asia-Pacific region.** China worked hard to build a distinctively Chinese brand of socialism, and it adhered to the implementation of a basic policy of "one center and two basic points." It made active efforts to develop neighborly and friendly relations with surrounding countries, restoring diplomatic relations with Indonesia, establishing diplomatic relations with Singapore, Brunei, and Korea, further improving relations with India, Pakistan, and Sri Lanka, improving traditional friendship and cooperation with North Korea, and normalizing relations between China and Vietnam.

China also took an active part in multilateral economic cooperation in the Asia-Pacific region, made an active contribution to the peaceful solution of conflicts in the Asia-Pacific region, and played an important role in the political solution of the Cambodian problem and in promoting a relaxation of the situation on the Korean peninsula. In its relations with major powers, China made positive efforts to improve Sino-American relations. In addition, it took the opportunity of General Secretary Jiang Zemin's visit to Japan during 1992 for China and Japan to conduct activities in connection with the 20th anniversary of the establishment of diplomatic relations, arranged for the first visit to China of the Japanese emperor and empress (23-28 October), and consolidated and developed friendly relations between the two countries. Sino-Russian relations continued steady development. One might say that China today is in the best environment in the Asia-Pacific region since the end of the war. This helps the peace and stability of the Asia-Pacific region and the world.

## II.

In looking ahead to the future, the situation in the Asia-Pacific region will continue to maintain steady development, but elements for instability will also continue to exist.

### A. Political solutions in existing hot spot area will not be smooth sailing.

The Cambodian problem has entered the second critical period of implementing a cease fire. Although two declarations passed at the 22 June 1992 Tokyo international conference on "progress in reconstruction and hastening peace in Cambodia" temporarily eased confrontations and stalemates encountered in progress toward peace in Cambodia, controversy continues to exist and no meeting of the minds has been attained on how to carry out the Paris Peace Accords, how to inspect the pull-back of foreign military forces, and how to conduct a fair and free election in the spring of 1993.

Now that Afghanistan has come under control of the mujaheddin, the political situation there remains unstable. On 28 June, after Rabbani became president of the provisional government, the situation took a turn for the better; nevertheless, every mujaheddin faction is a government unto itself, armed engagements constantly occurring in which hundreds have been killed and wounded. At the present time, a power contest mingled with ethnic conflicts and factional confrontations is being waged between the Islamic Association headed by Rabbani, and the Islamic Party headed by Gulbuddin Hekmatyar that cannot be resolved in a short period of time. All forces will still have to face a showdown in a major election two years hence. Therefore, Afghanistan's road to peace remains filled with bumps.

**B. Some ethnic conflicts and territorial disputes also exist in the Asia-Pacific region, which although of a limited nature and not large in size, are deep-rooted. They have**

**fairly deep historical origins, are fairly complex and thorny, and are difficult to solve completely.**

The Asia-Pacific region is vast; its political systems are complex; the level of economic development is uneven; and multi-polarity will continue to develop.

**1. The balance among the United States, China, Japan, and Russia will change.** As the situation develops, the strength of these four powers is fluctuating and changing. Today it appears that Japan's power is rising fastest, and Russia has become the weakest. As Japan's power increases, the contest for dominance in the Asia-Pacific region between the United States and Japan will gradually intensify. The future situation in the Asia-Pacific region will develop around contradictions and struggles between the United States and Japan. A Rand Corporation report of September 1992 noted that "The factor that causes apprehension in the Asia-Pacific region over the long-term following the end of the cold war is the problem of Japan becoming a military power."

**2. Medium power nations such as India and the ASEAN nations will continue to rise.** India is the second most populous country in the world whose potential should not be ignored. The ASEAN nations are in process of becoming a major force in the Asia-Pacific region. The Asia-Pacific region may produce a check and balance pattern of six powers: the United States, China, Japan, Russia, the ASEAN nations, and India.

**3. Economic development uneven.** In the Asia-Pacific region, an extremely great economic gap exists between different regions and different nations. For example, per capita GNP in Mongolia and Cambodia is only \$100 and \$110 respectively, while in Japan it is already \$27,000, and in Hong Kong and Singapore it is \$14,000 and \$13,600. In terms of regional development, the south Asia region lags behind the southeast Asia region. Consequently, it is very difficult for the Asia-Pacific region to form an integrated regional economic organization like the European common market, but small scale multi-lateral and bilateral cooperation will become more lively.

**As the focus of development in all countries shifts toward the economy, the establishment of an Asia-Pacific region security guarantee mechanism will increasingly become of general concern.** However, the Asia-Pacific region's security structure will differ from Europe's. With the end of the cold war, military confrontation between east and west has disappeared, and a certain amount of progress has been made in large nations' arms reductions. For various reasons (mostly self-defense), the development of armaments in the Asia-Pacific region will tend to escalate. According to statistics in the Swedish Stockholm International Peace Institute's Military Yearbook, "In 1991, Asian countries accounted for 34 percent of all arms imports in the world replacing the Middle East as the largest market for regular arms." The building of a new security system in the Asia-Pacific region has been placed on the agenda. However, because of the region's

historical, cultural, political, and economic background, as well as the fairly great differences in security interests, the European security conference model cannot be copied wholesale. It will be necessary to use political negotiations for the gradual establishment of bilateral and multi-lateral multi-level, and multi-channel systems for security dialogues. For example, the Paris Accords

for the resolution of the Cambodian problem, and the bilateral talks between north and south Korea for the peaceful solution to problems on the Korean peninsula are all effective expressions of such mechanisms. In short, the use of dialogue for peaceful solution to all controversies is what is needed to stabilize the overall situation in the Asia-Pacific region.



**Interview With Wang Xizhe on Prison Life**

93CM0206B Hong Kong KAIFANG [OPEN  
MAGAZINE] in Chinese No 53, 18 Feb 93 pp 10-12

[Interview with Wang Xizhe by KAIFANG reporter Ts'ai Yung-mei (5591 0737 2734) on 7 February 1993 in Guangzhou: "Fresh Flowers Still Bloom Even in Prison"]

[Text] Editor's note: In this interview, Wang Xizhe discusses the reason for his arrest, prison experiences, and views on certain people and events. He still keeps constant faith with his original ideals. [end editor's note]

[Question] Mr. Wang Xizhe, at the time of your current release on parole, the CPC said that you had committed the crime of "plotting to overthrow the government." Foreigners are very interested in the reason for your arrest, can you discuss it?

**Wang Xizhe Received the Severest Sentence for Political Crimes**

[Wang Xizhe] I was charged with three crimes, the major one was organizing or participating in organizing counter-revolution and counterrevolutionary propaganda. Because we were making preparations at the time for a national democracy publication ZEREN [RESPONSIBILITY], I was on the editorial staff, and I was an advisor to the "National Publications Association," the authorities believed that we were setting up a political organization, in which I was playing a key role, so arrested and sentenced me to 14 years in jail. I could be characterized as the one who received the severest sentence and was sent to jail the most times for purely political crimes. Wei Jingsheng was also sentenced harshly, the authorities charged him also with one count of leaking state secrets, and he was not wholly a political prisoner.

Another of my crimes was inciting public defiance of state laws. This was due to the detention for nine months without guilt of SIWU LUNTAN's Liu Qing [0491 7230], about which I wrote an open letter to the NPC asking for his release according to the law, which was another major crime for which I was arrested. I did not know Liu Qing personally, but was simply giving him moral support. Just think, for simply writing a letter to the NPC, I was sent to prison and charged with inciting public defiance of state laws! As I hear that Liu Qing is now abroad, I think that he ought to make an appeal for me.

[Question] Was it not said after you were arrested that you were sold out?

[Wang Xizhe] I was certainly betrayed, and very seriously too. But while I was sold out by others in the democracy movement, I will not reveal their names, as it would only hurt them.

[Question] Why did your partners in writing the Li Yizhe big character poster during the Cultural Revolution not take part in the later democracy-wall movement?

[Wang Xizhe] There is very little that I can say about this. Then Guangdong Party Committee First Secretary Xi Zhongxun [5045 0112 0534] said that they were all good comrades, and that I was the one who refused to obey. What did he mean? I certainly do not know.

[Question] Have you seen these friends since your release from prison?

[Wang Xizhe] Yes, we even had a meal together. Of the three (the other three authors of the Li Yizhe big character poster—Li Zhengtian, Chen Yiyang [7115 0001 7122], and Guo Hongzhi [6753 7703 1807]), I missed seeing only Guo Hongzhi. He came, but we had already eaten and left. I still regard them as friends.

[Question] During your decade-plus in jail, the outside society underwent great changes, did your thinking also change?

**Wang Xizhe Still Adheres to His Original Stand**

[Wang Xizhe] I have essentially not changed, still adhering to the stand in my essay "Mao Zedong and the Great Cultural Revolution." I believe that this stand has been proved by history, it was certainly one of the major pieces of evidence that branded me a counterrevolutionary at the time.

[Question] Were you very familiar with what was going on outside while in prison?

[Wang Xizhe] I would not say very familiar, but somewhat. I depended mostly on reading RENMIN RIBAO and NANFANG RIBAO. I later also subscribed to the English-version CHINA DAILY, I can understand English with some difficulty. One could subscribe to newspapers while in jail, and even to as many as one wished, I could manage only two because of my economic situation. Liu Shanqing [0491 1472 7230] was from Hong Kong, was better-off, and subscribed to dozens of papers, prison rules forbade passing things back and forth, making it impossible for us to read his papers.

But we were able to talk to each other. Prison control was very tight, but we political prisoners ignored it. It is a fact that corporal punishment was not allowed in prison. Government cadres did not generally beat prisoners, except for employing some prisoners to beat others. Prisoners obeyed in hopes of reduced sentences. But as we political prisoners had no hopes of reduced sentences, knowing that there was no way out for us politically, we had nothing to fear, so talked back and forth at windows as if on the telephone. During the 1989 democracy movement, the prison walls were very low and we sat at windows holding discussions, which prison guards could not stop, as they were also interested in hearing what we had to say.

[Question] Were you aware of outside changes, such as the 1986 campus upheaval, the 1989 democracy movement, and the later collapse of the Eastern European communist camp? What are your views on these events?

[Wang Xizhe] My essay "Mao Zedong and the Great Cultural Revolution" essentially explains my views. I believe that the 1986 campus upheaval and 1989 democracy movement were continuations of the democracy-wall campaign.

[Question] Do you have any comments on the 1989 democracy movement?

[Wang Xizhe] My current status leaves me unable to comment on that. When I first returned home, I was not ideologically prepared, so when reporters asked me about Fang Lizhi, I criticized him and gave my views on the democracy movement. But when I later reported to the police station, they demanded that my speech be law-abiding. So my first day's comments should be considered as too outspoken, because I still have no political rights.

#### Wang Xizhe's Views on Fang Lizhi and Wuer Kaixi

[Question] It is reported in Hong Kong that you claim China lacks a Tan Sitong [6223 0843 0681]. Is this a criticism of Fang Lizhi for being unethical and disloyal?

[Wang Xizhe] Yes. Many who shouted the loudest slogans sneaked away first when the trouble came, leaving the students to shed the blood. The likes of Wuer Kaixi are in this category. I will say nothing more on this until 1999.

[Question] Do you know the status of your friends who were arrested for the democracy-wall campaign?

[Wang Xizhe] He Qiu was locked up for a decade and released in April 1991, and is currently working at home repair and renovation. He came to see me after I returned home. I understand that Shanghai's Fu Shenqi [0265 3947 1142] was arrested again after 4 June 1989. His older brother, Fu Shenping [0265 3947 1627], sent me a congratulatory telegram after my release.

Liu Shanqing was arrested for visiting my family. His 10-year sentence for such a simple visit was certainly too harsh. I did not know about his arrest, as I was in a holding cell, and had not yet been sentenced at the time. I found out that he had been arrested only when I saw him at my trial. He was arrested to help break my case, with the authorities believing that we had colluded in some crime, this was fruitless, as I persisted in maintaining that my democracy movement activities were legal. When he was transferred to Huaiji Prison in 1988, we spent three years locked up together.

[Question] As you have been in such good spirits since your release, what force was it that sustained you through your ordeal?

#### Wang Xizhe Has Appealed His Sentence Unsuccessfully Over 40 Times

[Wang Xizhe] I believe that it was mainly my personal strength of will. I do not wish to recount the particulars, which would be hard to sum up in a word anyhow. Prison was not a place of ghastly terror, it was certainly one that put enormous constraint on one's spirits, so was

not cheerful. I was able to maintain such a good mental attitude through a dozen years of prison because I believed that I had not committed any crime, the truth of which would certainly come to light someday.

I have appealed to the Supreme People's Court over 40 times, and am prepared to continue to appeal to the courts at all levels.

[Question] You have said that you will not speak out until 1999, conditions are changing and China is advancing. Are you not being too pessimistic?

[Wang Xizhe] There is no need for pessimism, the current state of affairs is fine. As to social change, I see great improvement in municipal administration. I can see that the CPC is taking a cautious step-by-step reform approach, and does not necessarily have an overall plan. Their view is that the matter is complex, experience needs to be accumulated, and progress always beats standing still. I dare not give my views on other matters.

[Question] What are your future plans?

[Wang Xizhe] I still do not dare to speak of them, I must yet find a way to make a living. My family has advised me to learn the lesson, stop speaking out, and meeting with reporters. My innocent family was sharply affected by my imprisonment, which you can well understand.

[Question] Your wife has suffered much on your account, can you speak of your attachment?

[Wang Xizhe] During the Cultural Revolution, we were classmates at Guangzhou High School No 17, I was in 10th grade and she in ninth, and we began to fall in love. We were married at the end of 1975, and I first went to jail in 1977. Our relationship has always been fine, with her being very trusting, considerate, and faithful.

She has simply too many fine points to describe briefly. I am very grateful to her as an ordinary woman for having supported our whole family alone over the long years. As we are now one again, we have told our son that regardless of who dies first, we want our ashes to be buried together.

#### Fresh Flowers Bloom Even in Prison

[Question] As your friends say that you have great literary talent, do you have any prison writings?

[Wang Xizhe] I used to write only political criticism, with the Li Yizhe critique being essentially mine. While I wrote in prison my first novel, *Sinking Ship*, based on a true story about the Vietnamese boat people, the manuscript was later confiscated by the prison authorities. In 1991 I wrote my second prison novel, *White Phosphorous*, with a first draft of 80,000 characters about a youth who flees to Hong Kong due to broken love and political oppression, and then returns to invest in the mainland after reform and opening, which reflects a decade of social change. This manuscript was also confiscated by the prison authorities,

and I have argued strongly on just grounds in a "human rights white paper" for its return, which they have agreed to after examination.

I am now planning to write a book called *A Place Where Fresh Flowers Bloom*, about my decade of prison life. I do not regard prison as a place of ghastly terror, but see it rather through eyes of humor and common insight, I can see that fresh flowers bloom even there. After the 1986 campus uprising, I wrote the following poem entitled "Watching Flowers From Confinement," which reflects this mood.

Looking from the spaces between my heavy prison bars,  
I shake my chains and take the lotus position, hearing the  
good sounds of this year's spring, and watching flowers  
bloom while wearing iron shackles.

### Critique of Wang Xizhe's Theories

93CM0206A Hong Kong KAIFANG [OPEN  
MAGAZINE] in Chinese No 53, 18 Feb 93 pp 14-15

[Article by Mu Fu (3668 1133): "An Outstanding Unofficial Theoretician—Critique of Wang Xizhe's Contributions"]

[Text] Wang Xizhe's writings are imbued with rigorous logic and splendid literary grace. One of the most outspoken and influential figures during China's darkest historical period of the Cultural Revolution, his theoretical skills are second to none.

The German playwright Bertolt Brecht said: "A country that needs heroes is sad indeed." I am of the generation that was baptised in the age of idol worship of Mao Zedong, and then disillusioned, so am keenly sympathetic with Brecht's remark. I was still overwhelmed with emotion when I heard the news that Wang Xizhe [3769 1585 0772] was being released from prison. That night I stayed by the TV watching shot after shot of his long-gone "wasted youth." The TV director showed a rare full-screen juxtaposition of before-and-after prison shots of Wang Xizhe, with the sharp contrast between his handsome youth and long-suffering age being quite a shock.

### Wang Xizhe Was the Author of the 1974 Big Character Poster Signed Li Yizhe

No matter how disappointed we may be in past or present heroes, history goes on and China advances, with contributions made by major figures who are repeated prizewinners of great renown from both within and outside of the system, as well as by many forgotten heroes. The Wang Xizhe of two decades ago was very famous, proof of which is that more attention is being paid to his release from prison than to that of any other democracy movement figure.

Wang Xizhe made an outstanding contribution to ending China's darkest period of the Cultural Revolution, being one of the most outspoken and publicly influential figures of the time. While he was not arrested until 1982, he remained a worker in the cause.

Wang Xizhe was the author of the November 1974 Guangzhou big character poster entitled "On Socialist Democracy and Legality." The poster was signed "Li Yizhe [2621 0001 0772]," and put up at a Beijing Road intersection in the city of Guangzhou. It was surrounded by an endless stream of onlookers both day and night who blocked traffic. Many made hand-written copies to be passed around, and even after it was torn down, admirers from afar came at night with flashlights to read its remnants.

I read a mimeographed copy of it the next spring in a southern provincial capital, and well remember that in chats with "the nine disgusting types of class enemies," there were none who did not admire it greatly.

### Wang Xizhe Was Branded a Reactionary by Li Xiannian for His Critique of Lin Biao

What was actually so fantastic about this critique? How could such unique literary excellence come out of the vast reams of Cultural Revolution claptrap? It was about 30,000 characters long, including a long preface. In mainland China, where the political climate has not changed to this day, issuing such a creative critique definitely required seizing just the right moment. The Great Cultural Revolution launched by Mao Zedong brought calamity to the country and the people, and was so utterly absurd, the people had to suppress their rage about it. So it was only after the perfect scandal over Lin Biao's failed betrayal and flight in 1971, that Wang Xizhe and Li Zhengtian [2621 2973 1131] were able to make good on their two years of planning and writing of three drafts, by taking advantage of the criticism of Lin Biao and Confucius to put up their critique as a street poster, which took 67 pages of white newsprint.

This critique had the following two general features: 1. It took a clear stand with powerful logic. Of course, while all of the critique was directed ostensibly at the "Lin Biao system," its most telling condemnation of cultural revolution atrocities and ugliness aroused a strongly sympathetic public response. Achieving this took skill and levelheadedness. 2. It was graceful, incisive, and readable literature. For instance, just read the author's own words:

"While we are so-called youths who do not fear tigers, this is certainly not because we do not know of the tiger's ferocity. It could even be said that while we have been gobbled up by that animal, we have always been survivors who could not be eaten up or kept down, but ones with claw scars on our faces, so not handsome creatures."

Then Guangdong Revolutionary Committee Chairman Zhao Ziyang highly valued big character posters and heeded the public response to the Li Yizhe report, when the critique reached the Central Committee, it was abruptly denounced by Li Xiannian in the eight words of "out-and-out reactionary, and evil to the core," branded a counterrevolutionary incident, and criticized throughout Beijing. So Li Yizhe was arrested in 1977 and released two years later.

### Wang Xizhe's Critique of Mao Zedong Was Unrivaled

During the 1979-1980 "Beijing Spring" democracy-wall uprising, Wang Xizhe rejoined the democracy movement, editing a private publication in Guangzhou with He Qiu [0149 3061], and later becoming an advisor to the "National Private Publications Association." At that stage, his most important work was a 40,000-character paper published in 1981 in QISHI NIENDAI YUEKAN titled "Mao Zedong and the Great Cultural Revolution."

If it is said that in the Li Yizhe big character poster, Wang Xizhe was still regarding Mao as legitimate and criticizing Lin Biao, this critique of Mao and the Cultural Revolution was a masterpiece exposing and criticizing Mao himself. Wang Xizhe systematically traced the history of the international communist movement, the Cultural Revolution, and the CPC, proving his stand as follows:

Mao launched the Cultural Revolution to establish an autocratic dynasty based on "agricultural socialism" with Mao as emperor. Mao's socialism was simply a reactionary, peasant, egalitarian utopia. Mao's revolution that overthrew Chiang Kaishek was nothing more than a peasant war, and Mao was simply the greatest unique peasant leader in Chinese history.

Wang Xizhe says that while he was loyal to Mao when writing the Li Yizhe big character poster, he now regards Mao as China's true last emperor, and readily welcomes "further adversity" due to such a critique of Mao. In fact, one of his crimes for being put back in jail was his branding as a "counterrevolutionary propagandist" because of this critique.

### History Will Not Forget China's "Lost Generation"

Rereading this critique today, I am just as inspired and satisfied by it as I was a decade ago, even to the point of acknowledging that I have not seen another such complete and dynamic critique of Mao in the last decade. I would even venture to say that Wang Xizhe's theoretical research efforts, thinking skills, and literary expression capabilities were certainly not second to those of any of today's renowned official or unofficial theoreticians.

Just as his 1974 Li Yizhe big character poster was referred to as a thought system, his 1981 critique of Mao also showed that Wang Xizhe had evolved a set of plausible theories to explain contemporary Chinese issues. But it needs to be pointed out that his concepts were still built on a Marxist foundation, in that he believed that Marx certainly did not conflict with modern democracy, and that what he criticized was Stalinism and Mao Zedong's Stalinist dictatorship and degree of centralization of state power.

When Wang Xizhe was arrested in 1982, I pointed out the tragedy of the Chinese democracy movement's "paucity of word and deed," in that Chinese officials and intellectuals included no one with the courage of the Soviet Union's Sakharov. Just a few years later when Zhao Ziyang was in power, China's literati class jumped into the fray, only to

be branded as criminals in 1989. A group of renowned figures with the freedom to speak out internationally have now joined the democracy movement. While history has tossed aside the Wang Xizhe's and marched forward boldly, it will not forget the generation of youths with no public standing who searched out remedies for suffering China during that closed and dark age. As an unashamedly loyal Chinese generation, Wang Xizhe was their most outstanding representative.

### The PRC Ought To Fully Rehabilitate Wang Xizhe

So I am calling on the PRC authorities to fully rehabilitate Wang Xizhe, by restoring his prestige and declaring his innocence. My grounds for this are as follows:

1. Wang Xizhe's works are on academic issues, with basically no essential conflict between his critique of Mao and the authorities' stand of "thoroughly negating the Cultural Revolution." Wang's stands are rational, opposing all violent reform and criticizing the social unrest that might be created by radical reform. He even expressed an understanding of the PRC's abolishing of the four general freedoms (to speak out freely, air views fully, hold great debates, and write big character posters).

2. Wang Xizhe not only recognized the communist ideal, but also expressed the view that reform could succeed only under the leadership of the Communist Party, advocating simply a coalition of reformers and the people to exercise government oversight.

3. It is also publicly acknowledged that Wang Xizhe's participation in the "National Private Publications Association" was certainly not to organize an opposition party.

As so many have pointed out, in comparison to the 1989 Tian'anmen student movement, there is no legal basis in Wang Xizhe's case for his severe prison sentence of 14 years. If the PRC really wants to show its people a little sound legal sincerity, instead of simply justifying itself to the U.S., it should realize that the time has come for retrying Wang Xizhe's case.

### Developing Productive Forces Makes CPC Effective

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[PARTY SCHOOL TRIBUNE] in Chinese No 12,  
5 Dec 92 pp 37-40

[Article by Zhang Fuyu (1728 4395 2589), deputy director, office of the Jilin Provincial CPC Committee: "Promote CPC Effectiveness by Developing Productive Forces"]

[Text] The development of a socialist market economy has made a host of new demands upon party construction. At the heart of the matter are unshakable adherence to the party's basic line and an effort to improve the party's governance and leadership standards. The key is abiding by the central task of economic construction unwaveringly and developing social productive forces

with a view toward raising the party's effectiveness. By raising the party's effectiveness, we can ensure and promote the development of social productive forces. The two should be integrated organically as China strives to achieve socialism with Chinese characteristics.

1. Any effort to enhance the party's effectiveness must closely revolve around the development of social productive forces.

We are not being subjectively whimsical these days when we call for the heightening of the party's effectiveness by developing social productive forces. Instead, there is an objective inevitability about it.

First, it is inherent in the party's fundamental mission. A basic tenet of Marxist teaching on party construction as well as our own experience in strengthening party construction are that party construction must be conducted in close conjunction with the party's political line. At the present stage, the party's basic line is none other than its political line, at the heart of which is the focus on economic construction. The fundamental mission facing us now is the push for the development of social productive forces. This is a solemn mission history has entrusted to us. This solemn mission makes numerous new demands upon the intensification of party construction and the enhancement of the party's effectiveness in the new era. One of the most basic demands is that the party become a strong core that can lead the people in making socialist modernization a success. This basic demand is entirely consistent with the party's fundamental mission, which is to develop social productive forces. When China becomes vastly stronger economically and in general under CPC leadership, it will prove to the world with facts that the CPC is effective and that socialism with Chinese characteristics as guided by the CPC also is full of vitality. This is something we should be clear-headed about since it is our starting point as we address the issue of party construction in the new situation.

Second, this is the road we must travel to adapt party construction to the demands of the new situation. Different historical periods and stages make entirely different demands on party construction. In the war years, the party's central task was to lead the armed struggle, so the party's effectiveness mainly manifested itself as the ability and success to lead and command military operations. At the present stage, the party's central task is economic construction; its effectiveness correspondingly manifests itself as its success in leading economic work or its lack of it. This requires new thinking and new criteria for party construction. Simply put, new thinking and new criteria require us to intensify party construction and enhance its effectiveness by focusing on the development of social productive forces. Every piece of party construction work must aim at promoting the development of social productive forces and closely revolve around economic construction, never deviating from it. From the perspective of developing social productive forces, we should examine the demands it makes upon the party's effectiveness and

figure out what appropriate measures to take. Making clear this point is enormously significant for correcting the guiding thought for party construction in the new era. Otherwise, party construction will not be able to meet the demands of the party's solemn mission and it also will be impossible to enhance the party's effectiveness. Certainly our call for new thinking and new criteria for party construction does not contradict the furthering of the party's fine traditions and style. Over a period of more than 70 years, our party has developed good traditions and style, sharply distinguishing it from other political parties. Faced with new tasks in the new era, we must continue and further these fine traditions and style. Take the application of theory to reality, for instance. The practice of building socialism with Chinese characteristics never stops developing in itself, so it requires the theory which reflects it to keep growing and improving as well. This is the only way for the party to remain vigilant and full of energy. Or take the maintenance of close links with the masses. The goal of the party is that its members identify with the masses and not isolate from them, not even for a moment. As we seek to develop a socialist market economy, however, the masses demand that party members understand a little more about modern science and technology and the commodity economy if possible and be more competent in leading the masses to acquire wealth. The masses will only be pleased if party members are armed with these skills. This point is illustrated by the fact that peasants in many locales are scrambling for party members and cadres with scientific and technical knowledge. If party members are not thus equipped, nothing much will be accomplished however eagerly they may desire to mingle with the masses. Also, our call for new thinking and new criteria in party construction does not mean that the nature of the party has changed. Rather, the call for new thinking and new criteria came after the party's basic mission has changed. This is so obvious that we need not go into detail here.

Third, this move is basic to consolidating the party's position as a ruling party. A major issue in enhancing the party's effectiveness by revolving around the development of social productive forces is improving the party's ability to govern as it exercises leadership over the development of a socialist market economy. Leading cadres from party organizations at all levels must grasp the basic principles of a socialist market economy without delay, master the necessary skills, ensure that socialist modernization in China proceed along a healthy course, and seize the initiative in the global economic war. This is critical to consolidating the party's position as the ruling party. We must pass this test.

2. Does it facilitate the development of social productive forces? Make this the basic criterion in assessing the party's effectiveness.

Now that we have made clear why we have to enhance the party's effectiveness by revolving around the development of social productive forces, we need to address

the question of how to assess the party's effectiveness. Essentially this means we have to accomplish three things:

For starters, we need to assess the party's effectiveness using the productive forces criterion. In deciding whether the party's effectiveness is strong or weak, we must most importantly look at the role played by party construction in developing social productive forces. This is the fundamental criterion. Back in 1978, Comrade Deng Xiaoping already said unequivocally, "In deciding whether or not the party committee of an economic agency does a good job in exercising leadership, we should mainly see whether or not advanced management methods have been introduced, how technical modernization has been proceeding, to what extent labor productivity and the rate of profit have gone up, and how much workers' personal incomes and collective welfare have increased. Similar criteria should be used to assess the leadership of the party committees at all levels on all fronts. This is what politics is all about in the future." (*Selected Works of Deng Xiaoping, 1975-82* p 140). Comrade Deng Xiaoping has emphasized time and again, "The political standard in choosing the right person for the right job is to benefit the people and contribute energetically to the development of productive forces and the socialist cause. This is the principal political standard." (*Ibid*, p 141) If we manage to spur the development of productive forces, our party construction would be considered successful and the party organizations effective. Otherwise, our party construction will be deemed unsuccessful and our party organizations ineffective.

Second, we must understand dialectically the relations between the productive forces criterion and the requirements of party members. Since we must enhance the party's effectiveness by revolving around the development of productive forces, we certainly will not simplistically replace requirements of party members with the productive forces criterion. In accordance with the party constitution, party members must meet other requirements. We must stick to that. However, in view of the overarching demand of developing social productive forces, we must seriously examine how to comply with the principles of the party's own construction so that it can better meet the demands of economic construction. In our work we must respect the economic principles and act in accordance with objective economic principles, on the one hand. On the other hand, we must take pains to use the party's political strengths. The more strenuous the task of economic construction, the greater the need to step up ideological and political work; strongly advocate the spirit of innovation, forging ahead, practical work, sacrifice, mobilize the people's initiative; and make sure party organizations live up to their role as the political core and effectiveness and party members fulfill their vanguard exemplary role. Using this basic criterion, we should strongly affirm and popularize those practices and experiences in party construction that are suited to and can promote the development of social productive forces. Those which are unsuited for the development of social productive forces need to be adjusted and improved. When we say we need to enhance

the party's effectiveness by developing the social productive forces, we are not saying that party and government work should be fused or that party organizations should run all sorts of economic work directly. Instead, we want to intensify the party's leadership over economic work while insisting on party-government separation and ensure that the party's line, principles, and policies are properly executed in economic work.

Furthermore, the enhancement of the party's effectiveness must be integrated with the development of social productive forces even more successfully. On the one hand, we are supposed to use the criterion of productive forces to assess the party's effectiveness. On the other hand, the criterion of productive forces must not replace party member requirements. On the surface the two seem to be mutually exclusive. In fact they are not. They are the two sides of the same coin, united by the practice of building socialism with Chinese characteristics. What is important therefore is rectifying the relations between the two and handling them properly. As we address the issue of strengthening party construction and enhancing the party's effectiveness, we must not lose sight of the basic requirement of developing social productive forces. We must work to resolve some of the things in party construction that are unsuited for the development of social productive forces. But as we ponder how to develop social productive forces, we must not overlook party construction or weaken party leadership either. We must liberate and develop social productive forces by strengthening the party's effectiveness. On this issue we must be on guard against the right but more importantly we should be vigilant against the left. We must become more conscientious and steadfast in implementing the party's basic line.

3. Never stop enhancing the party's effectiveness as we develop social productive forces.

It is no mean feat to organically integrate in our work the enhancement of the party's effectiveness with the development of social productive forces. Two situations often arise. In the first situation, people go all out to develop social productive forces but ignore the enhancement of the party's effectiveness. In other words they wrestle with production in isolation. In the second situation, people are so preoccupied with the enhancement of the party's effectiveness that they overlook the basic demand of developing social productive forces, so they are not very effective in their work. These two situations still exist objectively. We must take them seriously and work hard to put an end to them.

First, we must never stop searching for a new way of thinking for party construction that also meets the requirements of building a socialist market economy. The building of a socialist market economy is actually a profound revolution. As the old order gives way to the new, we must not only resolve some of the old contradictions but also work out a string of new problems. No doubt this will pose a new challenge to our party's ability to govern. If we refuse to reform, cling to the rigid

traditional system stubbornly, and keep the market economy out of socialism, the development of social productive forces would be hampered and the CPC's position as the ruling party would be undermined. In contrast, if we weaken party leadership, depart from socialism, and slacken party construction as we advance with bold strides toward the market economy, we would similarly jeopardize the party's ruling party position. Since the party has proposed the historic mission of developing a socialist market economy, we will certainly be able to lead the people in accomplishing the mission successfully. Our confidence and strength lie in combining the development of a socialist market economy on the one hand with the strengthening of party leadership and the enhancement of the party's effectiveness on the other in accordance with the theory of building socialism with Chinese characteristics. That way we can search for a way to step up party construction and enhance the party's effectiveness truly in accordance with the demands of the party's basic line and based on the needs of developing social productive forces.

Second, party cadres should be the mainstay in leading the socialist market economy. The new mission requires party cadres at all levels to sharpen their skills as soon as possible and demand a say and leadership in the actual development of a socialist market economy. This is the only way to implement the party's line, principles, and policies and ensure the healthy development of the socialist market economy. They must study the theory of the market economy assiduously and acquire related know-how. They must familiarize themselves with international practices and market rules, and make themselves at home in the market economy. Accordingly cadre training at party schools at all levels must be improved and amplified in form and substance. In curriculum design, we should teach the trainees more about the market economy and scientific management and make a greater effort to sharpen their managerial skills.

Third, educate party members to resist the negative effects of the market economy conscientiously. The market economy is a two-edged sword. On the one hand, it can help develop social productive forces and firm up the material basis of our party's ruling party position. On the other hand, it is corrosive in some ways. If we are not subjectively vigilant, the negative influence of the principle of commodity exchange may end up infiltrating the party's political life, corrupting some people and eroding the party's effectiveness as well. We must be realistic about the latter aspect of the market economy at all times and step up the construction of the party's ideology and style in earnest in order to heighten our immunity. Put party style rectification and the introduction of integrity

in government at the top of our agenda and resolve to tackle them effectively to win public confidence.

Fourth, find the optimal meeting point between the development of social productive forces and the enhancement of the party's effectiveness. In our all-out battle to develop social productive forces, we started at a low level and faced an uphill struggle. We have accumulated considerable experience and learned some lessons. For instance, the party has made an important decision to encourage some people to get rich first. At a time when the masses were still skeptical, the party organizations moved to convince the party members to take the lead in becoming rich. And they did, by developing productive forces. Subsequently they were joined by the masses, thereby fueling the development of the local economy. As a result, party members, cadres, and party organizations now enjoy higher prestige; their words are heeded and can rally people around them. But there are some other party members and cadres who did not handle the same issue properly. In the process of getting rich, they either damaged public interests, damaging their name and credibility, or pursued personal wealth while ignoring collective affairs, or enriched themselves by violating party discipline and breaking the law of the land. Take the decision to open China to the outside world. The party organizations and party members in many enterprises have played a vital role in attracting foreign capital and cooperating with foreign businessmen, adhering to party principles and implementing the party's principles and policies, on the one hand, and successfully negotiating with foreign businessmen and attracting a large amount of funds and advanced technology, on the other. Not only have they strengthened the enterprises' and even the state's economic muscle, but they have also accumulated some experience in intensifying party construction and combining a strong sense of principle and progressiveness with flexibility and adaptability. But some party members and cadres have mishandled this matter also. In their dealings with foreign firms, either they sacrificed their principles by making small personal gains while causing heavy losses to the enterprise and the state, or they lacked flexibility, and their thought still not liberated, could not bring themselves to let foreigners make a profit. The result is that deals that could have been clinched fell through. There is even a tiny handful of party cadres who sell secrets to foreign businessmen, causing losses to the state even though they manage to benefit themselves. In these locales not only is the development of social productive forces impeded, there is difficulty in enhancing the party's effectiveness as well. In these and other matters we must learn from our experiences and lessons, explore boldly in the course of practice, gradually become more experienced, and minimize our errors. Provided the guiding thought is clarified, the way of thinking is clear, and the right approach is followed, detailed methods will increase and become more flexible.



## NATIONAL AFFAIRS, POLICY

### **Economist Wu Mingyu on Market Economy, Socialism**

93CE0308A Beijing JINRONG SHIBAO in Chinese  
1 Feb 93 p 3

[Article by Wu Mingyu (0702 2494 3842): "Socialism and the Market Economy"]

[Text] More than 10 years of practical experience in reform shows clearly that it is the market economy that has saved China, and saved socialism.

The theory of market economy was put forward in five phases, and its progress was tortuous and complex.

The market economy does not preclude all planning, but only the kind of planning done under the old planned economy.

We must establish new methods of macro-economic adjustment, and a system of planning appropriate to the market economy.

The 14th National Party Congress, based on a review of China's practical experience in reform, made it even more clear that China's goal in reforming its economic system is to establish a new system of socialist market economy. Combining socialism and the market economy, liberating ourselves from the model of socialism that appears under the traditional planned economic structure, and establishing a modernized socialism with a market economic system; all this is a great innovation in the history of the development of socialism. This innovation will not be easy to accomplish. We cannot, of course, accomplish it without examining the facts through a scientific analysis of historical experience. Without great boldness in our theorizing, and spirit in our political activity, then we cannot accomplish this innovation!

#### **I. Who Saved China?**

The Sixth Plenary Session of the 11th CPC Central Committee passed resolutions on several historic problems. The resolutions pointed out that the Cultural Revolution brought China's economy to the brink of collapse. Today, China's economy is flourishing, attracting attention all over the world. Why did such an enormous change come about in 13 or 14 years? The one and only reason is that we carried out reform in the economic system, and the reform was "market-oriented." We may say without exaggeration that the market economy saved China, and saved socialism.

Let's look at the facts. Since reform began in 1979, China's GNP has grown at an average annual rate of more than nine percent for 10 years in a row. If we add together the GNP's of the four Asian tigers, plus China, and call that 100 percent, then in 1978, China's GNP accounted for about 46 percent. By 1991, it rose to 64 percent. For a long time, the four Asian tigers have been

in the front ranks of the world, but for these 10 years and more, while China was in reform, its growth rate has surpassed that of the four tigers.

As far as growth in productivity is concerned, a large number of statistics have been published, and people are familiar with them. If we look at changes in Chinese living standards over the last 10 and some years, then things are even clearer. In 1978, total savings for urban and rural residents in all of China were 21 billion yuan. Adding 18 billion yuan in cash on hand, they owned a total of 39 billion yuan in personal financial assets. That is to say, since liberation, the result of almost 30 years of frugality by the whole Chinese people, was that the average person saved less than two yuan per year in financial assets. By the end of 1992, how much did the urban and rural residents of China have in personal financial assets? They had 1.11 trillion yuan in savings, 300 billion yuan in cash on hand, and more than 200 billion yuan in various kinds of marketable securities, for a total of 1.6 trillion yuan. This is more than 40 times that for 1978. The increase is startling, even after adjusting for inflation. Is it, then, that in those 10 years and more, the people were even more "frugal" than before? No. Before 1978, urban residents bought, at most, 10 and some feet of cloth, six or seven catties of meat, and five or six catties of edible oil per year. There was no choice but to be "frugal." Not only was money tight, but also material supplies were limited. After 10 years of reform, the situation was enormously different. The overwhelming majority of urban and rural residents were not only well-fed and well-clothed, but also, household electrical appliances, coordinated sets of furniture, etc., were widespread, and were finding their way into ordinary homes. After 1978, retail sales of social products grew on a large scale year by year. By the end of 1992, they exceeded one trillion yuan. When speaking of changes in the living standards of urban and rural residents, we must also discuss housing conditions. In 1978, the average per capita living space for urban residents, in China as a whole, was only 3.6 square meters, far less than in the early days of liberation. In 14 years, more than 2.3 billion square meters of new housing has been built in the cities, and now, average per capita living space for urban residents is almost seven square meters. In rural areas, 7.7 billion square meters of new housing has been built. Roughly speaking, five percent of rural families move into new houses each year, and the quality of rural housing has also risen greatly.

Only the great achievements of reform over the last decade and more, truly display the superiority of the socialist system, and conclusively prove that the only way to really invigorate the Chinese economy is to combine the market economy with the socialist system.

In China's 40 years of experience, the contrast between earlier and later is as clear as this. In the same way, if we make an international comparison of practices in socialist countries, then we can also draw an equally clear conclusion. Namely, if we want to establish a



modern, strong, socialist nation, then we must discard the planned economy, and steadfastly take the path of the market economy.

## II. Moving Forward in the Midst of Confusion

China is a country that takes theory seriously. If we are not clear about our theory, then the concept of the market economy cannot become established. If there are flip-flops in theory, then there will be complications and false starts in action. The events related to the acceptance of the market economy, over the last 10 and some years, can be divided roughly into five phases.

First was the "breakthrough" phase, from about 1979 to the spring of 1981. At that time, a national market developed, first in Wenzhou, and then later on in many other places. This attracted attention and debates in many quarters. Several theorists in economics made a careful study, suggesting that it was necessary to develop a commodity economy (or a market economy) under the socialist system, and criticized Stalin's mistaken ideas about commodities, and commodity production. The opinion advanced by the State Council's team on reforming the economic system, also stressed the necessity, and feasibility, of developing a commodity economy. It was especially comrade Deng Xiaoping, during a talk with visiting foreign dignitaries in November 1979, who clearly pointed out that socialism can accommodate a market economy, and we can't say that a market economy is the same thing as capitalism. It was just this breakthrough in theory that strongly propelled the practice of reform at that time, and also brought about a great liberation in the thinking of people in economic circles.

Second, was the "controversy" phase from 1981 to 1984. Controversy especially surrounded the various resolutions, on the nature and essential features of socialism, that were drafted at the 12th National Party Congress. Some comrades not only stressed the need to insist on a planned economy, but also wanted to affirm that the unified allocation of labor power, was an essential feature of socialism. At the same time, they launched a critique of the view that socialism should develop a commodity economy. They wrote articles, held "discussion" meetings, published collections of essays, and raised a fuss for a good long while.

Third, was the "consensus" phase. In the fall of 1984, the 12th Central Committee convened its third plenary session, and passed a resolution on reform of the economic system. This resolution both thoughtfully summarized China's experience with reform, and gathered together all the correct opinions from the debates in theoretical circles. It pointed out that reform of China's economic system must realize a socialist, planned commodity economy. This caused the great majority of comrades, including the great majority of those in theoretical circles, to reach a new consensus. This resolution received full approval, and a highly favorable evaluation,

from Deng Xiaoping, Chen Yun, and other senior revolutionaries. Comrade Deng Xiaoping said that this was an innovation of ours, and a textbook case of the political economy of living Marxism-Leninism. The implementation of this resolution, greatly accelerated the pace of economic reform everywhere in China, especially in the cities.

Fourth, was the "reversal" phase. Around 1991, some "leftist" politicians and theorists tried to scare people by putting labels on them. They asked about everything, whether it belonged to socialism, or to capitalism. Once again, they directed the thrust of their criticism toward the market economy. They even alleged that the advocates of market-oriented reform, wanted to steer reform toward capitalism, and that advocacy of marketization was a manifestation of liberalism in the realm of economics. They published articles like this in many periodicals, one after another, while articles supporting the development of a market economy could not get published. This uproar threw this viewpoint, that once had won a consensus, into confusion again. Confusion in theory led to confusion in practice, and it was very hard to pursue reform.

Fifth, was the "new innovation" phase. As everyone knows, Comrade Deng Xiaoping's speech during his southern tour in January 1992, awakened the doubters to the truth, and swept away many rigid conceptions at one blow, and a great liberation came to the spirit of the people. Between comrade Deng Xiaoping's speech, and the resolutions adopted by the 14th National Party Congress, the banner of the socialist market economy was at last lifted up, and once more the whole party was unified in its understanding. Within a year, encouraged by comrade Deng Xiaoping's speech and the resolutions of the party, a new high tide of liberated thinking arose throughout China, and there appeared a stirring scene of continued reform, and stepped-up development. The majesty of theory displayed its incomparable grandeur throughout the great land of China!

## III. This Plan Is Not "That Plan"

The goals of the socialist market economic system are established, but the deeply-rooted system of the old planned economy will not disappear by itself. Because the old system was formed and developed over several decades, its way of thinking, planning objectives, procedures, methods, actions, and even organizational structure were to a considerable extent, already completely formed. It had its own ways of explaining things in terms of theory, had measures at its disposal, and a system of policies that it could employ to protect itself. Moreover, under the particular historical circumstances that existed in the past, it really did serve certain useful purposes. Throwing it out now, is not a very easy thing to do. Therefore, we must liberate our thinking further, have a firm sense of determination, and we must have a well thought-out plan for reform. Only then will it be possible to truly promote construction of the new market economic system.

Here, I feel there is one problem that must be cleared up. Namely, the market economy does not preclude planning in general, but only precludes the old system of economic planning. In the new system that is to be established, of course there must be macro adjustment, and there must be planning, but these plans will not be the kind of plans that we speak of in the context of the planned economy. The two things must be clearly distinguished. Some comrades, failing to make this distinction, have pointed out that, to develop a market economy, we must have more planning, not less. Consciously or unconsciously, they are confusing the basic planning of the market economy, with the planning that is done under a planned economic system. I believe that the kind of planning that is done under a planned economic system should be phased out in stages, and in its place, there should be established methods of macro-adjustment, and a system of planning that is suitable to the market economy. Under a planned economic system, plans are all-embracing; their formulation does not rely on the workings of the market, or on information about the market; and their implementation is by direct orders of the state. Plans under the market economic system, must be limited in content; must rely on the guidance of the market; are established on the foundation of the market's basic regulatory function; and its methods rely on the indirect effect of various economic levers. Conceptually, we should, of course, be clear about the distinction between the two. As for how, in our concrete work, and beginning from China's actual situation, we can gradually establish a new mechanism for macro regulation and planning, appropriate to China's market economy, and the special features of its socialist system, the way must be gradually perfected in practice, as we all explore together.

#### **State Planning Commission To Adapt to Market System**

93P30038A Hong Kong CHING-CHI TAO-PAO  
in Chinese No 4, 1 Feb 93 p 25

[Summary] A responsible cadre of the State Planning Commission [SPC] recently indicated that as the highest advisory organ for the State Council, the SPC must fundamentally transform its management system which to date has depended on highly centralized administrative directives. Instead, the SPC must establish a new macroeconomic management system which can properly respond to and guide the market effectively.

According to this cadre, the SPC's new functions will include: Studying strategies, formulating plans, achieving overall balance, cultivating markets, attending to key construction projects, providing macroeconomic adjustments, and coordinating services.

In more concrete terms, the SPC will change its functions in the following areas:

Instead of placing undue emphasis on managing micro-economic activities, such as setting targets, allocating investment and materials, and approving individual items, the SPC will concentrate on studies and proposals for overall strategies concerning major economic development, principles, and policies.

Instead of applying administrative means to manage directly, it will primarily employ economic policies, leverage, and laws to manage indirectly.

Instead of focusing on people's-owned economic entities, it will move toward guiding and regulating all economic activities.

Instead of largely managing through actual goods and planned targets, it will pay more attention to the management of value, policy, and forecasts.

Instead of primarily managing the construction of industrial facilities, it will attach more importance to the guidance and regulatory functions of the entire production, distribution, circulation, and consumption process. It will pay particular attention to agriculture and provide guidance for the development of the services sector.

Instead of concentrating more on managing supplies than market demands, the SPC will turn toward markets and study market trends. It will pay attention to market regulation and will strengthen its role in opening up markets and establishing market systems.

Instead of emphasizing static equilibrium of domestic economic activities and resources, it will make use of resources and funds in both domestic and international markets and achieve planned equilibrium through action and opening up.

Instead of depending mainly on control-oriented planned management, it will macro-manage by providing coordinated services to industries at the basic levels and strengthening information services.

It is reported that from now on, the SPC will concentrate its efforts on economic forecasts and monitoring. Economic forecasts will involve furnishing significant information on market supply and demand to effectively guide and regulate markets. Economic monitoring will involve analysis and studies of problems occurring in China's economy and making constructive proposals. Instead of using administrative means, it will apply macroeconomic methods to balance overall supply and demand.

In addition, the SPC plans to institute major reforms in the three areas of ideology, administrative functions, and setting up organizations.

## PROVINCIAL

### Fujian Furthers Banking Reform To Boost Economy

93CE0323A Fuzhou FUJIAN RIBAO in Chinese  
12 Feb 93 p 1

[Article: "Fujian Furthers Banking Reform To Boost Healthy Economic Development"]

[Text] On 9 February all bank presidents and insurance company managers in the province gathered in Fuzhou to discuss banking plans for the new year.

Governor Jia Qinglin [6328 1987 2651] and Vice Governor Liu Mingkang [0491 2494 1660] attended the meeting. The governor also addressed the gathering. On behalf of the provincial CPC committee and provincial government, he thanked the entire banking community in the province for its outstanding achievements during the past year in strengthening and improving macroeconomic regulation and control; nurturing and developing a market for funds, securities, and foreign exchange; raising funds and making short-term loans; and ensuring the stability of the currency. He expressed the hope that in the new year banks and insurance companies would further liberate thinking, continue banking reform, open up the banking industry to the outside world even more, and coinciding with the "Year of Infrastructure Construction," raise funds through a variety of channels to ensure that the need for funds to finance key national and provincial projects is met. Banks and insurance companies should also boost agricultural investment, aid the technological transformation of large and mid-sized state enterprises, and support the invigoration of commodity circulation, thus contributing to the development of the Fujian economy, to reform, and to the open policy.

Lin Jingyao [2651 2417 5069], president of the Fujian branch of the People's Bank, reviewed and summed up banking work last year, analyzed the current economic and financial situation, and set forth the tasks in banking work for this year.

Last year was a banner year for the province's banking industry. Banking institutions throughout the province took in 18.891 billion yuan more in deposits and increased their lending by 13.571 billion yuan. For the year as a whole, inter-bank borrowing grew 78.69 percent over the preceding year. The issue of 835 million yuan in local long- and medium-term enterprise bonds was approved, as was the issue of 1.16 billion yuan in short-term bonds, up 220 percent and 380 percent, respectively, over the year before. Foreign exchange regulatory transactions amounted to 2.121 billion yuan, up 57.88 percent over the preceding year. Of the new loans made in the year, agricultural loans and fixed assets loans to finance key national and provincial projects grew 905 million yuan and 1.236 billion yuan, respectively. Loans for state industries and foreign-funded supply and marketing enterprises rose 1.897 billion yuan while loans for commercial and foreign trade enterprises increased 3.671 billion yuan.

The conference called on the banking industry to further liberate its thinking, and be realistic and practical, intensify banking reform, continue to open the banking industry to the outside world, and concentrate on doing a good job in these five areas. First, strengthen the macroeconomic regulatory and control functions of the central bank and reform the planned management system for credit. Second, overhaul the operating mechanism of financial institutions and strengthen bank risk management. Third, further build up the banking institutions and improve specialization in the banking sector. Fourth, nurture and develop the financial market continuously, and energize fund circulation. Fifth, further open up the banking industry to the outside world. Gradually build up a banking system and operating mechanism suited for both the socialist market economy and the needs of strengthening macroeconomic regulation and control to put banking to full use in promoting the sound allocation of social resources.

As far as the banks' monetary and credit work this year is concerned, we must revolve around the following broad policy: Keep a tight lid on total volume, optimize the mix, become market-oriented, change the mechanism, and boost returns. Strictly limit the overall money supply and the total amount of credit. Promote a basic balance between aggregate social supply and aggregate demand. Steer the provincial economy to grow in a way that would optimize the mix, raise quality, and boost returns. To achieve this goal, we must aggressively control the total volume of credit, continue to vitalize credit funds, further adjust the credit mix, and concentrate funds where they are most needed. A majority of new loans should go toward the development of agriculture, particularly grain production, and the production of major agricultural byproducts; aid large and mid-sized state enterprises in overhauling their operating mechanism, increasing output, and transforming themselves technologically; and fund infrastructural projects. Increase investment in key projects involving railroads, highways, airports, wharves, water supply, and communication installations. Strictly limit fixed assets loans. Go all out to encourage deposits. Pump less cash into circulation. Tighten the management of foreign exchange and foreign debt effectively. Manage foreign exchange funds properly and put them to good use.

### 1992 Guangdong Exports Hit Record High

93CE0315A Beijing GUOJI SHANGBAO in Chinese  
21 Jan 93 p 1

[Article: "Guangdong's Exports Rank First for Seven Consecutive Years"]

[Text] Last year was the best year in the history of the foreign economy and trade of Guangdong Province. Foreign trade exports reached \$18.045 billion, an increase of 31.8 percent over last year, ranking first in the country for seven consecutive years. Southern Guangdong has once again become the hot spot of investment. By the end of November, there were 11,315 newly signed contracts, an increase of 89.8 percent over the same period the previous year. The actual use of foreign capital for the whole year reached \$4.5 billion, an increase of 75 percent over the same period the previous year.

Last year Guangdong's foreign trade maintained a two digit increase every month. Economic efficiency continued to turn for the better; commodity stocks kept dropping for years; and cost levels dropped by 1.65 percent as opposed to the previous year. Capital turnover was speeded up 0.29 times; and the cost of foreign trade exports (excluding the factor of price increase) were slightly reduced. Following the cancellation of export subsidies in 1991, foreign trading companies in the province have actually offset their profits and losses with some gains. According to director Xu Dezhi [1776 1795 1807] of the provincial foreign economy and trade commission, Guangdong's foreign trade last year had three characteristics: First, the pace of optimizing commodity structures was accelerated, the export of high and new technology products gained some speed, their variety amounting to 260, an increase of more than 100, of which the export volume exceeded \$10 million included more than 40, such as calculators, micro-computer parts, micro-electric machinery, laser discs, wireless telephones, micro-wave ovens, and acoustic systems. Second, there has been preliminary success in pluralizing export channels. The province has established trade relations with 164 countries and regions in the world. Increased oceangoing exports were greater than that of exports to the markets in Hong Kong and Macao. Third, imports have increased by a big margin. Last year throughout the province local imports delivered were worth \$10.64 billion, an increase of 25 percent over the same period the previous year. The achievements Guangdong Province made last year in using foreign capital were the greatest since the policy of reform and opening to the outside world was adopted 13 years ago. There has been a remarkable increase of investment of foreign capital which is mainly for production programs. There are more than 200 programs whose investment is above \$10 million; the tertiary industry rapidly used foreign capital, mainly concentrating on real estate development; attempts were also made at others, such as commerce, finance, consulting, and advertising; mountainous areas accelerated the pace of using foreign capital; and 20 cities in the province have entered the rank of opened areas.

#### Taiwan Investors Favor Hubei Province

93CE0323B Beijing GUOJI SHANGBAO in Chinese  
11 Feb 93 p 2

[Article: "Hubei Popular Among Taiwan Investors"]

[Text] Located in the heart of the Chang Jiang basin, Hubei Province has become the favorite destination of Taiwan capital. According to statistics compiled by the province's Taiwan Office, 225 Taiwan-funded enterprises were set up last year, an increase of 181 over 1991, when just 44 were approved. There are now 313 Taiwan-funded enterprises in Hubei, with a combined investment of \$478 million and \$219 million already negotiated. Taiwan capital has become an important part of

the investment flowing into Hubei from outside China as the province opens itself to the outside world and works to attract foreign funds.

The person in charge of the Taiwan Office of Hubei Province attributes the sharp rise in Taiwan investment in Hubei to the following factors. First, the speech delivered by Comrade Deng Xiaoping while he inspected the south has been a confidence booster to Taiwan firms interested in investing in the mainland. Second, the opening up of the Chang Jiang basin for development and the launching of the Three Gorges project provide an excellent development opportunity for Hubei, located in the heart of the Chang Jiang basin. Its investment prospects are very bright. Third, after years of hard work, both the tangible and intangible investment climates are getting better and better with growing appeal to foreign businessmen.

## FINANCE, BANKING

### Analysis of Financial Assets Structure

HK1903054093 Beijing JINGJI YANJIU in Chinese  
No 11, 20 Nov 92 pp 30-37, 13

[Article by Xie Ping (6200 1627) of the Policy Research Office of the Headquarters of the People's Bank of China: "Analysis of China's Financial Assets Structure"]

[Text] This article is intended to analyze the changes in China's financial assets structure from 1978 to 1991 and to use this to explain the deep-going effects which the process of financial development and financial reform has had on China's economic activity. (Footnote 1) (Apart from where otherwise stated, the tables and other statistical figures in this article are taken from the following: Survey Statistics Office of the People's Bank of China: "Financial Statistics for China 1991"; Financial Management Office of the People's Bank of China: *Statistics of China's Securities Markets*; China Financial Publishing House: *China Financial Yearbook* volumes for 1986 to 1992; China Statistical Publishing House: *China Statistical Yearbook (1991)*; the "Annual Reports" of the People's Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, People's Construction Bank of China, and People's Insurance Company of China for the years 1987 to 1991.)

### 1. The Total Volume of Financial Assets

The prime indicator of financial development is an increase in the proportion of money and other financial assets relative to gross social product. This means that social exchange activities and investment are realized increasingly through money and other financial assets rather than through exchange of material goods and planned distribution. The speed of growth of China's total financial assets from 1978 to 1991 can be seen in Table 1.

Table 1: Statistics for the Total Volume of Financial Instruments (Assets) in China

(Unit: 100 million yuan)

Item	1978	1991	Proportion of the various financial instruments in terms of total GNP in 1991
1. Cash	212	3177.8	16.2
2. Saving Deposits*	210.6	9110.3	46.5
3. Enterprise and Institutional Deposits	902.5	7061.7	36.1
4. Financial Deposits	187.4	504.3	2.6
5. Financial Bonds	0	114.2	0.6
6. Various Deposits Absorbed by Nonbank Financial Organs **	0	1421.1	7.3
7. Insurance Reserve Funds ***	15	190.8	9.7
8. Total Creditor Claims on Financial Organs (1-7)	1527.5	21580.2	110.2
9. Total Bank Loans	1850	18061.4	92.2
10. Urban and Rural Credit Cooperative Loans	40	2124.9	10.9
11. Trust Institution Loans	0	1211	6.2
12. Government Bonds	0	1168.2	6
13. Enterprise Bonds	0	386.8	2.1
14. Total Creditor Claims on Nonfinancial Sectors (9-13)	1890	22952.3	117.2
15. Government Borrowings From Banks	0	1074.5	6
16. Shares	0	75.1	0.4
17. Total Volume of Financial Assets	3417.5	45782	233.8

Notes: \* Includes personal savings deposits in post offices and urban and rural credit cooperatives. \*\* Includes all types of financial trust and investment organs and urban credit cooperatives. The personal savings deposits in these organs are not included. \*\*\* This is only the sum of the reserve funds, life insurance funds and assets reserve funds of the People's Insurance Company of China.

Table 1 shows that during these 13 years, the total volume of our country's financial assets grew by 12.4 times and that six types of financial instruments were newly added—that is, deposits in and loans by financial trust and investment institutions, deposits in and credit by urban credit cooperatives, financial bonds, government bonds, enterprise bonds and shares. We can say that during this period, the increase in financial assets, the establishment of new financial instruments, the diversification of financial organs and the development of financial markets have formed the essential contents of China's financial development and financial reform.

Table 1 also shows that by the end of 1991, of all financial assets, 99.8 percent were in the form of creditor rights and only 0.2 percent were in the form of company share equity. This shows that China's shareholding economy has just begun and that the securities market needs to be developed. Looking at this from the total liabilities of the nonfinancial sectors (mainly government and enterprises), 93 percent of this total is financial (indirect) financing, while 7 percent is securities (direct) financing. From another angle, of the total volume of financial assets, cash, an instrument which is fully liquid, constitutes about 6.9 percent, while liquid securities which can enter secondary market trading constitute

about 3.6 percent. This shows that the overall fluidity of financial assets is very low. Another phenomenon which attracts attention is that, apart from in urban and rural credit cooperatives, the assets-liabilities relationships shown in Table 1 are mainly between state-owned banks, trust organs and government and state-owned enterprises. Before our property rights system is thoroughly reformed, the main source of weakness in restraints imposed by creditor rights and liability rights will continue to exist and this will inevitably affect the quality and effective circulation of financial assets.

In analyzing the growth in the overall financial asset volumes, it is necessary to look at the role played in this by the central bank. At the end of 1991, the total volume of assets provided by financial organs to nonfinancial sectors was 2.2472 trillion yuan. Here, we see the loans-deposit derivative mechanism playing a role. However, in fact, the financial assets of individuals and enterprises (mainly cash and deposits) and the assets of financial organs (mainly loans) all have their sources in the multiplier effect of the growth in the assets of the central bank. Thus, if we compare the growth in volume of total financial assets (Footnote 2) (This "growth in volume of total financial assets" as shown by the various items in Table 1 does not include the financial assets of the

central bank), we can explain the role of credit creation by the central bank in the process of financial development. As the People's Bank of China only truly began to play a central bank function in 1984, its "balance sheet" only began at that time. Thus, the data only starts in 1985. (See Table 2)

**Table 2: Relationship Between Growth in Assets of Central Bank and Growth in Total Volume of Financial Assets**

Year	Annual Growth in Central Bank Assets	Annual Growth in Financial Assets of Society	Multiplier Value
	(100 million yuan)	(100 million yuan)	
1985	-	2265.7	
1986	616	4059.6	6.59
1987	312	4063.7	12.94
1988	567	4195	7.4
1989	1218	4990	4.1
1990	1575	7116	4.7
1991	1870	8549	4.57

The "financial assets of society" in Table 2 is a gross value, including deposits and credit, and thus its multiplier value is greater than the multiplier value which measures the relationship between "money supply volume" and "basic money."

The "multiplier value" in Table 2 actually reflects the degree of financial structural change and financial development in a country. Prior to 1989, growth in the "primary financial assets" of the central bank could give rise to greater growth in social financial assets. This shows that at that time the degree of development of our country's financial structure, the structural reforms and the financial market were all quite swift, which reflected that in China at that time there was a quite swift change from a "repression"-type financial structure to a "developed" financial structure. After 1988, although the total volume of financial assets continued to rise swiftly, the development of overall financial reform stagnated and it could not keep up with the progress of economic development. This resulted in the increases in the total volume of financial assets relying increasingly on credit from the central bank. The reform and marketization of the financial structure thus advanced without any real substance and thereby deviations occurred in the process of financial development.

Maintaining an appropriate rate of assets growth for the central bank is a necessary condition for maintaining growth in the total volume of the financial assets of society and for the promotion of financial development. This is particularly important for developing countries in the period of transition from a "financial repression" situation to one of "financial development." After 1980,

as the process of economic monetization accelerated, economic growth on the one hand required financial reform in terms of the systems in place and on the other hand also resulted in the demand for actual money increasing quickly. Enterprises' demand for external financing expanded, there was an increase in trade demand for money, and there was a diversification of the channels by which funds were transferred from savings to investment. All of these aspects were manifested as an increase in demand for "trading" money. Seen from this angle, over the last 10 years, in the process of China's financial development and financial reform, the swift growth in central bank assets has played a certain "driving" role and has had a certain inevitability.

## 2. The Financial Interrelations Ratio

The financial interrelations ratio is an important indicator for assessing a country's level of financial development and degree of financial reform. It is defined as the ratio between the total volume of financial assets and GNP. (Footnote 3) (See (U.S.) W. Goldsmith: "Financial Structure and Development" (Chinese translation), Shanghai Joint Publishing Press, 1990 edition, p 79. Another U.S. economist, I. McKinnon, uses M2/GNP as an indicator of financial development. This is essentially the same. See McKinnon: "Money and Capital in Economic Development" (Chinese translation), Shanghai Joint Publishing Press, 1989 edition, pp 102-105.) China's financial interrelations ratios from 1978 to 1991 are shown in Table 3.

**Table 3: China's Financial Interrelations Ratios (Percent)**

Year	Total Balance of Financial Assets (100 million yuan)	Annual Increase in Financial Assets (100 million yuan)	GNP (100 million yuan)	Financial Interrelations Ratio (Percent)
1978	3417.5	3588.1		95.2
1979	4000	582.5	3988.1	100.3
1980	4945.8	945.8	4470	110.6
1981	5782.7	836.9	4773	121.1
1982	6906.3	1123.6	5193	123
1983	7759	852.7	5809	133.6
1984	10543	2784	6962	151.4
1985	12808.7	2265.7	8557.6	149.7
1986	16868.3	4059.6	9696.3	174
1987	20932	4063.7	11301	185.2
1988	25127	4195	14018	178.1
1989	30117	4990	15916	189.2
1990	37233	7116	17686	210.5
1991	45782	8549	19580	233.8

There are many factors which affect the financial interrelations ratio, such as the degree of monetization of the economy, the rate of capital formation, the rate of external financing by enterprises, and the rate of new issue of instruments by financial institutions. All of these

have a direct relationship with the financial interrelations ratio. At the same time, the rate of inflation and the internal accumulation rate have an inverse relationship with the financial interrelations ratio. Generally speaking, the higher the financial interrelations ratio, the greater the degree of separation between savings and investment in the economy, the greater the proportion of external financing and indirect financing and the more powerful the scale and capacities of financial activities. If the financial interrelations ratio value is too low, it

shows that the internal financing proportion of economic units is quite great, the scope of financial trading is small, funds lack fluidity and the degree of financial development is low. From Table 3, we can see that over the last 13 years our financial interrelations ratio has gradually risen, and the rise has been particularly swift since 1983. This basically tallies with the course of our country's financial reforms. Now, if we compare the interrelations ratio of the various types of financial assets in China in 1991 with those of other countries in 1988 (see Table 4), we get the following results.

**Table 4: A Comparison of China's Financial Interrelations Ratio and Those of Other Countries (figures in the table are percentages which the particular financial instruments (assets) constitute in relation to that year's GNP)**

Country	Total Volume of Financial Assets	Bank Assets	Government Bonds
USA	326	95	53
Japan	392	151	47
W. Germany	294	121	47
France	254	127	20
Korea	234	86	6
Malaysia	289	94	44
Brazil	175	53	24
India	114	50	17
China	227.8	103.1	6
Country	Enterprise Bonds	Shares	M2
USA	17	49	61.4
Japan	17	54	111.7
W. Germany	41	16	60.8
France	5	9	51.7
Korea	8	8	39.1
Malaysia	-	52	66.3
Brazil	2	24	14.4
India	2	3	62.6
China	2.1	0.4	98.8

1. The figures for China are for 1991, while those for other countries are for 1988.

2. Based on Table 1, M2 is the sum of Items 1, 2 and 3, while bank assets is the sum of items 9 and 10. The amount of government borrowing from banks is deducted from the total value of assets.

Source of data: Foreign figures come from the World Bank Country Study: "China: Financial Sector Policies and Institutional Development" (English edition), Washington 1990 edition, World Bank publishing reference ISSN 0253-2123.

1. In 1991, there was still a big disparity between China's financial interrelations ratio and the level of those of developed capitalist countries in 1988. However, it was quite close to those of middle-level developed countries (Korea). In terms of developing countries (those with per capita GNP below \$500), China's financial interrelations ratio was extremely high.

2. Speaking in terms of the money supply volume index M2 as a proportion of GNP, China was only lower than Japan, and higher than other countries in the table. This is because for both China and Japan, M2 is quite high as a proportion of financial assets volume. M2 is basically the liabilities of the banking system. If this indicator is high, it means that the bank debt (lendable funds) has a

high dependence relationship with the national economy. Both the Japanese and the Chinese economies rely heavily on bank credit. On the basis of a 1973 analysis, conducted by McKinnon, of the same indices in the FRG and Japan, China's 1991 value (98.8 percent) shows clearly that China cannot be considered a "financial repression"-type economy. (Footnote 4) (McKinnon: "Money and Capital in Economic Development" (Chinese translation), pp 104-108)

3. Seen from the angle of bank assets as a proportion of GNP, China's figures are all higher than those for Korea and Malaysia, close to those for the developed capitalist countries and even above the 1988 figure for the United States. This shows two things: 1) In China, bank assets constitute a

very large proportion of China's total volume of financial assets. 2) Nearly the entirety of bank assets are in loan form. Japan is the developed country with the highest index in this respect and China can be considered the developing country with the highest index in this respect. The financial structures of Japan and China are somewhat similar, as both countries use indirect financing (through banks) as their main avenue. In the same way, if we use the M2/GNP index to assess them, China and Japan are the countries with the highest financial interrelations ratios.

4. In Table 4, the financial interrelations ratios of China's government bonds, enterprise bonds and shares are very low. This characteristic shows that China's initial volume of securities issued was very small, and thus the securities market is very undeveloped. In fact, generally China's financial interrelations ratio values are quite high and the overall volume of financial assets has grown very swiftly. However, the assets structure has internal defects. This can be seen in the low proportion of financial assets in secondary market trading and the low overall level of monetization. This affects the exchange and fluidity between different types of financial assets and this is not beneficial to raising the financial asset deployment efficiency.

### 3. An Analysis of the Government Debt Structure

China's financial development and financial reform has not only resulted in an increase in the total volume of financial assets and a rise in the financial interrelations ratio, but has also resulted in great changes in the financial assets structures of various types of economic entities. Financial assets structure has two levels of meaning: 1) The proportional relationship among various types of financial assets in the overall volume of financial assets. 2) The ratio between the various types of financial assets and liabilities in particular economic entities. In this section, we will first examine the government financial situation.

Over the last 13 years of reform, the government's financial situation in our country can be summed up as follows: The proportion of financial revenue and expenditure in the GNP has declined and thus the effects of financial funds on overall demand have been weakened; for successive years there have been financial deficits; the increase in extrabudgetary funds has exceeded the increase in budgetary funds; there has been a rapid decline in the proportion of financial funds in investment and thus the financial administration has gradually pulled out of the production sphere; the financial administration has seen an increasing reliance on national bonds. In such a situation, quite deep-going changes have occurred in the government's assets-liabilities structure in our country.

Our financial administration long ago abandoned the principle of budget balance. In 1982, the central financial administration began to issue government bonds (treasury bonds, state key construction bonds and financial bonds). At present, government debt is mainly in two areas: The first is the outstanding state bonds and the second is the net value of state overdrawings from the central bank (after deducting the administration's

deposits). At the end of 1991, the total net debt of the government was 176 billion yuan, which was equivalent to about 9 percent of 1991 GNP. This change in the government assets-liabilities structure has had a great effect on the overall financial assets structure in society.

1. The debts of the government are inevitably the assets of other sectors. At the end of 1991, the structure of the holders of government debt was as follows: The central bank held bonds totaling 67 billion yuan or 38.1 percent of the total; the specialized state banks held 27 billion yuan or 15.3 percent (Footnote 5) (This is the amount of bonds held at the end of 1991 by the five specialized banks—the Industrial and Commercial Bank, the Agricultural Bank, the Bank of China, the Construction Bank and the Bank of Communications. See "1991 Annual Report of the People's Bank of China," p 11); nonfinancial enterprises held 31.6 billion yuan or 18 percent; and individuals held 50.4 billion yuan or 28.6 percent of the total.

2. The degree to which our country's financial administration relies on government bonds has gradually increased. Also, given that double-entry budgets have been implemented in 1992, not only will government bonds continue to be issued for a long period, but the amounts issued will also become increasingly great. For example, in 1992 it was planned to issue 42 billion yuan in government bonds, 18 billion yuan more than was issued in 1991. Government bonds as a government-issued security are a financial asset with small risk, high earnings (Footnote 6) (The annual interest paid on our country's treasury bonds has always been 1 or 2 percentage points higher than the annual rate for savings deposits in the same period. This is very unusual for any country in the world) and strong fluidity. Government bonds have already seen an upward trend in terms of the percentage they constitute in the total volume of our country's financial assets. This has deep-going significance for promoting the development of a financial market and promoting changes in the financial assets structure of the entire society. Our country's specialized banks, insurance companies, trust and investment companies, securities companies, foundations and general enterprises and institutional units have been increasingly willing to accept government bonds as financial investment. The daily transregional trade in government bonds at both the Shanghai Securities Exchange and the Beijing "Joint" Trading Center has reached 50 million yuan. The regional government bond trading markets at Wuhan, Shenyang and Chongqing are also very vigorous. In 1991, our country's trading volume in government bonds reached 37 billion yuan, equivalent to 70 percent of tradeable government bonds. (Footnote 7) (Liu Fan: "The Bonds Market: Retrospect and Prospects" in ZHONGGUO JINRONG XINXI No 6, 1992 p 15) Government bonds are going to become a major instrument for many of our country's economic entities in regulating funds supply, arranging finances and investing in securities. Eventually, this will lead to the central bank intervening in the government bonds market, holding a large number of government bonds and engaging in open business in the market.



3. At present, 38.1 percent of the net debt of our government is directly financed (either through overdrawing or loans) by the central bank. This is actually an indicator of a backward financing situation. It shows that the government still uses "inflation tax" to raise funds. At the end of 1991, the net debt directly owed to the central bank by the central financial administration was 67 billion yuan, equivalent to 21.1 percent of the total volume of cash in the market at that time. Under a system where the overall scale of credit is subject to a quota, inflation release factors will be blocked. However, this has a cost, and that is the limitation whereby bank deposits cannot be fully loaned out. From this we can see that when the government financial administration cannot maintain a balance through issuing government bonds and starts overdrawing from the central bank, it is very disadvantageous to financial development and financial reform in our country.

4. In the financial assets (expenditure) items, because of an increase in the proportion or expenditure taken up by nonproductive administrative costs, price subsidies and loss subsidies, it has meant a decline in the amount used for investment. This change in the assets structure has resulted in the "squeezing-out effect" increasing in respect of investment by the whole society. This has meant that the government expends as nonproductive expenditure some savings which could have been used as investment. This is not beneficial to the long-term economic development of our country.

#### 4. The Asset Liability Structure of Enterprises

Prior to reforms, the financial assets of our enterprises only included a very small volume of cash and bank deposits. Subsequent to the reforms, there was a diversification of enterprises' financial assets and they now include: Cash, government bonds, investment, equity in other enterprises, bank deposits, trust deposits, large denomination certificates of deposit, commercial bills and other enterprise (or financial) bonds. Quite a number of enterprises even have foreign exchange deposits.

Seen from the debt structure, prior to reforms, the fixed assets investment and floating funds of enterprises were, in the majority of cases, provided by the financial administration, and financial liabilities included only a small volume of bank credit. Subsequent to the beginning of reforms, the major financial liabilities of enterprises are as follows: A large volume of bank credit, trust company credit, foreign funds borrowing, enterprise bonds, shares, leases, funds collected from staff and workers within the enterprise and funds invested by other enterprises.

The diversification of and the volume increases in enterprise financial assets and liabilities noted above means that the financial market has expanded, producing demand for many types of financial organs, financial instruments and the development of a funds market. This has stimulated financial innovation, financial development and financial reform.

The most important characteristic of the financial structure of our enterprises is that a large volume of financial liability is transferred into material accumulation (stocks), resulting in a great imbalance between financial assets which remain fluid and the liabilities. The low level of fluidity of financial assets is a comprehensive reflection of the low level of enterprise economic performance. We can take the figures at the end of 1991 as an example. (Footnote 8) (Mutual bondholdings and shareholdings between enterprises and amounts payable and receivable which cancel each other out are not calculated. Bank credit does not include credit provided to township or town enterprises or agricultural and sideline product purchase credit. Enterprises' fixed assets, products and products stocks are not included in financial assets):

Enterprise financial assets = Enterprise deposits (505.8) + Cash on hand in enterprises (50.8) + Government bonds (29.4) = 586 billion yuan.

Enterprise financial liabilities = Bank loans (1,146.9) + Enterprise bonds (38.6) + Shares (7.5) = 1,193 billion yuan.

Gross financial liabilities less gross financial assets = net liability of 607 billion yuan.

Seen from the macro-level, the net financial deficit of enterprises is mainly manifested in two areas: The first is in fixed assets loans, and at the end of 1991, the balance in this respect was 274.4 billion yuan. We can assume that these loans have already been transferred into material investment and that there has thus been no loss of value. The other area is funds tied up in enterprises' finished products and other aspects. According to statistics from the Industrial and Commercial Bank of China, at the end of 1991, 109.7 billion yuan was tied up in finished products of the state-owned industrial production enterprises which had accounts with this bank. (Footnote 9) (Economic and Trade Office of the State Council and Industrial and Commercial Bank of China: "The Progress of the Plan To Restrict Production, Reduce Stocks and Promote Sales During the Month of May," JINGJI RIBAO 30 June 1992) If we add to this the funds tied up in commodities held by the commercial and goods and materials enterprises, and the funds tied up in the finished products of collective enterprises, the total amount would be about 200 billion yuan. The total funds tied up in the two areas noted above exceed 470 billion yuan. It is very difficult to clearly state where the other 130 billion yuan lay.

By comprehensively analyzing the financial assets-liabilities structure of our country's enterprises, we can come to the following four conclusions:

1. The production and operational activities of our country's enterprises rely to a very great degree on external financing. Excluding fixed asset investment, the proportion which enterprises' own circulating funds constituted in their total circulating funds was 21.4 percent in 1978 and by 1991 it had fallen to 8.5 percent. (Footnote 10) (For the typical survey calculations, see People's Bank of China Headquarters Study Group: "China: Monetary Policies for the Nineties" (mimeographed draft) p 13) In 1985, 1 yuan of

industrial circulating fund credit could support 7.12 yuan of industrial output value, but by 1991 this figure had fallen to 3.97 yuan. (Footnote 11) (Calculated on the figures contained in pp 9 and 11 of the "1991 Annual Report of the People's Bank of China") This phenomenon shows that not only do enterprises' operational activities rely greatly on external financing, they also mostly rely on bank credit.

In the external financing of our country's enterprises, the proportion between direct financing (bonds and shares) and indirect financing has always been very asymmetrical. Prior to 1980, there was zero direct financing of our enterprises. Subsequent to the reforms, direct financing saw some development, but its proportion in the total volume of financing has remained very low. Calculated on the balance at the end of 1991, the amount of direct financing received by the industrial and commercial enterprises in our country was 67.95 billion yuan, while the amount of indirect financing (credit) was 1,759.7 billion yuan. The direct financing thus constituted just 3.8 percent of the total financing. (Footnote 12) (The balance of direct financing comprised: Enterprise bonds + state key construction bonds + state investment bonds + capital construction bonds + face value of issued shares. Indirect financing (credit) did not include: Credit from rural credit cooperatives, credit from urban credit cooperatives, agricultural loans from state banks or credit from financial trust companies. Sources of data: Securities Association of China: SECURITIES MARKETS DATA No 1, p 13; "1991 Annual Report of People's Bank of China," p 11) If we carry out an international comparison, in 1984 in Japan, the proportion of direct financing in enterprises' total volume of financing was 15 percent, in the United States it was 34.6 percent, in Britain it was 11.7 percent and in France it was 28.3 percent. (Footnote 13) (Source of figures: Zhao Ziming et al: "The Current Operational Activities of Our Country's Securities and Future Development Strategies" in FINANCIAL SCIENCE No 2, 1992 p 17) The risks of direct financing are spread to many direct investors and this manifests the mechanism of investors taking their own decisions and taking on their own risks. In another respect, direct financing results in greater direct pressure on the enterprises and strong liabilities restraints, and it places greater stress on the use efficiency of investment. All risk in indirect financing falls on the banks, and in China this generally means the specialized banks. As China's property rights boundaries are not clearly defined, the liabilities restraints between state enterprises and state banks are not strong, and the bank has to take on a greater risk. This is not beneficial to improving efficiency of credit funds and not beneficial to the stability of the banking industry.

2. In recent years, the deficits of our country's enterprises have seen a sustained increase. (Footnote 14) (Approximately 35 percent of the whole-people industrial enterprises within the budget in our country are loss-making enterprises. In 1990, their net losses totaled 34.8 billion yuan, in 1991 the figure was 41 billion yuan and from January to May 1992 the losses were 14.24 billion yuan. If we add to this the hidden losses and the losses of the commercial enterprises, an even higher figure would be reached. See *Statistical Yearbook of China (1991)*, p 410 and RENMIN

RIBAO 19 June 1992) To maintain a certain speed of economic growth, the only option has been to rely on a growth in bank credit. This causes a further tightening of the interrelationship among industrial growth, economic growth and bank credit. The excessive borrowing by enterprises further pressures the state specialized banks to borrow excessively from the central bank. (Footnote 15) (Section 6 of this article provides an analysis of this aspect) The result of such a situation where credit funds circulate in one direction is that bank funds will come to constitute an increasingly large proportion of the total volume of financial assets and this will be irreversible.

3. More seriously, with low interest rates and credit restraints, enterprise credit demand greatly exceeds the credit supply and this has meant that the credit planning distribution mechanism has been increasingly strengthened. In recent years, China's planned structural reforms and the credit funds flow have been moving in opposite directions. In the period from 1988 to 1991, the total volume of the credit provided by state banks and non-bank financial organs and the orientation of investment were subject to the controls of mandatory planning. The dual-directional mandatory planning controls on the total scale of credit and funds, as well as the handing down of targets level by level, meant that there was no coordination between social funds flow and market guidance, and this became a great difficulty in our country's financial reforms. In 1992, this structure continued to be strengthened and the high-level decision-makers did not dare relax this "final retaining wall." Mandatory planning has increasingly moved out of the production and circulation spheres and into the control of bank credit distribution. The economic source of this lies in the excessive financial liabilities of enterprises and the degree to which economic development relies on credit. This sort of structure is clearly not beneficial to the optimum deployment of resources, but given the threat of inflation pressure, there is no option.

4. Seen from the overall volumes, the accounts of enterprise assets and liabilities always shows a balance. However, seen from the structural level, the financial assets of our country's enterprises have very low fluidity and they are quite rigid. The basic reason for this is that many products of whole-people enterprises cannot be sold in the market at their fixed prices. Thus, the enterprises have no way to resolve the circulation problem other than to increase liabilities (loans). If the increased borrowing by the enterprises is to a great degree transferred into stockpiled production, in a situation where there is no bankruptcy mechanism, these excess borrowings are risk assets of the banks. When this situation develops to a certain stage, it will endanger the entire banking industry and social credit system. The sprouts of such a situation appeared in 1990. At that time, the mutual debt arrears between China's enterprises (the so-called "triangular debt") reached 400 billion yuan. This was a prominent manifestation of the enterprise debt crisis. Beginning in 1990, quite a proportion of the financial assets and liabilities of China's enterprises existed in the form of commercial credit (amounts receivable and payable). However,

most of the commercial credit could not be repaid within the required time limits and thus became arrears. Speaking in terms of overall volumes, the credit assets and liabilities between enterprises must be equivalent. However, enterprises have converted a large part of bank debt (credit) into commercial credit assets items (amounts receivable) and

thus bank credit feedback has been obstructed. This may result in the commercial debt crisis becoming a bank credit crisis. From this we can see that the deterioration of the quality of the financial assets of our country's enterprises is still getting worse and it remains a hidden danger for our overall credit system.

**Table 5: China's Personal Financial Assets Balance (Unit: 100 million yuan)**

	1978	1980	1981	1982	1983
Cash	173.82	285.58	330.99	371.92	449.85
Savings Deposits	210.6	399.8	523.7	675.44	892.48
Fixed-term	128.9	304.9	396.4	519.34	682.28
RMB	128.9	304.9	396.4	519.34	682.28
Foreign Exchange	0	0	0	0	0
Current	81.7	94.9	127.3	156.1	210.2
Securities	0	0	0	19.7	40.5
Government Bonds	0	0	0	19.7	40.5
Other Bonds	0	0	0	0	0
Shares	0	0	0	0	0
Insurance	0	0	0	0	0
Total	384.42	685.38	845.69	1067.06	1382.83
		1984	1985	1986	1987
Cash		664.57	813.35	993.85	1183.53
Savings Deposits		1214.74	1719.8	2360.09	3227.66
Fixed-term		900.84	1322.4	1851.69	2510.6
RMB		900.84	1225.2	1729.2	2356.24
Foreign Exchange		0	97.2	122.49	154.36
Current		313.9	397.4	508.4	717.06
Securities		62.6	106.4	254.77	358.41
Government Bonds		62.6	101.4	141	182.06
Other Bonds		0	5	113.77	146.35
Shares		0	0	0	30
Insurance		0	4.8973	12.8533	25.5503
Total		1941.91	2644.447	3621.563	4795.150
		1988	1989	1990	1991
Cash		1744.12	1910.59	2155.45	2590.22
Savings Deposits		3996.02	5392.02	7343.1	9478.17
Fixed-term		3034.72	4427.15	6160.21	8047.77
RMB		2840.2	4182.03	5851.31	7679.6
Foreign Exchange		194.52	245.12	308.9	368.17
Current		961.3	964.87	1182.89	1430.4
Securities		649	814.53	935.16	1373.4
Government Bonds		263.96	373.17	417.55	504.43
Other Bonds		280.04	316.5	379.91	643.82
Shares		105	124.86	137.7	225.15
Insurance		36.9188	46.0533	58.3778	78.2945
Total		6426.058	8163.193	10492.08	13520.08

**Table 6—China's Personal Financial Assets Structure (Unit: Percent)**

	1978	1980	1981	1982	1983
Cash	45.22	41.67	38.73	34.85	32.53
Savings Deposits	54.78	58.33	61.27	63.30	64.54
Fixed-term	33.53	44.49	46.38	48.67	49.34
RMB	33.53	44.49	46.38	48.67	49.34
Foreign Exchange	0.00	0.00	0.00	0.00	0.00
Current	21.25	13.85	14.89	14.63	15.20
Securities	0.00	0.00	0.00	1.85	2.93
Government Bonds	0.00	0.00	0.00	1.85	2.93
Other Bonds	0.00	0.00	0.00	0.00	0.00
Shares	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00	0.00
Total	100	100	100	100	100

	1984	1985	1986	1987
Cash	34.22	30.76	27.44	24.68
Savings Deposits	62.55	65.03	65.17	67.31
Fixed-term	46.39	50.01	51.13	52.36
RMB	46.39	46.33	47.75	49.14
Foreign Exchange	0.00	3.68	3.38	3.22
Current	16.16	15.03	14.04	14.95
Securities	3.22	4.02	7.03	7.47
Government Bonds	3.22	3.83	3.89	3.80
Other Bonds	0.00	0.19	3.14	3.05
Shares	0.00	0.00	0.00	0.63
Insurance	0.00	0.19	0.35	0.53
Total	100	100	100	100

	1988	1989	1990	1991
Cash	27.14	23.40	20.54	19.16
Saving Deposits	62.18	66.05	69.99	70.10
Fixed-term	47.23	54.23	58.71	59.52
RMB	44.20	51.23	55.77	56.80
Foreign Exchange	3.03	3.00	2.94	2.72
Current	14.96	11.82	11.27	10.58
Securities	10.10	9.98	8.91	10.16
Government Bonds	4.11	4.57	3.98	3.73
Other Bonds	4.36	3.88	3.62	4.76
Shares	1.63	1.53	1.31	1.67
Insurance	0.57	0.56	0.56	0.58
Total	100	100	100	100

Notes: 1. Foreign currency figures are calculated using a foreign exchange rate of 5.4. For 1986 to 1989, the figures are estimates.

2. The government bond figures comprise the proportions held by individuals of state treasury bonds, state construction bonds, guaranteed-value public bonds [bao zhi gong zhai 0202 0237 0361 0280] and state key construction bonds.

3. Other bonds are financial organ bonds and enterprise bonds.

4. The value of shares held is based on the estimate that 30 percent of issued shares are held by individuals, together with a further 10 percent of that total figure to take into consideration the market price.

5. Insurance funds comprise the sum of family property insurance, old age insurance, personal accident insurance and simple life insurance.

### 5. The Personal Financial Assets Structure

Individual expendable income less consumption forms savings. Savings can be divided into material savings and financial savings. The personal financial assets structure is a concrete manifestation of personal financial savings. It represents the proportional relationship between the various financial assets held by individuals. In the 13 years of China's economic reforms, great changes have occurred in the overall distribution of social wealth, and personal income as a proportion of GNP rose from 45.2 percent in 1978 to 62.3 percent in 1991. This is the basis of the increase in personal savings in China and also the basis for changes in the personal financial assets structure. At the same time, the diversification of personal financial assets cannot be separated from the diversification of the financial institutions and financial instruments. China's economic structural reforms and financial reforms and the increase in total volumes and structural changes of personal financial assets have advanced at the same pace. Tables 5 and 6 basically sum up the process of change in the structure of personal financial assets in China and from these we can come to seven conclusions.

1. Individuals in China basically have no financial liability, only financial assets. (Footnote 16) (As yet, China has no personal consumption credit business. At the end of 1991, the balance of personal home mortgages was only 2 million yuan. In the rural areas, personal borrowings (of a production nature) by rural households from credit cooperatives and the Agricultural Bank only stood at 63 million yuan at the end of 1991. These small amounts do not affect the conclusions reached in this article.) At the end of 1991, the cumulative balance of personal financial assets was 1.352 trillion yuan, equivalent to 69.1 percent of GNP in that year. This huge amount of net financial assets is wealth accumulated by the people over 40 years. Of this, 99 percent has been handed to the government or to state banks to protect and manage. That is, they are financial liabilities of the government or the state banks. This means that if inflation occurs, the ones who will suffer the greatest financial harm will be the individual holders of financial assets. This is actually a security cordon in China's monetary policy, and has a deep-going political background.

2. The swift growth of the total volume of financial assets in our country has had the growth in savings deposits as its main element. This is shown in three aspects: 1) Savings deposits constitute 70.1 percent of the total volume of financial assets, and they occupy the leading position. 2) From 1978 to 1991, savings deposits grew annually at 33 percent. 3) The average savings rate (Footnote 17) (The ratio between the amount of added savings and the personal disposable income in that year) grew from 1.8 percent in 1978 to 17 percent in 1991. The rapid growth in personal savings deposits has resulted in great changes to the liabilities structure of China's financial institutions. This has changed the mechanism by which savings are changed into investment and these changes will promote the further reform of China's financial system.

3. Excluding cash on hand, current saving deposits and insurance funds, at the end of 1991 there were about 942 billion yuan in personal financial assets which were income-earning assets. Calculated at an annual figure of 9 percent, beginning in 1992, the interest (dividends) earned annually by individuals in our country will rise from a base figure of 84.8 billion yuan. In 1992, individual interest income will be about 7 percent of personal disposable income. This trend will further promote a growth in the overall volume of personal financial assets and compound interest factors will result in the personal financial assets accumulation becoming increasingly swift. On this basis, the changes in the level of interest rates will have an increasing effect on individual income and thereby the interest rate elasticity for the savings of the whole society will expand. Following on from this, the differences in the interest rates of different types of financial assets will have an increasing effect on changes in the financial asset structure. (Footnote 18) (Under China's current system, the degree of risk of the various types of financial assets is basically similar and thus interest rates are the main factor influencing changes in the assets structure.) For example, beginning in 1991, it was a common occurrence for people to queue up for several hours to purchase government bonds or other types of bonds. This is because the interest rates on these bonds were 1 or 2 percentage points higher than the savings interest rates. In such a situation, the position of interest rates in the macroeconomic decision-making system has become increasingly important. (Footnote 19) (Seen from the angle of the financial liabilities of the government and enterprises, the importance of interest rates should not be overlooked. According to the figures in Table 10 [as published], beginning in 1991, the government will be paying 16.35 billion yuan in interest annually, while enterprises will be paying 218 billion yuan in interest, about 5 percent of their total costs.)

4. The bank financial assets held by individuals in China constitute 89.2 percent of the total personal assets, while other securities only constitute 10.6 percent. The bank financial assets held by individuals are mainly cash, savings deposits and foreign currency deposits. Seen from the investment angle, indirect bank finance plays a decisive role in the transformation of individual savings to investment. It should be affirmed that the present assets structure is the result of choices made by the individuals themselves. However, an increase in the total volume of personal financial assets inevitably requires a diversification of financial assets forms and requires systems with greater investment choice. In this stage, changes in the financial system, innovation in investment instruments and the development of a financial market (and especially a securities market) play a basic role. Only through a series of financial reforms will it be possible to enable individuals to find their most suitable financial investment instrument and thereby, to the greatest possible degree, save time, reduce funding costs and increase individual savings.

5. Seen from the angle of fluidity, of the personal financial assets, only cash and current accounts (constituting 29.7 percent of the total) are fully fluid. These are followed by

fixed-term deposits and foreign exchange deposits. (Footnote 20) (The manner in which interest is calculated on fixed-term savings deposits in China is different from that in other countries. An account-holder can withdraw his money in advance of the fixed term and the amount of interest paid will be calculated in accordance with the rate applicable to the length of time the money has been in the account. When interest rates are readjusted, there is pro rata calculation. Thus, these accounts have high fluidity. According to a survey by the Interest Rate and Savings Office of the Headquarters of the People's Bank of China, the advance withdrawal rate for fixed-term savings deposits is 33 percent.) This means that of personal financial assets, the majority is invested in financial instruments with high fluidity. This results in the proportion of funds used in long-term investment with quite low fluidity (such as long-term bank credit, enterprise bonds, financial bonds and shares) seeing a relative decline. In such a situation, the banks have no option but to raise interest rates, resulting in the costs of investment in the whole society increasing.

6. It should be especially pointed out that beginning in 1991, the Chinese people's demand for securities increased very greatly. The "share fever" which occurred in Shenzhen and Shanghai and which affected the whole country is evidence of this. If it were not for the planning restrictions on the volume of bonds and shares issued, the proportion of securities in personal financial assets would swiftly increase. In the view of Chinese residents, the degree of risk of bank saving deposits and the various types of securities is similar. Further, under the current interest rate system, the interest rates on government bonds and other bonds are all higher than the interest rates for savings accounts. Thus, the readjustment of the personal financial assets structure will mostly hinge upon the nominal interest rates for various types of assets. The huge total volume of personal financial assets has already laid a base for the overall development of an individual securities investment market. From the situation of the stock market since last year, we can predict that there will be great changes in China's personal financial assets structure, and that this will have a deep-going effect on the future macroeconomy.

7. Over the last 13 years, the progress of the monetization of the Chinese economy has been extremely swift. Of the personal financial assets, a large stably growing cash balance on hand constitutes a huge financial source for the government to use. This is the "money-issue tax revenue." Providing that personal account-settling modes do not see essential change (such as the use of personal checks or credit cards), the cash demand emerging from both the market and reserve motives will stably increase following the progress of monetization of the economy. It is predicted that the proportion of cash in the total volume of personal financial assets will not be lower than 17 percent. This will be extremely beneficial to the central government (or the money-issuing authority). The problem will be how to collect and use these funds.

## 6. An Analysis of the Assets Structure of State Banks

In China, the five major specialized banks occupy an absolute monopoly position in the financial industry. (Footnote 21) (These are the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the People's Construction Bank of China and the Commercial Bank. The total assets of these five banks in 1991 constituted 82.3 percent of the total assets of all financial institutions through the country) Thus, through jointly analyzing the assets and liabilities of these five banks, we will be able to see the situation of China's financial institutions.

**Table 7: Assets and Liabilities of the Five Major Banks in China (Unit: 100 million yuan)**

Assets	1991	Percentage
1. Total Volume of Loans	17570	76.0
2. (Of which: Fixed Assets Loans)	(2742)	(11.86)
3. State Bonds	269	1.16
4. Reserve Funds Deposited With Central Bank	1727	7.47
5. Deposits in Central Bank	1593	6.89
6. Trade Discount Expenditure Funds	1808	7.82
7. Cash	157	0.68
8. Total	23124	100
<b>Liabilities</b>		
1. Deposits of Enterprise and Institutional Units	5023	21.70
2. Saving Deposits	8470	36.6
3. Financial Bonds	115	0.5
4. Own Capital Funds	1170	5.1
5. Trade Discount Income Funds	1367	6
6. Loans From Central Bank	5795	25.1
7. Proxy Financial Administration Deposits	1184	5.1
8. Total	23124	100

On the basis of Table 7, we can carry out an analysis of the financial assets and liabilities of the state banks, and reach the following conclusions:

1. Personal savings deposits are now the largest liabilities of state banks (constituting 36.6 percent of total liabilities). These, together with the deposits of enterprise and institutional units and borrowings from the central bank, constitute the basic funds sources of the banks (83.4 percent of total liabilities). At the same time, this means that the state banks have turned 91 percent of personal saving deposits into credit and this is the major financial medium by which personal savings are changed into investment. This structure has further strengthened the monopoly position of the five banks in China's savings market and credit market.

2. Relative to the central bank, the five major banks are in a situation of excessive borrowing. At the end of 1991, the net arrears owed by the five major banks to the central bank were 247.5 billion yuan, which was 14.1 percent of the total borrowings of these banks. This situation is similar to that of the major commercial banks (eight city banks) in Japan in the 1960s. At that time, the funds of Japanese industrial companies depended on "over-borrowing" from the commercial banks, and the commercial banks also "over-borrowed" from the central bank. (Footnote 22) (See (Japanese) Suzuki Yoshio: "Modern Japanese Financial Theory" (Chinese translation), Shanghai Joint Publishing Press, 1991 pp 11-15) However, in the process of financial development of the modern European and American states, this phenomenon did not occur. The theoretical significance of this phenomenon lies in the fact that in the process by which the traditional product economy is transformed into a modern commodity economy, the financing (credit) provided by the major Chinese banks

plays a very important role, and quite a proportion of the banks' funds shortfall is made up by credit created by the central bank. Because of the speedy pace of monetization which accompanies it, the increase in value of the money supply and the inflationary pressure which the creation of this credit can produce will be gradually absorbed by the swift increase in the actual volume of money demand in economic activity. This will be actually manifested as an increase in the cash and deposit money held by enterprises and individuals and as a slowdown in the speed of money circulation. Another mechanism included here is that the "money-issue tax" borne by enterprises and individuals is, through the credit business of the banking system, partially returned to production enterprises and forms investment which is beneficial to economic growth. From 1985 to 1991, the annual rate of growth in our country's money supply was greatly in excess of the rate of economic growth and yet this did not produce serious inflation in the items for which market prices constituted the vast majority of prices. This might serve as evidence of the point made above. See Table 8.

**Table 8: A Comparison of Annual Rates of Increase in Various Macroeconomic Indicators (Percent)**

Year	1985	1986	1987	1988	1989	1990	1991
GNP	12.8	8.1	10.9	11	4	5.2	7
M2	17.03	29.27	24.22	22.38	18.32	27.99	26.52
Inflation Rate	8.8	6	7.3	18.5	17.8	2.1	2.9

Source of Data: "1991 Annual Report for the People's Bank of China," p 9

3. Of the total assets of the five major banks, 76 percent is loans while state bond holdings constitute only 1.16 percent. (Footnote 23) (This portion of the bonds is constituted by the financial bonds which the specialized banks were assigned to purchase through the market. They cannot be transferred to the secondary market, the interest rates are far lower than the interest rates for loans, and they have terms in excess of five years.) Trade discount expenditure was only 78.8 percent. The unitary characteristic of the bank assets structure is very obvious. Loans are a quite-high-risk asset. Also, given that 95 percent of the loans advanced by banks in China are credit loans which are unsecured or have only a low degree of security, the risk is even greater. As compared with the assets structure of Western commercial banks, the characteristics of the assets structure of the five major Chinese banks are: There are no holdings of securities; there are no loans for private consumption or production; there are no real estate mortgage loans; the degree of guarantee and security for the loans is very low and the banks secondary floating reserves are mainly held in the form of provisional funds deposits in the central bank. (Footnote 24) (The provisional funds deposit rate for our country's banks is especially high. At the end of 1991, it was 12.5 percent. In the West, the rate for commercial banks is less than 1 percent. This shows that the regulation of the money market between the regional branches of our country's banks is not very effective, and in some areas there is the problem of local

fiefdoms. In another respect, this also affects the earnings of assets.) Seen from the angle of fluidity and earnings, the assets structure of our country's banks is not an optimal structure, and assets risk is quite high. In a situation where property rights boundaries are not clear, where the restraints of the law are not complete and where the economic performance of enterprises (and especially state-owned enterprises) is not good, there will be much overdue credit, many bad debts, and risk assets as a proportion of total assets will become increasingly great. (Footnote 25) (According to a typical survey conducted by the People's Bank of China, calculated on the basis of outstanding credit balance at the end of 1991, the overdue credit, poorly performing credit and bad debts constituted 13 percent of the total.)

4. Seen from the economic structure background of the current stage in China, the assets-liability structure of our country's banks manifests a transformational mechanism for the property rights of financial assets. That is, liabilities cannot restrain assets, while assets spur the growth of liabilities. The state banks' liabilities in respect of personal savings deposits and enterprise and institutional deposits are firm, the property rights boundaries are clear and the restraints in terms of repaying principal and interest are strong. Such liabilities constitute two-thirds of the total bank liabilities. However, after such liabilities are, through the banks, converted into financial funds (credit) and provided to state-owned enterprises, property rights boundaries begin to get hazy. The

enterprises can use the credit for a long period of time and even use it for bonuses and wages. They can exceed the repayment period, and through the credit system whereby "enterprises do not die and debts do not go bad," eat away at the rights and interests of the state banks. This results in "soft credit restraints." Situations even occur where the enterprises which receive the bank credit repay the interest due, but the principal is left on the books. This naturally means that normal bank assets and liabilities management and repayment deadline arrangements are difficult to implement. When credit does not move, the assets promote growth in liabilities and the state banks have no option but to seek more credit from the central bank to satisfy enterprise credit demands and maintain a balance between assets and liabilities. As far as the state banks are concerned, the repayment of liabilities taken on by borrowing funds from the central bank can be haggled about. The funds will only be repaid if the bank can bear it, and thus they are soft. If a savings payment crisis really did occur, the central bank could not just stand by and look on. It would have to provide the funds, but it would be at the cost of credit inflation. This is the structural characteristic of the state assets structure. In fact, because of the monopoly position of state banks, and the governments' credit support, although the recovery rate and speed of circulation of specialized bank credit is very low, because of the great increase in savings deposits, it is unlikely that a bank credit crisis will occur. However, under such a system, credit performance declines and resource deployment is irrational. This eventually results in waste and inevitably affects economic growth.

## INDUSTRY

**Industrial Output Value by Area in February**  
*HK2403105493 Beijing CEI Database in English*  
24 Mar 93

[Text] Beijing (CEIS)—Following is a list showing the industrial output value by area in China in February 1993, released by the State Statistical Bureau:

(Unit: 100 million yuan)			
Area	2/93	2/92	Change over 2/92 (pc)
National total	2408.68	1812.42	32.9
Beijing	71.42	60.54	18.1
Tianjin	57.92	46.29	25.1
Hebei	86.78	71.21	21.9
Shanxi	42.31	33.82	25.1
Inner Mongolia	21.21	20.26	4.7
Liaoning	133.30	111.70	19.3
Jilin	48.49	38.48	26.0
Heilongjiang	68.43	64.19	6.6
Shanghai	185.84	148.45	25.2

Jiangsu	357.05	210.91	69.3
Zhejiang	159.65	109.66	45.6
Anhui	63.79	47.11	35.4
Fujian	54.07	40.40	33.8
Jiangxi	41.65	31.97	30.3
Shandong	199.21	151.21	31.7
Henan	90.63	68.73	31.9
Hubei	93.07	74.03	25.7
Hunan	60.38	50.41	19.8
Guangdong	248.17	165.62	49.8
Guangxi	47.25	38.13	23.9
Hainan	6.77	4.64	45.9
Sichuan	118.59	91.50	29.6
Guizhou	20.00	16.00	25.0
Yunnan	37.86	33.77	12.1
Tibet			
Shaanxi	37.00	31.00	19.4
Gansu	25.02	21.56	16.0
Qinghai	4.25	3.86	10.1
Ningxia	6.61	5.81	13.8
Xinjiang	21.96	20.94	4.9

Note: Industrial output value in 1992 is measured in 1990's constant yuan.

## AGRICULTURE

### Gao Shangyuan Speech on Grain Market Reform

93CE0304A Beijing ZHONGGUO JINGJI TIZHI  
GAIGE [CHINA'S ECONOMIC STRUCTURE  
REFORM] in Chinese No 1, 1 Jan 93 pp 12-15

[Speech by Gao Shangyuan (7559 1424 0356) to the National Experience-Exchange Conference for Grain Circulatory Restructuring: "Accelerate Restructuring of Grain Circulation: Respond to the Needs of Socialist Market Economy"]

[Text] Restructuring of grain circulation began, following the Third Plenum of the 11th CPC Central Committee, with rural reform, gradually unfolded in step with restructuring of the entire economy, and in the last several years has made major strides. Review of this effort clearly shows that it has been oriented toward the marketplace and produced much experience meriting summarization.

### The Market Orientation of Grain Circulatory Restructuring Is Correct

*Grain Circulatory Restructuring Nails the Key to Price Reform*

"The Decision of the CPC Central Committee Concerning Economic Restructuring" stated: "Price is the most effective regulatory measure, rational prices are an



important condition ensuring that the national economy will be invigorated but not chaotic, and price restructuring is key to economic restructuring." An essential requirement of market economy is that commodity prices be set through market competition. Grain prices fit this requirement.

1. We gradually have raised procurement prices and alleviated the severe distortion plaguing grain prices. In 1979, the State Council decided to hike procurement prices 20 percent beginning with the summer harvest that year and to raise the surcharge for supraquotary sales from 30 percent of the original unified procurement price to 50 percent of the new one. Nationally, the average unified procurement price for six types of grain rose 21 percent. In 1981, unified procurement prices for soybeans were raised 50 percent, while supraquotary surcharges were abolished. In 1985, the state priced all grain procured through contract at the "inverse 3:7" ratio (namely, 30 percent fetched the original unified procurement price, while 70 percent fetched the original supraquotary price). In 1987, contract procurement prices for corn in the north and for paddy in the south were readjusted. In 1988, prices for contract-procured wheat, round-grained rice, and corn were further raised to 1.5-2 yuan per 100 jin above the original base rate. In 1989, contract procurement prices were hiked again, with those of corn rising 1 yuan per 100 jin, wheat 1.5 yuan, and paddy 5.22 yuan. In 1991 procurement rates again were raised, by an average of 4.1 yuan per 100 jin. Thus from 1979 to 1992, procurement prices were raised seven times, by a total of 2.25-fold, greatly alleviating grain-price irrationality.

2. Negotiated pricing has been effected for procurement and sales. The Third Plenum of the 11th Central Committee stated that grain departments could buy and sell supraquotary output at negotiated prices. In principle, procurement prices under this arrangement were to be set freely, but slightly lower than market rates, while sales prices generally were determined according to the procurement price, plus reasonable cost and appropriate profit. In actual practice, negotiated rates generally have been the same as supraquotary ones. Experience has shown that negotiated pricing gives grain farmers incentive to produce.

3. Sales of parity-priced grain have been slashed. Beginning in 1984, we gradually shifted supply of grain used in brewing, food production, and other industries from parity to negotiated pricing and abolished award sales of parity-priced grain for procurement of sideline industry and farm products. Throughout this endeavor, we have upheld the principles of tailoring measures to suit local conditions and of decentralizing decision-making.

4. Prices for unified sales of grain have increased greatly. Such prices were readjusted in 1991 for the first time in 26 years, with the national average for wheat flour, milled rice, and corn rising 10 fen a jin. These prices again were boosted in 1992, by a real average of 11 fen per jin.

5. Pilot tests of grain-price decontrol have been effected in guided fashion. Currently, more than 300 counties in 16 provinces and autonomous regions have decontrolled grain prices. In general, conditions in the test areas are good, and their markets are stable. Recently, Zhejiang and Jiangsu have announced plans to implement such tests throughout their territories.

Grain-price reform has been aggressive yet safe and has achieved good results.

First, it has powerfully stimulated growth in output. Nationally, grain production surged from 609.5 billion jin in 1987 to 870 billion in 1991, up 43 percent.

Second, it has effectively curtailed irrational consumption. In 1985 alone, when parity pricing was changed to negotiated pricing for industrial grain use and when award sales were abolished, unified sales were reduced by more than 35 billion jin nationally. In recent years, regions testing grain-price reform generally have reduced parity-priced sales by 20 percent.

Third, we have turned around our long-term shortage of grain and achieved the desideratum in which grain supply and demand is basically in balance, with supply slightly higher than demand.

*Grain Circulatory Restructuring Has Persisted in Stressing Nurture of Grain Markets and in Expanding the Regulatory Role*

Markets not only are venues of commodity exchange but also aggregate commodity exchange relationships. The market system is the agent of market economy. From the center to the localities, governments at all levels attach great importance to the development of grain markets and have adopted a series of reforms, as follows.

1. Primary markets have been decontrolled, and many channels of grain trade have been permitted. Beginning in 1979, peasants were allowed to buy and sell grain after fulfilling their procurement quotas. This approach was expanded in 1983, when counties were made the operational unit and many channels of grain trade were permitted for all grain produced in any county in excess of the procurement quota.

2. Beginning in 1985, unified procurement was abolished, with sales set by contract. Output exceeding contracted quotas was allowed freely to be marketed.

3. Procurement base figures have been reduced, and output share subject to market regulation has increased. Contract procurement quotas for grain totaled 158 billion jin nationally in 1985. This was reduced in 1986 to 123 billion jin and in 1987 to 100 billion, where the level now roughly remains.

4. Negotiated sales have been initiated universally. Such sales handled by state grain enterprises rose from 860 million jin in 1978 to nearly 50 billion jin in 1990 and to nearly 70 billion in some years. Sale of negotiated-price grain-oil to urban residents has also risen.

5. Wholesale markets have been established incrementally. With State Council approval, the Zhengzhou Central Grain Wholesale Market was established in 1990. Thereafter, large-scale, regional wholesale exchanges for grain-oil were established in Wuhan, Harbin, Jiujiang, Wuhu, Changchun, Changsha, Weihai, and Urumqi. Shanghai, too, is now planning such an exchange. Thus we can say that a three-tiered market for grain has taken initial shape.

6. A special state grain reserve system has been established. In 1990, the State Council approved establishment of the State Grain Reserve Bureau, which has since proved highly effective. National reserves have reached a substantial level, and this work has played a positive role in protecting peasants' interests, providing disaster relief, and controlling markets.

Overall, the effort to develop a grain marketing system has been very successful. We not only have substantially eliminated the contradiction of "difficulty in selling grain" but also invigorated grain circulation, promoted regional exchange, and established a foundation for a new grain circulatory system that meets the needs of socialist market economy.

#### *Restructuring of Grain Circulation Centers on Pushing Enterprises Toward Markets*

Enterprises form the cells of the national economy. In developing socialist market economy, we must transform firms into commodity producers and dealers that operate autonomously, bear sole responsibility for their own profits and losses, and develop and discipline themselves and allow them to go to the marketplace to struggle and compete in order to seek survival and growth. Under the former system of unified procurement and sales, grain enterprises' revenues and expenditures were centrally decided, their profits and losses were handled centrally, they applied to superiors to defray their expenses, reported their losses upward, depended on consignments for their operations, and lacked the needed incentive to develop and function autonomously, causing their facilities to become antiquated and their storage capacities to grow insufficient and making it difficult to motivate their employees. To enable these entities ultimately to become oriented to the marketplace, we have effected a series of reforms over the years.

1. Policy-based and normal operations, and profits and losses have been separated. In reforming grain enterprises, Tianjin has pioneered the approach of "trading grain-oil at parity price and in unified fashion and reporting losses centrally," whereby enterprises are divided into categories of policy-based and normal operations, allowing the former to assume policy-based losses and report them centrally for defrayal, while other firms undertake normal operations and bear sole responsibility for their own profits and losses. Tianjin's experience has attracted serious attention from all quarters, and after national dissemination, proved successful. To date, the approach has been extended or tested in more

than 200 prefectures, cities, and counties, everywhere reducing government subsidy and improving economic results.

2. We must adopt various reforms to induce enterprises to assume responsibility for their profits and losses. For grain depots we have effected "warehouse rental," for grain-oil processing firms we have implemented price assignment, and grain shops practice price-gap accounting or cost responsibility. These reforms have effectively given grain enterprises incentive and enhanced their stress on economic results.

3. We must initiate negotiated pricing universally. From the national level to those of provinces, prefectures (cities), and counties, we must establish negotiated-price procurement and sales companies, break out of the situation in which grain firms engage solely in unified procurement and sales, and ensure that firms actively participate in market competition.

4. We must vigorously develop a variety of operations, with one principal. To meet the needs of changing circumstances and to enable grain departments in all localities to go beyond mere buying and selling and single-product operations, to aggressively expand operational scope, and to develop grain-oil and food processing and breeding, last year's conference at Yantai made additional major breakthroughs: Urban grain shops were transformed into grain, grain-oil, and food stores and expanded product lines and scope of operations. Many grain enterprises branched, where conditions permitted, into other business and achieved remarkable economic results and social benefits.

5. We must actively develop grain enterprise groups. The Zhonghong Feed Group has formally been established, and various localities have established a number of regional conglomerates.

6. We must aggressively initiate grain exports and imports. With the approval of the State Council, the State Grain Reserve Bureau and the China National Cereals, Oils, and Foodstuffs Import-Export Corp. formed an integrated body to use grain reserves to adjust grain imports and exports and exchange grain types.

Generally speaking, restructuring of grain circulation has advanced toward decontrol of pricing, operations, and markets; met the needs of market economy; provided effective experience for circulatory reform of other agricultural and sideline industry products; and further bolstered our confidence regarding establishment of socialist market economy. Grain is regarded by the people as a natural necessity, affects the national economy and the people's livelihood, and is the treasure of all treasures. If in big country of 1.1 billion people, grain can be turned over to market regulation, and done so with remarkable success, we can aver that the vast majority of our commodities can be so handled.

### To Establish a New Socialist Market Economy, We Must Accelerate and Continue Restructuring of Grain Circulation

Nationally, reform is proceeding very well. As emblematically expressed in Comrade Deng Xiaoping's statements during his southern inspection tour, reform, opening, and development must enter a new stage. Accelerating reform, expanding opening, and advancing economic development have become the consensus of and program of action for the entire CPC. Although grain circulatory restructuring has blazed a new path to socialist market economy and achieved remarkable success, the task of continuing reform remains formidable, problems and contradictions persist, and the situation confronting grain enterprises, especially, remains grim. We must soberly recognize these facts. The chief tasks confronting the broad masses of cadres and workers on our grain front remain how to continue restructuring of grain circulation, to seize every opportunity to accelerate such reform, and to make such reform better meet the needs associated with development of socialist market economy.

#### *Stress Proper Transformation of Grain Enterprise Operational Mechanisms*

The "Regulations Governing Transformation of State Industrial Enterprise Operational Mechanisms," promulgated by the State Council two months ago, were drawn up by the State Commission for Economic Restructuring and the council's External Economic Relations and Trade Office and Legal System Bureau under the personal direction of leading council cadres and in accordance with the guidelines set forth by the council and took eight to nine months of repeated discussion, study, solicitation of the views of various quarters, and several redrafts to put together. We are well aware that formulation of the regulations entailed emulation and implementation of the important statements issued by Comrade Deng Xiaoping during his southern tour and the spirit of Politburo meetings. The regulations are well fleshed out and deal with virtually all the problems enterprises encounter in reform, clearly specify all the things that we are now able to do, delineate all that can be delineated, and establish behavioral norms for both enterprise and government. Thus to accelerate reform we must conscientiously master the regulations, accurately implement them in their entirety, truly make their implementation the focus of current reform, and concentrate on properly grasping and achieving success in this effort.

To properly transform the operational mechanisms of grain enterprises, we must first transform conceptualization. We must thoroughly transform the traditional mentality of getting by through reliance on planning, policy, and subsidy; the notion that losses are reasonable and unavoidable; fear of difficulty that leads to total inertia; and dread of competition. Next we must transform government function. Departments in charge of grain enterprises at all levels must serve as enlightened

"mothers-in-law"; adhere to the policy of separating administration and enterprise and the two authorities; resolutely stay out of affairs in which they have no business; let enterprises decide their own affairs; do a good job of planning, oversight, coordination, and providing service; and strive to create the conditions to enable grain enterprises as quickly as possible to become commodity traders that manage themselves, bear responsibility for their own profits and losses, and develop and discipline themselves. In line with the spirit of the "Regulations Governing Transformation of State Industrial Enterprise Operational Mechanisms," the Ministry of Commerce and the State Commission for Economic Restructuring are now formulating the enforcement regulations, which will soon be promulgated. I hope that responsible departments at all levels will undertake this work conscientiously, go all out to grasp transformation of the operational mechanisms of state circulatory enterprises, effect the provisions of the regulations article by article, and not act perfunctorily or procrastinate.

Enterprises have a big role to play in transforming their operational mechanisms. They must fully exploit the authority and rights bestowed on them by the "Regulations," courageously pioneer, be aggressive, wait and depend on no one, and seize the initiative in reform. Transformation of state enterprises is a great tide that cannot be reversed. Experience shows that those who transform early seize the initiative early, that those who transform later act later, and that those who fail to transform are passively carried along by events. I hope that grain enterprises will fight for the initiative in the effort to transform their operational mechanisms and that they will make new breakthroughs and create more and better experience in this endeavor.

#### *Further Develop the Grain Marketing System*

China's grain marketing system has taken initial shape and played an important role. The basic approach to developing this system is to advance exchange from primary to higher forms, make the system and market networks more complete and integrated, properly discipline exchange, amplify and perfect market functions, and create as quickly as possible a grain-market system that is unified nationally, fully opened, runs perfectly, and is disciplined and controllable. To accomplish this, we must exert great effort, coordinate all quarters, and fully cooperate with one another. For the present, we must concentrate on the following areas to develop grain markets.

First, we must actively and reliably prepare pilot testing of grain futures markets. Development of such markets is crucial to grain-price forecasting and for shifting risk in grain trading. In testing these markets, we must draw lessons from abroad, adhere to the principle of "digging channels before releasing water," and start by providing operational norms, law on which to rely, and personnel to administer the program. Both the central wholesale market in Zhengzhou and the grain-oil exchange that is

being set up in Shanghai must be carefully designed, thoroughly prepared, and not hastily unveiled. Futures markets are advanced market organizations, cannot be established everywhere or in large numbers, and must be planned by the state in unified fashion.

Second, we must actively promote further disciplining of regional grain wholesale markets. Such markets form an important link that breaks down regional boundaries, tightens interregional ties, and promotes interregional circulation of grain. We must implement the general policy of opening regions both internally and externally and never establish autarkic markets that are coterminous with administrative boundaries.

Third, we must further develop and perfect primary grain markets. To resolve peasants' difficulty in selling grain, we must rely mainly on developing primary grain markets. As grain circulation moves toward market regulation, peasant demand for primary grain markets will grow. Grain departments in all localities must exploit their strengths, cooperate with relevant agencies, mobilize the forces of all quarters, properly establish and invigorate primary grain markets, give full play to the role of various circulatory channels, and devise all means to market the grain produced by peasants. In this respect, state grain enterprises must actively participate in market competition and strive to expand their procurement and sales capacities, to function as the main channel, and to serve agriculture and peasants better.

#### Account of Peasant Grievances

93CE0305B Beijing NONGMIN RIBAO in Chinese  
1 Feb 93 p 3

[Article by Shu Wenfu (5289 2429 1381): "What Are the Peasants' Main Grievances?"]

[Text] At the end of last year, after General Secretary Jiang Zemin visited Hubei's Jingmen City and other localities during his inspection tour of the Changjiang-Hanshui Plains, he held a six-province agricultural and rural work conference in Wuhan during which he pointed out that "problems in the rural areas have provoked the peasants' discontent and anger." It is our understanding that, generally the people's grievances are rooted in the following problems:

1. Excessive withholding and overcentralization. There is no regard for the peasants' ability to pay, and withholdings are not based on regulations but on needs. In some localities and in some years, the three withholdings and five centralizations have reached double-digits or more than double the state's regulated amount.

2. Shared production cost has become a bottomless pit. According to regulations, shared production cost should not exceed 1 percent, but in fact it is in excess of 3 percent. Anything can be written off as shared production cost.

3. The peasants' income is exaggerated to facilitate fund gathering and apportionments. This year it is for better schools, and next year it is for better roads; here it is for a cultural center, and there it is for a welfare institution. There are endless civilian undertakings, and there is no end to the taking of money from the peasants. The peasants ask, "What can be collected is collected, and what cannot be collected is apportioned. What has happened to the three withholdings and five centralizations?"

4. Exorbitant withholdings and fees are imposed on the people. There are all sorts of accounting books to keep, because supposedly when individual households sell grain, accounts must be settled with the village. There is rat poison to buy, medical expenses to pay, seeds to buy, and pesticides to pay for. Whether one agrees or not, money is already withheld. The peasants go to collect their money only to find that they owe money after 10 or 20 items of deductions (General Secretary Jiang learned about this from Liu Ke, a peasant living in Jingmen's Wuli.) The masses are disturbed by this kind of unreasonable withholding and are forced to sell grain at a low price to individual dealers.

5. Grain prices are low, inputs are high, and it does not pay to farm. After a whole year's hard work, a mu of land only earns a little more than 100 yuan, and after New Year's, the peasants are broke (many peasants have abandoned their farms and have gone into the cities to make money; they certainly are no "aimless drifters").

6. High-priced, mandatory services. Units provide service in name, but in fact are robbing the peasants. There is no increase in output, but there is never any decrease in per mu service charge. Units are getting richer, and the masses are getting poorer.

7. Preferential policies are never implemented. Output-linked goods and materials are cut, fixed quota purchases are added at every level, and little money from the fixed quota purchases ever reach the peasants. They are never informed of any reduction and exemption in in-kind agricultural taxes or reduction and exemption in fixed quota purchases. Contracts are one-sided, and are binding only for average citizens.

8. Cadres earn much, do little, and fines are imposed at will. Can't fulfill the mandatory planting plans? Pay a fine! Can't deliver grain on time? Pay a fine! The ditch is crooked? Pay a fine! Seeds not germinating properly? Pay a fine! So many fines the peasants hardly know what to do with themselves. So many fines the peasants are getting deeper and deeper into debt. They have long lost their right to make production decisions because of these fines. There are many types of fines but little information or guidance. The peasants say, "In the past we had a planned economy. We planted what the state would procure. Today, we have a market economy. We don't know what the market wants, nor do we know what to plant.

9. The cadres indulge themselves with other people's money. When the village cadres dine out, the masses complain, there goes the withholding from our several mu of land!

10. Township enterprises rush headlong into action and quickly disperse. They get into business unprepared, manage their business carelessly, and often instead of making a profit, they end up losing their shirt. The masses long to get rich, but they can't stand these constant ups and downs.

11. Collectives have become mere skeletons. There is not enough retained agricultural profit to pay the current year's bills; enterprises are unprofitable. The villages are living on loans. The peasants suspect that one of these days, each and every one of us will be called upon to repay a share of the debts.

12. IOU's are issued to pay for grain. Before, the peasants at least were given receipts, but they don't even get that today. In any event, most peasants have gotten only enough money to pay taxes, so now they just owe the village money, and they are not complaining too much.

13. There is no real effort; everybody is just bluffing and going through the formality. There are slogans everywhere. This slogan cannot be removed; that cannot be erased. Any more slogans, and one would need a ladder to put it up. None of them mean anything anymore.

14. Can't afford to go to school; can't afford to see a doctor. All because of the many fees and taxes.

15. Power outages everywhere. More than a million yuan has been collected for the transformers, but the fans do not work during the day and the TVs cannot be turned on in the evenings, because there is a blackout to combat the draught. People eat dinner by oil lamp and take off their shirts to keep cool. Power has been out for days, but the electric bill still comes to over a hundred yuan.

### **Chen Yaobang Urges Proper Seed Management**

*93CE0305C Beijing NONGMIN RIBAO in Chinese  
4 Feb 93 p 1*

[Article by Li Qingguo (2621 1987 0948): "Ample Supply of High-Grade Grain and Cotton Seeds; Cash Crop Seedling in Short-Supply"]

[Text] In a recent interview by NONGMIN RIBAO reporter, Chen Yaobang, vice minister of agriculture, emphasized that seeds are the most basic factor of agricultural production, and to stabilize this year's grain and cotton production, agricultural departments at all levels must work diligently to regulate the supply of high-grade seeds.

This year there is ample supply of seeds to meet production demand for the major crops, although some localities may have a tight supply of seeds for certain crops. Nationwide, we have 330 million kilograms of hybrid rice seeds. It is estimated that there will be 35 million kilograms leftover after meeting all demands. We have 840 million kilograms of hybrid corn seeds, with an estimate of 120 million kilograms leftover after meeting all demands. The supply of cotton seeds can basically meet demands in the southern cotton-growing region, but in the north, because of last summer's draught and serious disease and pest damages, many cotton seeds did not ripen. In particular, there is an acute shortage of the early and mid-season crop varieties. The demand for vegetable, fruit, tea, and other cash crop seeds is brisk; prestigious and superior-grade varieties are running short. Agricultural departments at all levels must improve services, make sure they have enough supply of seeds to meet production demand, do a good job with pre-planting quality inspection, and make every effort to regulate and supply high-grade seeds to guarantee production.

Vice Minister Chen Yaobang also emphasized that more units are now engaged in seed production; the market is brisk, and the general outlook is promising, but some localities have been slack with quality control and with their macro regulation and control measures, and incidents of substituting bad or low-grade seeds to take advantage of the peasants have been on the increase. Agricultural departments at all levels must work diligently to find ways to deal with the new situations and new problems that may emerge as we establish the socialist market economic system. In particular, they should focus on the following:

Build a stronger seed information system. The department in charge of seeds should do a good job gathering market information, analyzing the data, making forecasts, and planning seed production according to demand.

Strengthen seed management. Agricultural departments at all levels must do a better seed management job, assign management personnel to enforce the law and secure funding, strengthen seed management by "three certificates and one permit," and do a better job with variety and quality control. They should work with the relevant departments to investigate any violation of the law.

Build a stronger seed market system. We should actively set up several seed regulation centers or wholesale markets and make a gradual transition from spot exchange to intermediate- and long-term forward exchange. Key seed-producing regions may set up regional or specialized seed markets to take advantage of local conditions. Counties should focus on setting up a sales network.

**Sichuan Agricultural Capital Goods Sector Reform**  
*93CE0292A Chengdu SICHUAN RIBAO in Chinese*  
3 Feb 93 p 1

[Text] The province's Agricultural Capital Goods Corporation has carefully implemented the spirit of comrade Deng Xiaoping's important speech given during his southern tour and the 14th congress, and strengthened the forces of economic reform by bravely jumping into the market economy. The corporation focused on the two tasks of deregulating and providing agricultural supplies, and promoting agricultural goods management by changing the planned economic system into a market-oriented economic system. This process has achieved notable results.

The Agricultural Capital Goods Corporation is one of the largest agricultural goods enterprises in Sichuan. Over the past 40 years it has used the planning method to organize and manage the main means of agricultural production. During the course of continued reform, the corporation's party leaders realized that mere planning management does not benefit an enterprise's development. Market orientation and widening the scope of serving agriculture is the only direction for the development of agricultural material enterprises. Thus, on the one hand they are actively reforming the operating system, changing a number of management systems into operating entities, reforming the use and distribution policy, and allowing enterprises to enter into this new situation. On the other hand, the corporation calmly analyzed the condition of the province's agricultural market, cautiously made decisions, and bravely entered the market.

To meet the requirements of the market, and expand the scope of operations, they sponsored the establishment of a feed corporation group comprised of 45 local agricultural goods enterprises at the county level. Last year the sales of this group surpassed 40 million yuan. Also, the group established the province's mixed fertilizer corporation with the province's main agrochemical corporation, and is responsible for selling more than 300,000 tons of mixed fertilizer produced by 41 leading provincial factories. The group also introduced and actively promoted new insecticides and technologies. The "Green Bamboo" brand of plant insecticide which was introduced last year, sold 5,000 boxes, and can be applied to an area of 1,330,000 mu. It has obtained very good social and economic benefits.

To control the necessary resources after opening agricultural goods management, and increase marketable competition, the province's Agricultural Capital Goods Corporation is cooperating with more than 100 enterprises inside and outside the province and has collected nearly 200 million yuan, which was invested in expanding and developing the province's two large fertilizer enterprises: Chuantianhua and plant No 816. The corporation also developed and established a feeding factory with an annual output of 50,000 tons, and actively became the agent for several agricultural product factories.

To smoothly circulate agricultural capital goods the corporation set up the second largest provincial level capital wholesale market in the country last year. Within three days after this market was established, more than 100 industrial and business enterprises participated in the exchange. The agricultural capital goods traded weighed 12,950 tons and were worth 6,330,000 yuan.

While bravely entering the market, the corporation has never forgotten the idea of "agriculture as the foundation." They insist that everything be based on reality, and use the plan and market as two tools to maintain the needs of agricultural production. First, they should carefully complete the national appointed allotment and supply plan. Last year they organized and allotted 1,550 tons of fertilizer, more than 2,000 tons of insecticide, and nearly 5,000 tons of agricultural membrane. Second, they have consecutively completed the 20 million yuan annual disaster relief reserve plan assigned to them by the province government, and also completed the allocation and supply tasks during the course of giving relief aid for disasters in a timely manner. Third, while actively aiding industry and promoting production, and increasing the supply of highly demanded resources, they helped different areas to develop material adjustments beyond the plan, which has efficiently supported agricultural development.

**Sichuan Rapidly Develops Agrochemical Sector**  
*93CE0292B Chengdu SICHUAN RIBAO in Chinese*  
5 Feb 93 p 1

[Text] To implement the spirit of the agriculture and rural work conference that was sponsored by the central and provincial committee, and the provincial government, the entire province's agrochemical system has placed the job of developing agrochemical production in first place. They are doing their best to increase production of urgently demanded fertilizer, and insecticides to support agriculture.

In the past year, the province's agrochemical enterprises overcame the difficulties of an insufficient natural gas supply, inflated prices for main raw materials and energy, increased costs of transportation, and the effects of natural catastrophes, to fully implement economic reforms within enterprises. These enterprises depended on scientific innovations and technological improvements to create a high rate of production never before achieved by the Sichuan agrochemical industry. To further support and serve agriculture, the agrochemical bureau recently held a conference regarding how to better aid the province's agrochemical production. At the conference the bureau set the schedule of this year's agrochemical production assistance, clearly requiring all main levels of agrochemical units and production enterprises to further strengthen their idea of serving and supporting agriculture to develop the agrochemical industry faster and better. The first step is to organize and coordinate product development at large-size fertilizer enterprises, and increase the production of high-yield fertilizer. Manure production at Sichuan agrochemical plants and the Luzhou Natural Gas Chemical Industry

Corporation will amount to 1.1 million tons. Jianfeng Chemical Factory and the Sichuan Natural Gas Chemical Factory are also stepping up their development. The second step is to continue reorganizing the mix of fertilizer products, accelerate the rate of fertilizer technology innovation, and gradually change one-third of the province's fertilizer enterprises into high-yield and high density fertilizer enterprises. Enterprises need to continue production of the welcomed mixed fertilizer in terms of financial and raw material supplies, and do their best to make mixed fertilizer production reach 600,000 tons. The third step is to carry out the special project fund, and accelerate the new product development of insecticide. Enterprises should do a good job of developing and expanding factories in Mianyang, Leshan, Luzhou, etc, and gradually establish the province's developmental base for new insecticide products.

### Forestry Ministry Sets Up Chain of Advice Stations

*HK1802031593 Beijing CHINA DAILY in English  
18 Feb 93 p 3*

[Article by staff reporter Wang Yonghong: "Tech Advice Stations Aid Revival of Forests"]

[Text] China has established forestry technical advice stations in 1,666 counties throughout the country to promote forestry development.

"All the stations and their advisors have played an important and effective role in boosting forestry development and the local economy and improving forestry products," said Wei Diansheng, division chief with the Department of Science and Technology under the Ministry of Forestry.

All provinces, municipalities and autonomous regions on the mainland have set up advice stations and their branches are scattered across counties, towns and the countryside.

"The number of advisors totalled more than 20,000," said Wei.

Some advice stations were set up with financial help from central and local governments, or by loans from foreign countries and world organizations such as the United Nations Development Programme.

According to Wei, his ministry plans to set up advice stations in all nearly 2,000 counties across the country before the year 2000.

A special group composed of the leading officials from different departments was established by the ministry. It aims to help relevant departments and local stations transform and popularize technology.

Thanks to the increasing application of science and technology, the expanse of China's forests has been increased in recent years.

The artificial afforestation rate has risen to the present 82.6 percent from 65.6 percent in 1988.

"We demand all afforestation projects use new techniques if possible, which has not only greatly improved afforestation quantity but has also upgraded quality," said Wei.

Latest statistics show China has some 131 million hectares of trees, with forest coverage up to 13.63 percent from 13.4 percent two years ago.

Since last year, Wei's ministry has determined to allocate annually about 4.5 million yuan (\$776,000) of special investment for the promotion and application of new techniques in the forestry sector.

Another special fund is to be established by the ministry later this year to accelerate the development of science and technology, according to Wei.

With the support and help of technical advice stations and investment, some advanced techniques, such as ABT [expansion unknown] root-growing powder and container breeding, have been widely used throughout the country.

By the end of last year, more than 4.58 billion seedlings were grown in containers, and ABT root-growing powder—invented by Wang Tao, from the Beijing-based Chinese Research Institute of Forestry—has been used in 1,000-plus counties and even in some Southeast Asian countries, said Li Xing, of the Department of Science and Technology. The ministry plans to choose and set up comprehensive forestry development test areas in the near future as models for the nationwide promotion of science and technology.



### Heilongjiang PAP Mobile Unit Winter Exercise Described

93CM0191A Beijing RENMIN WUJING BAO  
[PEOPLE'S ARMED POLICE] in Chinese  
16 Feb 93 pp 1-2

[Report by Wang Yijun (3769 3015 6511), Ma Wanying (7456 8001 3602), Tong Weilu (4547 0251 4389), and special correspondent Sui Haibin (7131 3189 3453): "Large-Scale Exercise Under Extreme Snow and Ice Conditions"]

[Text] Editor's note: The correct large-scale troop-training methods under extreme snow and ice conditions of Heilongjiang's armed mobile unit merit consideration by the whole armed forces. The People's Armed Police [PAP] mobile unit is responsible for mobile combat within the general region, but most armed forces are stationed in large cities. There is only one way for the army to completely adapt to ever-changing enemy activities and complex weather and terrain conditions to truly become an "iron fist" and "sharp sword" for dealing with unexpected incidents, i.e., to leave the cities and temper itself through drills under adverse circumstances, such as snow and ice, deserts, gobi, and water. Enduring the "necessary sufferings" in peacetime is bound to bring "sweet victory" in wartime. [end editor's note]

There is a saying in the northeast that it is best to train indoors but not go outside during the coldest days of winter.

But on 8 January, the very first day of the "coldest days of winter," a long snaking line composed of dozens of cross-country vehicles braved severe 32-degree-below-zero temperatures to venture forth on a boundless field of snow. Such was the beginning of a full-scale seven day-and-night guaranteed-capability test exercise in traveling, fighting, eating, living, evading, and communicating under extreme winter snow and ice conditions by Heilongjiang's armed mobile unit, which is responsible for mobile combat throughout Heilongjiang's 460,000 sq km.

Severe snow and ice conditions have always been regarded by soldiers as "natural enemies" of mobile combat. As economic development has taken off, all sorts of criminal activities have increased. This has made new demands on the combat capabilities of mobile units responsible for maintaining public order and combating all sorts of crime. To shoulder its "frontline combat" duty, the Heilongjiang PAP is undergoing rigorous tempering. At the beginning of the year, it organized and conducted elaborate test drills under extreme snow and ice conditions of capabilities, such as human resistance to cold, cold-resistant weaponry, high-speed personnel and vehicular mobility on snowy and icy roads, low-temperature communications equipment linkups, logistic support, and the use of all sorts of all-terrain tactical maneuvers and combat operations, making a

battlefield of hundreds of kilometers of communications lines in an expanse of immense forests and snowfields strewn with gullies.

### I

On the snow-covered, pine-dotted plain, the participating motorcade speeds along like a long dragon at 80 km per hour, with the temperature inside the flying Liberation-141 trucks down to minus 26 degrees centigrade. The soldiers begin to feel numb in the hands and feet in less than an hour. But they have long been ready for this, doing frostbite-prevention situps in a space of about a dozen cu m, which warm up their half-frozen bodies in less than a half-hour. Each truck has its political-propaganda commissar, some tell stories, others organize singalongs, and others hold poem and song competitions; while the wind is piercingly cold outside, there are sounds of joyful laughter inside, and after five hours, the soldiers are still operating smoothly.

As mobile unit mobility is a key combat criteria, the vehicles play a decisive role. At 0600 hours on 9 January, the "forward" drill-order "thrusts" dozens of vehicles into a stretch of strategically-dangeous, snow-covered terrain on the Huashan farm, with one after another slipping and sliding along deep, snow-filled ruts. But such obstacles cannot stop these soldiers, who put to good use the snowchains and scattered mountain tree branches that they have long since prepared.

On 11 January, the defroster goes out on one of the Liberation-141 trucks on the emergency transfer course, frosting up the windshield so that the driver cannot see the road, and has to stop. Later Chen Changjiang [7115 7022 3068], a transport assistant with many years of driving experience, comes up with the idea of clearing the windshield with glycerine and alcohol, which works very well and clears away the frost. While this may be a very insignificant episode, it accumulates one more valuable experience for the mobile unit that conducts year-round combat operations in cold areas.

As the key missions of mobile units are mobile combat, with transregional pursuit and capture, interception, and surrounding and annihilation, the most important factor is speed. In the small hours of 9 January, the unit received orders to swith from motorized operations to rapid foot march from area A for a long-range raid on area B. While the map shows the closest route to be through a stretch of snow-covered hills and forests, time is of the essence, making a detour impossible, so that the unit plunges straight into the immense forest snowfield. They immediately discover that the snow is up to their waists, so that every step requires a great effort. The weather also seems to be presenting an intentional obstacle, with a head-on, force-5, northwest wind stinging like steel needles and blowing snow that makes it impossible to open ones eyes. The 17-km route actually takes the left-route unit a difficult five hours, leaving the soldiers arriving at the assembly point streaming with sweat. This creates a new problem of sweat-soaked



uniforms immediately freezing once movement stops, making it necessary to keep moving slowly to dry them with body heat. Meanwhile, the right-route brigade leader, Wu Jianbo [0702 1696 3134], leads 20 special ski soldiers over this snowfield like flying birds, with the white-uniformed soldiers as seen from afar suddenly topping the snow crests and darting into the dense forest like light cavalry, taking only one hour to reach the assembly area, where they are immediately ready for combat.

Capture-and-destroy combat requires rapid contingency plans and seizing of the initiative. As the army faced a long snow and ice period with blocked mountain passes and roads three years ago in the north, its mobile units began ski training, seeing its real advantage in training under actual combat-like conditions, and warning the leaders concerned to act in line with local conditions. Such specialized training in line with particular local conditions not only requires much study and application, but also needs to be disseminated and used in real combat on a large scale.

On the morning of 12 January, when the troops taking part in the exercise are just getting up, they are ordered to track down and arrest six escaped convicts, so spread a dragnet through the villages and road crossings surrounding the Huashan farm. The troops involved in the dragnet brave the piercingly cold winds to steadily search coming and going pedestrians and vehicles. At 1338 hours, the unit carrying out the mountain-forest search-and-arrest mission reports that it had pinned down a "criminal" with a dynamite bomb in an oil storage dump, who is so crazy that he not only refuses to put down his weapons and surrender, but even demands a vehicle from the troops under the threat of blowing up the oil dump. So to avoid danger to the public and damage to state property in the vicinity, the forward commander temporarily decides to accede to the "criminal's" demand, and to proceed with the arrest only after luring the criminal out of the oil depot. The special brigade commander, Xu Tiemin [1776 6993 3046], acts on his superior's orders, by driving a vehicle with all four doors open up to the oil depot gate, whereupon the crafty "criminal," seeing that no one else is inside the vehicle, scurries in with his bomb, points a handgun at Commander Xu's head, and orders him to drive off. But when the vehicle reaches one of the roadblocks, Commander Xu slams on the brakes and turns the wheel abruptly, whereupon the vehicle immediately does a 180-degree turn on the icy road, the "criminal" along with his gun and bomb are thrown up against the side, and several soldiers launch a lightning-like surprise attack to make a sure arrest.

## II

Food is the key energy source of human body heat, and the history of winter combat shows that hunger is one of the key factors in the high frostbite rate among soldiers. To ensure that armed personnel maintain adequate body

heat in operations and combat to preserve a good combat stance, ample mess preparations are made for troops participating in exercises. Each mess unit washes, roughly processes, packs into plastic containers, and freezes meat, vegetables, and beans to keep them fresh and healthy to ensure that soldiers operating under harsh winter conditions eat enough good food to maintain their body heat. At every rest stop, the reporter sees cooks preparing a main dish with soup and two vegetables in just 40 minutes, delivering hot meals straight to the officers and troops. To ensure that officers and troops on roadblocks and ambushes eat regular meals to maintain their body heat, cooks prepare high-calorie animal-protein foods, such as canned meat, before each departure, which are carried in overcoat pockets to keep them from freezing in three or four hours, as temporary appetite appeasers. On the last day of this seven-day-and-night exercise, the reporter interviews officers and troops about their mess conditions, all of whom unanimously report no illness or physical indisposition due to food supply problems.

As arms performance directly affects combat success or failure, arms performance under winter conditions is regarded as a special test item in this exercise. On 10 January, the reporter observes various tests at different sites of shock durability at 25 degrees below zero of hard plastic helmets, glass fiber reinforced plastic, and plexiglass shields struck by rocks, bricks, and clubs. One test shows that while helmets shatter with only two club blows, shields are stronger. Another test under similar conditions of the firing performance of the 81-model automatic rifle and the 77-model pistol finds problems in areas, such as automatic firing and loading. This is a warning to officers and troops to protect their weapons against cold with body heat and clothing on marches and long ambushes.

While the armed police do not conduct as large-scale or long field combat exercises as the regular field army, they do regularly engage in field ambushes under winter conditions, so must be capable of lying in ambush not only securely, but also warmly, to ensure that they can come out when ordered, fight when they come out, and win when they fight. On 12 January, in a warm-ambush test course organized by exercise leaders, officers and troops chose a site at a road crossing where actual combat has often occurred, using tree branches as a canopy over a roadside ditch, covering it with snow, and leaving an opening away from the road, to build a concealed cat-ear cave in which three to five soldiers can lie in ambush. The results are that while the nighttime temperature goes down to minus 35 degrees, it stays at plus 18 in the cave, and plus 23 in the sleeping bags.

While this seven-day-and-night exercise under extreme winter conditions provides the training officers and men with both successful experiences and failure lessons, as far as the mobile units with the difficult mission of "dealing with the unexpected" are concerned, both experiences and lessons are rare treasures!

## NORTHEAST REGION

### Work Report on Heilongjiang People's Procuratorate

93CM0217A Harbin HEILONGJIANG RIBAO  
in Chinese 22 Jan 93 p 3

[Article by Jia Chengwen (6328 2052 2429), Chief Procurator Provincial People's Procuratorate: "Heilongjiang Provincial People's Procuratorate Work Report (Excerpts)—Delivered to the First Meeting of the Eighth Provincial People's Congress on 14 January 1993"]

[Text] Delegates:

Today I will present for your consideration a report on the work of procuratorial organs throughout the province since the first meeting of the Seventh Provincial People's Congress.

Since the first meeting of the Seventh Provincial People's Congress, acting under leadership of CPC committees and higher procurate courts at all levels, under supervision of People's Congress Standing Committees at all levels, and with support from governments at all levels, people's procuratorates at all levels throughout the province have focused closely on the central work of the party and state in diligent discharge of their legal supervisory functions to carry out completely all procuratorial tasks, thereby making major contributions in protecting the stability of the state and the safety of society, to supporting reform, opening to the outside world, and economic construction.

#### 1. Basic Work Situation During the Past Five Years

(1) Thoroughgoing struggle to carry out a severe crackdown on serious economic criminals to support and advance smooth progress in the conduct of reform, opening to the outside world and economic construction.

Ever since 1988, procuratorial organs throughout the province have made a severe crackdown on serious economic criminals the focus on procuratorial organs' work. They have given first priority to attacks against criminal graft and bribery in their crackdowns on economic crimes, ferreting out a large number of economic crime cases. During the past five years, they have dealt with 28,416 cases; they have opened 17,088 cases for investigation, filing suits against 4,525 people; and they have recovered for the state and collective economic losses totaling 210,737,900 yuan.

Establishment of a system for reporting crimes in the pioneering of a new method that combines specialized work with the mass line. In 1988, courts at all levels throughout the province set up centers or stations for the reporting of economic crimes. After several years effort, this has become a fairly closely knit network and system. Between July 1988 and October 1992, reporting units throughout the province received a total of 40,247 leads on economic crimes from reports that members of the

public filed, preliminarily investigated 19,365 of them, and set up cases on 6,132, or 31.67 percent of the initially investigated total following preliminary investigation.

Better investigative work, taking the first steps toward establishment of a procuratorial organ investigative system. In response to higher procuratorate requirements, since 1989 we have established and improved special anti-graft and bribe taking organs. Provincial courts, branch municipal courts, and a small number of grassroots level courts set up anti-graft and anti-bribery work bureaus. Other grassroots level courts changed over to graft and bribery investigation sections, and all units increased staffing.

In the course of the actual struggle against graft and bribery, courts at all levels throughout the province adhered to service to reform, opening to the outside world, economic construction as a consistent line of thought, and making service to economic construction the point of departure and the end purpose of procuratorial work. In deciding on combat tactics, combat methods, and the adoption of timely and appropriate measures, they took into full account whether these helped reform, opening to the outside world, and economic construction, thereby winning fine legal results, economic results, and social results in the battle against graft and bribery.

(2) Adherence to severe and rapid crackdown on serious criminal activities to safeguard and consolidate the province's political security and social stability.

Procuratorial organs at all levels throughout the province consistently made crackdowns on serious criminal activities, and safeguarding the secure and unified political situation yet another focus and long-term task in procuratorial work. They concluded a large number of cases in a timely and correct fashion. During the past five years, procuratorial organs at all levels throughout the province have arrested 69,808 felons and indicted 105,186.

Resolute implementation of NPC Standing Committee decisions, promptly carrying out concentrated attacks, battles against specific targets and clean-ups of specific problems in accordance with the unified instructions of the provincial CPC committee and the provincial government. They approved the arrest of 400 people in criminal cases involving the sale of narcotics, lewd materials, the kidnapping and sale of women and children, and criminal cases involving the selling of sexual favors and prostitution, indicting 332 of them.

Building of a better professional foundation, gradually establishing and improving a fairly regular criminal investigation work system. Emphasis was placed on drawing up and putting into effect an internal system of limitations on cases that procuratorial organs investigate themselves, and the setting up of a self-limiting mechanism, thereby markedly improving the handling of cases that procuratorial units investigated themselves.

Active conduct of investigations, sentencing, and supervision. During the past five years, a total of 763 criminal elements have been apprehended, 1,032 criminal elements indicted, 15,151 people prevented from being wrongly arrested, 926 people prevented from being wrongly indicted, and public security authorities were presented with views on the correction of violations of the laws in 5,935 instances. Counter suits were brought in 315 cases in which the courts had truly rendered wrong judgments and rulings, and opinions were offered to the courts to correct violations of the laws in 1,011 instances.

Active launching of comprehensive efforts to improve social order, a regularized system being preliminarily formed among procuratorial organs.

(3) Improved procuratorial work on the law and discipline to support the democratic right and interests, and the personal rights and interests of citizens.

During the past five years, procuratorial organs throughout the province have investigated and dealt with a large number of rights infringement and dereliction of duty cases. They have received 10,486 cases of all kinds. They set up case files and conducted investigations of 4,547 cases, procuratorial work on the law and discipline throughout the province steadily improving, and organization building at the grassroots level getting increasingly better.

(4) Active conduct of other kinds of procuratorial work, better discharging overall functions in legal supervision.

Local supervision department procuratorial work. Local supervision department procuratorial units throughout the province persevered in fully discharging their supervisory functions particularly in regard to law enforcement and prosecution work, ensuring that national laws and reform policies are carried out properly. They corrected 8,656 instances of violations of the law at supervision and reform sites, a 66.55 percent correction rate. In addition, they did more work on improving the profession, supervision and reform site procuratorial work gradually becoming more systematized and regularized. Now all local supervision department procuratorial units have instituted accredited inspections.

Complaints and appeals procuratorial work. Complaints and appeals procuratorial units throughout the province diligently discharged their supervisory functions, taking key party tasks and procuratorial tasks as their focus to play a major functional role. They conscientiously received and processed letters and visits from the public, playing their roles as "windows" and "bridges" to the full. As a result of much painstaking ideological education and publicizing of the legal systems, the rate of reappeals for help fell from 9.2 percent in 1988 to 3.8 percent in 1992. They handled case reappeals in a diligent and responsible way, receiving 7,816 complaint and appeal cases, 2,065 reinvestigation cases, and 282 cases involving change in original processing and decisions. They handled 538 bigamy cases. Grassroots level

building of complaint and appeal units steadily improved, charges and appeals work gradually becoming more systematized and regularized.

Procuratorial technical work. Heilongjiang Province has established 56 technical organs to train a number of specialized technical personnel. Technical equipment has also been greatly improved. The six main technical departments in both branch and municipal courts are being strengthened.

Procuratorial work in agriculture and forestry. Agricultural and forestry procuratorial organs concentrated on the special problems in farm and forestry areas, actively investigating and dealing with economic crime cases involving "private gain from land," "private gain from grain," and "private gain from timber" in the agriculture and forestry system. They cracked down hard on all criminal activities damaging to social order in agricultural reclamation areas and forest areas. Railroad transportation procuratorial work: Railroad transportation procuratorial organs cracked down hard on all kinds of criminal activities that occurred along railroad lines and in trains and railroad stations, actively investigating and dealing with graft and bribery cases involving "use of trains for private gain," and "use of tickets for private gain."

A beginning was made in civil administration procuratorial work. Provincial courts and 19 branch and municipal courts set up civil administration procuratorial organs that handled a number of cases.

(5) Steady efforts to build a corps, the political and professional caliber of procuratorial personnel markedly improving.

More intensive ideological and political work was done for the maintenance of a correct political orientation. During the past five years, procuratorial organs throughout the province have adhered to a policy of attention to duties on the one hand and attention to the building of a procuratorial corps on the other. They have emphasized greater study of the party's basic line, plans, and policies, and they have persevered in education by positive measures or examples, procuratorial personnel thereby steadily improving their political consciousness, keeping up ideologically with developing events, and maintaining political unanimity with the party. In 1990, in response to requirements of the higher procuratorate court, and following ratification by the provincial CPC committee, the province emphasized the building of political work organs. This provided powerful organizational support for the conduct of ideological and political education.

Vigorous improvement of team building, steadily optimizing team make-up. In accordance with the standard of making cadres "more revolutionary, younger, better educated, and more specialized," we strove to do a good job of building teams. Provincial courts, and branch and municipal courts played an active coordination role during turnovers of team personnel and in making

readjustments, and they assisted local CPC committees in selecting good team members. As a result, court teams at all levels throughout the province smoothly completed the switch as new members replaced only ones for the maintenance of a fairly rational age and knowledge mix. In the building of ideological style in teams, regular testing was improved, and tailored guidance maintained for steady improvement in the overall functioning of teams.

Persistence in conducting campaigns for striving to be first and aiming at excellence, attention given to the use of classic guidance. Classic guidance was used to stimulate the masses of procuratorial personnel to make outstanding achievements, with the result that a large number of advanced examples emerged one after another. During the past five years, 25 collectives and 33 individual received higher court commendations. Thirty collectives and 83 individual received provincial CPC committee and provincial government commendations.

Persistence in developing inspection campaigns for the enforcement of the law and discipline to advance the personal building of clean government. We pursued a policy of "building the courts according to law," and "strictly regulating inspections," managing strictly, not covering up shortcomings, not being overly lenient, promptly discovering and strictly handling procuratorial personnel violations of law and discipline. During the past five years, 189 procuratorial personnel were investigated and punished for violations of the law and discipline. Discipline inspection and supervision organs were established to improve day-to-day supervisory and investigative work.

Steady improvement of cadre training, the level of specialization of procuratorial personnel improving markedly in consequence. Procuratorial personnel having a college or higher education increased from 28.32 to 73.2 percent. In addition, we continued various kinds of on-the-job skills training campaigns to create a body of professional cadres.

In recent years, we set up accredited procuratorial offices in key townships and towns as well as at state farms, placed procuratorate liaison personnel in counties and prefectures, and hired by special arrangement procuratorial personnel in key cities. Today, there are 271 accredited procuratorial offices of all kinds throughout the province staffed with more than 700 procuratorial personnel. Delegates: For the past five years, the main experience in procuratorial work has been adherence to the party's basic line of "one center and two base points." We must make procuratorial work subordinate itself to and serve reform, opening to the outside world, and economic construction, strictly distinguish what does and does not constitute a crime, correctly handle the correlation among crackdowns, protection, and service. We must persevere in linking specialized work with the mass line, consolidating and developing a mass basis for procuratorial work. We must persist in strict enforcement of the law, improve law enforcement supervision,

and independently exercise procuratorial authority according to law. We must adhere to strict management of investigations, striving to build a political strong and professionally excellent procuratorate corps. We must rely closely on the leadership of the provincial CPC committee, supervision from the provincial people's congress, and support from the provincial government to assure that procuratorial organs correctly and effectively enforce the law.

While affirming achievements, there are also some problems that we must not ignore: First is that our thinking has not been sufficiently emancipated and our understanding of reform and opening to the outside world is still not strong in some regards. Law enforcement concepts of handling one case like every other, handling cases in isolation, and mechanically enforcing the law hamper and harm, in varying degrees, the liveliness and the development of procuratorial work. Second, a lack of balance in work has not only existed for a long time, but some problems are rather conspicuous. Third, the political and professional caliber of the procuratorial corps requires further improvement. Fourth, various difficulties still exist objectively.

## 2. Future Work Tasks

Delegates. The 14th National Party Congress ushered in a new area in the building of a distinctively Chinese brand of socialism that places higher requirements on procuratorial work. The tasks that we bear are more daunting and more glorious.

For some time to come, the main tasks in procuratorial work throughout the province will be as follows: Taking the spirit of the 14th National Party Congress as the guide for continuing to carry on a pervasive struggle against graft and bribery, resolutely cracking down on serious crimes, improving law and discipline procuratorial work, actively conducting all procuratorial work, moving ahead with comprehensive control, doing a good job of reforming ourselves and building a crops, and improving fully the level of supervision of the law to make a greater contribution to reform, opening to the outside world, and hastening economic development.

(1) Need for thorough study to grasp the spirit of the 14th National Party Congress so as to increase further consciousness about serving reform, opening to the outside world, and modernization. We must further emancipate thinking, change outlook, increase understanding of reform, and inculcate law enforcement concepts that are in keeping with a socialist market economy. We must take the "three benefits for" as the point of departure and the standard for testing in procuratorial work, steadily improve law enforcement activities, and strive to achieve a synthesis of legal results, political results, and economic results. We must improve dictatorship methods, highlighting crackdowns on all criminal activities that hurt reform, opening to the outside world, and development of the economy. We must actively explore,

adhere to service in enforcing the law, and in the course of serving, we must carry out our legal supervisory function.

(2) We must inculcate a long-term combat mentality, persevere in giving paramount position to anti-graft and bribery crimes in cracking down on economic crimes, and making it the work emphasis of procuratorate organs. We must concentrate energies on the investigation of large and important cases. We must investigate according to law criminal cases involving falsification of trademarks, tax evasion, and tax resistance, thereby protecting the legal rights and interests of business concerns and consumers, and ensuring state tax revenues. We must diligently study new situations and new problems that arise in reform, opening to the outside world, and economic construction, particularly those that occur in the process of building a socialist market economy, strictly differential between what is and is not a crime, and correctly enforce the laws and policies.

(3) Need to strengthen the people's democratic dictatorship to crack down hard on serious criminal activities and promote comprehensive control. We must persist in making the "serious crackdown" fight another work focus of procuratorial organs in continuing to carry out a policy of strictness and speed according to law. We must actively conduct state security procuratorial work and specialized procuratorial work in connection with crimes by persons who have not yet reached maturity. We must continue to improve supervision of investigations and supervision of sentencing, diligently ensuring uniform and correct implementation of the law.

(4) We must further intensify law and discipline procuratorial work, diligently ensuring the democratic rights and the personal rights of citizens, and advancing the

building of frugal government and clean government as well as safety in production within enterprises. Emphasis must be placed on the investigation and disposition of large and important cases, emphasis placed on the investigation and handling of cases involving the extortion of confessions through torture, illegal detention, personal favoritism and malpractices, and accident cases involving major responsibility. A strict distinction must be made between mistakes made in reform and dereliction of duty offenses. We must conscientiously do a good job in halting suits and arbitration so that criminal cases do not occur.

(5) While doing the foregoing work well, we must continue to do good procuratorial work that takes all factors into account regarding supervision and reform sites, charges and appeals, civil administration, agriculture and forests, and railroad transportation.

(6) More vigorous building of the corps. It is necessary to focus closely on the party's central tasks and apply the spirit of the 14th National Party Congress to the task of building a corps. Efforts must be made to train a procuratorial cadre corps possessed of a staunch political standpoint, that handles cases strictly according to law, that enforces the law with equanimity, that understands policies, that seeks truth in facts, that maintains contact with the masses, and that is versed in its profession.

Delegates. During the new area of acceleration of reform, opening to the outside world, and the pace of modernization, procuratorial organs must shoulder heavy responsibilities. Guided by the spirit of the 14th National Party Congress, we must carry out the spirit of this conference, work ceaselessly and unremittingly, and advance with firm will to make a greater contribution to the building of a distinctively Chinese brand of socialism.

### Newly Elected Delegates To NPC Critiqued

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[Article by Lei Jingxuan (7191 0352 3872): "On Newly Elected Local Delegates to NPC"]

[Text] The election of local delegates to the Eighth National People's Congress [NPC] took place in a hurry within just a few short days. The slate of candidates was made public on 29 January and adopted by a formal vote at the Eighth Guangdong People's Congress on 31 January. Thus 28 delegates who will represent Hong Kong at the Eighth NPC were officially selected. All that remains to be done now is for the NPC to review their qualifications as required by formalities.

Delegates from Hong Kong have always sat on the NPC, mainly as a symbol of Chinese sovereignty over Hong Kong and as a link to leftist individuals and groups in Hong Kong, as well as "patriots" who work on the united front locally. But these delegates have hardly any influence in Hong Kong society. In fact the man on the street was not even aware of their existence. In the Chinese political system, the NPC is basically a voting machine with little power, so Hong Kong's delegates to the congress have little impact in reality.

The election of local delegates to the Eighth NPC, on the other hand, has attracted unprecedented interest and attention. The reason is that there have been increasing contacts in recent years between Hong Kong and China and that the latter has been exerting more and more influence in the colony. All appointments made or created by the Chinese authorities are pregnant with political significance. Consequently, appointments like Hong Kong affairs advisers, CPPCC members, and NPC delegates are now the focus of growing attention in Hong Kong. Moreover, the latest batch of Hong Kong delegates to the NPC would be directly involved in the transition leading to the restoration of Chinese sovereignty over Hong Kong. Among other things, they will have a seat on the special zone preparatory committee to be set up in 1996. That is why they have been getting so much extra attention.

Perhaps because of the extraordinary ramifications of the latest election of local delegates to the NPC, the Chinese Communists have moved with extreme caution, taking great pains to avoid any embarrassing situation and stave off public pressure. The result, however, was an election process that was highly distorted and conducted amid even greater secrecy than in the past.

To begin with, even those who were selected did not get to know of their candidacy until late in the game, which sparked some complaints among the original delegates. Certainly time was of the essence here as efforts had to be made to persuade some individuals to serve as delegates, but there was also a desire to wrap the process in secrecy. Second, all 28 local delegates were directly

contacted by the central government. Moreover, while delegates from other parts of Guangdong Province were picked in elections with more than one candidate, their 28 Hong Kong counterparts were selected in uncontested elections. More than anything else, this illustrates the central government's anxiety to make the election "fool-proof." As perceived by the public, this so-called election was remarkably similar to "imperial appointments" of the past.

Central government leaders believe they have taken special care of Hong Kong by increasing the size of the local delegation and making special arrangements for the election. To the people of Hong Kong who have grown to care about democratization and become increasingly familiar with open elections in recent years, however, such solicitude came across as a kind of "absolute control." The latest election once again profoundly demonstrates the yawning gap between China and Hong Kong in political culture.

If the way the election was conducted departed from the practices of the people of Hong Kong, what about the products of the election? Are they the sort of individuals that the locals find admirable?

The local delegation to the Seventh NPC consisted of 18 people, three of them retired at the end of their term. The remaining 15 have been joined by 13 new delegates, so there is about an equal mix of new and old people in the new delegation. The 13 new delegates come across as "mediocre," essentially second- and third-rate characters with nothing remarkable about them. Compared with the leading social notables previously rumored to have made the list, such as Li Jiacheng [2621 0857 6134], the delegates appear even more lackluster.

Of the 13 newcomers, five (Li Weiting [2621 0251 1656], Li Zetian [2621 3419 3240], Huang Jianli [7806 1696 4539], Huang Diyan [7806 3321 1484], and Cai Weiheng [5591 3262 5899]) move in the traditional leftist circles in Hong Kong. Huang Diyan, in particular, is a cadre transplanted here from China. Two of the new delegates are lawyers; both He Yaodi [0149 5069 2769] and Liang Aishi [2733 1947 6108] have close professional and personal ties with the mainland, which explains why both have been designated as notary lawyers by the Ministry of Justice in China. Four of the new delegates are fairly active in the local community and are therefore better known: Wang Mingang [3769 2404 0474], Wei Jishun [7279 1015 5293], Jian Fuyi [4675 4395 7392], and Xue Fengxuan [5641 7685 2467], three are members of the New Hong Kong Alliance. The pro-Chinese position of these four individuals has become increasingly obvious in recent years; we all know something about their reputation. The two remaining delegates (Lu Daquan [7120 6671 2938] and Chen Yongqi [7115 3057 4388]) largely have a business background and cannot be considered active in local affairs. (Chen Yongqi did play an active part in the controversy over direct elections back in 1988 as well as in the early part of the drafting of the basic law.) Most probably they belong among those

who have been quietly cultivating ties with the Chinese government. All in all, the list of delegates demonstrates a desire on the part of the Chinese government to consolidate the core forces and reward the party faithful.

In terms of substance (as measured by the candidates' social standing and reputation), none of the people in the delegation (and certainly not the 13 newcomers) are a standout; they are a far cry from what the Hong Kong people would consider the best and brightest. Both the Legislative Council, part of the Hong Kong British government, and the commercial committee, appointed by the governor, (both bodies have been either appointed or reconstituted recently) come across as consisting of a more formidable group of people (one of them being Rong Zhijiang [2837 2535 0256] of the China Trade and Investment Corporation, who sits on the latter organization). In terms of social representativeness (that is, the extent to which the delegates represent local social opinions and trends), the list also falls short, featuring no more than a couple of people who can be regarded as independent. Therefore it would be hard to characterize these delegates as representative of the Hong Kong people at the NPC. Of the many rounds of appointments and nominations the Chinese government has made in Hong Kong, it was probably in the selection and appointment of individuals to the basic law drafting committee that the Chinese tried objectively to incorporate a wide spectrum of opinions. In

the selection of the current crop of delegates to the NPC, on the other hand, the Chinese confined their picks to fellow travelers and people they could trust in the good old NPC tradition, without making any concession to the need to unite even more people in the transitional period. If we picture the list of local NPC delegates as a report card on China's united front work in Hong Kong in recent years, it must be judged a dismal performance.

At a time when its influence is expanding rapidly in Hong Kong and as the transition enters its final phase, why then did the Chinese authorities still come up with such an awful list? The immediate reason naturally is the current deterioration in Sino-British relations, prompting many people to take a wait-and see attitude toward this kind of political appointments. Yet a more deep-seated reason is that the Chinese government has been following an excessively leftist line in Hong Kong in recent years which dictates that anybody who is not a friend is an enemy. This position has alienated a lot of people. The only people remaining are members of old-line leftist groups and "patriots" who have made painstaking efforts to get on good terms with China in recent years. Instead of reflecting China's strength, the list actually shows China's isolation or self-isolation, which is totally at odds with its enormous ability to strike fear in the hearts of the people of Hong Kong.

#### Hong Kong Delegates to the Eighth NPC

	New delegates	
Chen Yongqi	45	Chairman and general manager, Chiang Jiang Garment Manufacturing Company; member, executive council of the Industry and Commerce Association
Wang Mingang	43	Executive director, Hong Kong Ferry Company (Group) Ltd.; member, Standing Committee of the last Guangdong People's Congress
Wei Jishun	59	Chairman, New Hong Kong Alliance
Jian Fuyi	56	Partner, Jian Fuyi and Associates Surveyors
Liang Aishi	53	Lawyer and member, Central Committee, Alliance for Democratic Construction in Hong Kong
Cai Weixing	68	President, Huage Hui; senior adviser, representative office of Xingye Bank of France in China
Lu Daquan	62	Director, Chinese Chamber of Commerce
Li Zetia	58	President, Hong Kong Federation of Trade Unions
Xue Fengxuan	45	Professor, Department of Geography and Geology, Hong Kong University; member, airport advisory committee
Huang Jianli	69	Former principal of Hanhua Middle School
He Yaodi	48	Lawyer
Li Weiting	60	Assistant to the director of the Hong Kong branch of XINHUA; chief, social work department, Hong Kong branch of XINHUA
Huang Diyan	62	Director, Hong Kong and Kowloon management office, Bank of China Group; delegate to the 14th CPC National Congress

**Hong Kong Delegates to the Eighth NPC (Continued)**

Existing members		
Zhou Nan [0719 0589]	65	Director, Hong Kong branch of XINHUA; member, NPC Standing Committee; member, CPC Central Committee
Liao Yaozhu [1675 3852 3769]	58	Partner, Liao, Chen, and Lin
Ceng Decheng [2582 1795 2052]	43	Editor-in-chief, TA KUNG PAO
Zheng Yaotang [6774 5069 2768]	44	Director, Hong Kong Federation of Trade Unions
Li Liansheng [2621 6647 3932]	53	President, Federation of Community Organizations in the New Territories
Ceng Xianzi [2582 2009 2737]	58	Chairman, Jinlilai Far East Co. Ltd.
Wu Kangmin [0702 1660 3046]	66	Supervisor, Peiqiao Middle School
Huo Yingdong [7202 5391 2639]	69	Member, NPC Standing Committee
Chen Hong, [7115 4785]	77	Director, Bank of China
Wang Mingquan [3076 2494 5425]	45	TV actress
Xu Shixiong [1776 2508 7160]	49	Professor, Botany Department, Hong Kong University
Lu Dajian [7120 6671 0369]	66	Head of the Kowloon branch of the Automobile Trade Union Federation
Tang Zian [0781 3112 1344]	66	Physician-in-charge, workers' clinic
Chen Youqing [7806 0342 3352]	60	Chairman, Hong Kong Bank of Commerce
Huang Guanghan [7806 0342 3352]	50	Director, Fujian Chamber of Commerce in Hong Kong; supervisor, Fujian Middle School



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