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# **China**

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### Political Structural Reform Major Task of 1990s

93CM0232A Chengdu MAO ZEDONG SIXIANG  
YANJIU [STUDIES IN MAO ZEDONG THOUGHT]  
in Chinese No 1, 25 Feb 93 pp 24-28

[Article by Zhou Siyuan (0719 1835 3293), Sichuan Provincial Academy of Social Sciences: "Move Ahead Actively With Political System Reform"]

[Text] In setting forth China's reform and development tasks during his 1990 report to the 14th Party Congress, Jiang Zemin called for moving ahead actively with political system reform to bring about greater advances in the building of socialist democracy and the legal system. This exposition gave an extremely important position to political reform and the building of socialist democracy and the legal system. It called for actively moving ahead with political system reform, and accelerating the building of socialist democracy and the legal system.

#### 1. Active Promotion of Political System Reform Is a Basic Task in Reform and Development During the 1990s

Following the Third Plenary Session of the 11th Party Central Committee, a thorough summarization of historical experiences in the building of socialism in China served as a basis for the party's realization of the importance of building socialist democracy, using its strategic vantage point in developing a socialist economy. In 1979, Deng Xiaoping said explicitly: "Without democracy, there can be no socialism and no socialist modernization." This was the first time in the history of the party that the idea of socialist democracy being a basic characteristic of socialism was ever expressed. The 12th Party Congress made the building of a highly socialist democracy a fundamental objective and a fundamental task in the building of socialism in China. The 12th Party Congress further proposed the goal and task of building a distinctively Chinese socialist democratic government. In the realization of this goal and task, we worked away at political system reform. The important speech that Deng Xiaoping made in 1980 titled "Reform of the Party and State Leadership System" became the guiding reference document for China's political system reform. In 1987, the 13th Party Congress set forth the requirements and tasks for political system reform, and during the past 14 years substantial progress has been made in the reform of China's political system and in the building of socialist democratic government.

However, by comparison with the advances made in reform of the country's economic system and economic development during the past 14 years, the pace of political system reform and the building of socialist democracy in China cannot be considered great, nor can progress be termed fast. The task of political system reform has not yet been completed. This state of affairs is clearly inconsistent with the country's present intensification of economic system reform, its building of a socialist market economy system, and requirements for

accelerating economic development. Therefore, simultaneous with the intensification of economic system reform, active efforts must be made to move ahead with political system reform, accelerating progress in the building of socialist democracy and the legal system. As Jiang Zemin said in his report, "We should make marked advances in the development of socialist democracy and in perfecting the socialist legal system." At the present time and throughout the 1990s, active promotion of political system reform holds extremely important real significance for greater advance in the building of socialist democracy and a legal system in China.

First, this is necessary for the self-perfection and development of the socialist system; it is necessary in demonstrating to the full the superiority of the socialist system. Practice shows that neglect of the building of socialist democracy and a legal system is bound to cause extremely great damage to the building of socialism, and may even threaten the survival of socialism. One extremely important reason for the turn of events in the USSR and eastern Europe was the failure of these nations to give serious attention over a long period of time to the building of socialist democracy and the legal system. Both domestic and international lessons of experience show that consolidation and development of the socialist system is inseparable from the building of socialist democracy and a legal system. Therefore, while adhering to economic construction as the main theme, and while vigorously working on the building of the economy and acceleration of economic development, we must actively move ahead with political system reform to enable greater advances, and to move a step upward in the building of China's socialist democracy and legal system. Only through the development of the economy and the development of democracy can China's socialist system fully exhibit its superiority, and can it weather the current changing international situation to be in an unassailable position.

Second, this is necessary for the consolidation and development of a stable social and political environment to ensure the building of the economy, and for the smooth continuation of reform and opening to the outside world. Back in 1980, Deng Xiaoping said that the superiority of the socialist system over the capitalist system is expressed in many ways, "but it must first be demonstrated in regard to the speed of and results from economic development. Unless this condition is met, crowing is of no use." (*Selected Works of Deng Xiaoping, 1975-1982, p 215*) Meeting this requirement entails unswerving and unflinching implementation of an overall policy that takes economic construction as the key point. Taking economic construction as the key is expressed today in a concentrated way in two regards as follows: internal reform, and opening to the outside world. Reform and opening to the outside world are also for the purpose of emancipating and developing productivity; however, ensuring the building of the economy and smooth progress in reform and opening to the outside worlds requires two conditions: First is a high

degree of mass enthusiasm for the building of socialism and for maintaining and supporting reform and opening to the outside world. Second is the need for a stable social and political climate. Having these two prerequisites requires political system reform as well as development of socialist democracy and the political system. Without reform of the political system, without development of socialist democracy, without widening of the masses right to take part in the national economy and political control, and without truly ensuring that the masses can exercise democratic rights as masters in their own house, the interest and enthusiasm of the masses for the building of socialism cannot be aroused, and the masses will not willingly and actively devote themselves to economic construction, and to reform and opening to the outside world. Likewise, without reform of the political system, and without the development of socialist democracy and perfection of the socialist legal system, the fashioning of a stable social and political climate will also be impossible. One former point of view maintained that the development of democracy was detrimental to social and political stability; thus, stability but not democracy should be emphasized. This is mistaken understanding. Democracy and socio-political stability are inseparable. Socio-political stability is founded on the development of democracy inasmuch as the fashioning of true social stability relies on people willingly abiding by the social order, abiding by the law, and abiding by all the social norms that society has crafted. In other words, it is founded on democracy. Without democracy, there can be no true social stability. At the same time, the development of democracy also requires a stable social and political climate. Democracy cannot be built in a society that is in tumult. One might say that the development of democracy and the maintenance of social stability are part of a piece. There is no contradiction between them; the two are interdependent. Nowadays, we say that maintenance of social order is inseparable from democracy; on the contrary, the development of socialist democracy is a prerequisite for it.

## **2. The Goal of Political System Reform Is the Building of Distinctively Chinese Socialist Politics**

Actively moving ahead with political system reform requires clarification of the goals of reform. In his report to the 14th Party Congress, Jiang Zemin provided a clear-cut answer to this question: "The goal of our political system reform is distinctively Chinese socialist democratic government; it positively is not a western style multi-party system and parliamentary system."

The scientific conception of building a distinctively Chinese socialist democratic government was first enunciated during the 13th Party Congress. The 13th Party Congress report said that "carrying out political system reform means promoting what is beneficial and eliminating what is harmful for the building of a distinctively Chinese socialist democratic government." The proposal in the 14th Party Congress report that the building of a distinctively Chinese socialist democratic government

be the goal of political system reform was an advance, the significance of which is extremely great.

First, it clearly states the character and goal of China's political system reform. The goals of reform reflect the character and purpose of reform. The kinds of goals that China's political system reform sets have a bearing on the direction in which reform of the country's political system moves. In the course of China's political system reform, one proposal was popular, namely the supposition that reform of China's political system should have as its goal the establishment of a western democratic political model, instituting a system of three power separation, a multi-party system, and a parliamentary system, as well as an election campaign system. Were reform of China's political system to be designed with this model in mind, this would inevitably transform fundamentally the character and the direction in which China's political system reform develops. The changes in the USSR and eastern Europe fully attest to this point.

At the same time, the goals and form of political system reform depend on the character and purpose of political system reform. Political system reform is an important integral part of China's total reforms. If one says that economic system reform is the self-perfection of socialist production relationships, then political system reform is the self-perfection of the socialist superstructure, the purpose of which is the better development of productivity under the socialist system for full expression of the superiority of socialism. By this is meant the political creation of a higher and more genuine democracy than exists in capitalist countries, and the training of talent more numerous and more outstanding than in capitalist countries. Therefore, making the building of a distinctively Chinese socialist, democratic political system the goal of China's political system reform combines the goals of political system reform with the character and purpose of reform, and it enables full expression of the character and purpose of reform. It points a correct direction and road of advance for reform of the country's political system.

Second, it fully highlights the distinctively Chinese nature of China's political system reform, which helps us proceed with political system reform on the basis of the country's own circumstances rather than mechanically copy western political forms and methods. Building of a distinctively Chinese socialist, democratic political system has two levels of meaning: One is that the building of socialist democracy should be rooted in China's own national circumstances and proceed from Chinese realities. The second is that the building of a socialist, democratic political system must have distinctive Chinese characteristics, rather than mechanically copy the methods of other countries. Of course, this does not exclude borrowing from and absorbing some successful experiences and fine ways of doing things from other countries. On the basis of the past more than 40 years of practice in the building of socialism, particularly experiences in the building of socialism since the Third Plenary Session of the 11th Party Central Committee,

the building of a distinctively Chinese socialist, democratic political system may be generally said to have five ingredients as follows: (1) The CPC is the leading force in the nation and society; it is the basic guarantee for China's socialist endeavors. (2) The NPC system is the nation's basic political system. (3) The multi-party cooperation of CPC leaders and the CPPCC system are the country's basic political system. (4) Democratic centralism in state power and its activities is a basic principle in Chinese political life. (5) The indivisibility of state authority, i.e., unity in the implementation of legislative authority, judicial authority, and executive authority, is a basic feature of the country's state power structure. Clearly, these ingredients have a distinctive Chinese character. China's reform of the political system to build a distinctively Chinese socialist, democratic political system means better adherence to and further perfection of these characteristics.

Finally, making the building of a distinctively Chinese socialist, democratic political system the goal of political system reform makes it possible to combine reform of the political system with the building of a distinctively Chinese brand of socialism. It becomes a major integral part of the building of a distinctively Chinese brand of socialism that helps us increase our understanding of political system reform, actively move ahead with political system reform, and accelerate the building of a socialist, democratic political system. A distinctively Chinese brand of socialism is made up of a distinctively Chinese economy, politics, and culture. The relationship among these three parts is that of an "organic integrated, inseparable totality" as Jiang Zemin said in a speech commemorating the 70th anniversary of the founding of the CPC. The building of a distinctively Chinese brand of socialism is the building of a distinctively Chinese socialist economy, politics, and culture. In this sense, the building of a distinctively Chinese socialist political system is actually the building of a distinctively Chinese democratic political system. This is because socialist democracy is politically the basic feature of socialism. The building of a highly socialist democracy is the fundamental objective and the fundamental task of China's building of socialism. China's building of a distinctively Chinese brand of socialist politics can only have as its basic goal and basic substance the building of distinctively Chinese socialist democracy. In China at the present stage, political system reform is the basic way to develop socialist democracy for the building of a distinctively Chinese socialist, democratic political system. In other words, the building of a distinctively Chinese socialist, democratic political system can be realized only through political system reform. This is because it is only through political system reform that the beneficial can be promoted and the harmful abolished, and the serious shortcoming in the political system, such as highly centralized authority, serious bureaucratism, and the influence of feudalism, eliminated. Only through resolute elimination of these serious shortcomings can socialist democracy begin to develop. Otherwise, the building of socialist democracy is an

empty phrase. At the same time, the purpose of reform of the political system is to perfect the socialist superstructure to develop socialist democracy. Therefore, only when political system reform has as its goal the building of a distinctively Chinese socialist, democratic political system, does it have significance.

### **3. The Urgent Task in Political System Reform Is Structural Reform and Streamlined Administration**

Political system reform is a large piece of systems engineering that has broad ramifications. The pressing task of the moment is acceleration of structural reforms to streamline administration.

The concept of "structural reform" was proposed in December 1981 in the Government Work Report to the fourth meeting of the Fifth NPC. Its implication was substantial readjustment and transformation of the control system, the functional configuration, the organizational setup, the personnel assignment mechanism as well as the form of organization of the personnel in this mechanism, and the operating mechanism to meet the needs of social, political, and economic development. Actually, even before this, we had several times reformed party and government organs. It was just that these reforms had not been termed "structural reform," but went by the name of "streamlining." Since structural reform was first called for in 1981, we have conducted two fairly large structural reforms, namely the structural reforms of 1982 and 1988.

Why is it that after several previous structural reforms we are again emphasizing the conduct of structural reform, and regarding it as an urgent task in political system reform? What is the reason and necessity for it?

1. The acceleration of structural reform is necessary for the streamlining of government organizations, overcoming bureaucratism, improving work efficiency, and developing socialist productivity.

For a long time, overstaffing has been a chronic malady in the country's party and government organs that has necessitated several streamlinings and readjustments. Regrettably, each streamlining or reform has only been temporarily effective. Within a short time, the old illness cropped up again in the agencies and with increased severity, producing a vicious cycle of "overstaffing - streamlining - and more overstaffing." Take the organizational reform of 1988. Although this reform was effective in transforming government functions and establishing an overall regulation and control system, it was not successful in streamlining agencies. Another round of "streamlining and further streamlining" was impossible to avoid. Even more seriously, mass organizations and operating organizations at every level of the party and government proliferated, thereby producing a situation of organizational overstaffing, administrative overlapping, redundant personnel, low efficiency, separation from the masses, and an unspeakable government financial burden.

The general public was disgusted with such a situation, and when it reached the point where it could not continue and could not be tolerated, organizational reform had to be carried out.

2. The acceleration of organizational reform is necessary for the intensification of economic system reform and for the building of a socialist market economy system.

The goal of China's economic system reform is to establish a socialist market economy system. The acceleration of economic system reform and the establishment of a socialist market economy system are the main tasks of China's reform and construction during the 1990s. Fulfillment of these tasks requires acceleration of organizational reform.

The building of a socialist market economy system requires close attention to two key links: The first is to make enterprises become juridical persons and principal entities in market competition that are responsible for their own operation, responsible for their own profits and losses, responsible for their own development, and that are self-limiting. To build a socialist market economy system, enterprises must first move in the direction of the market and be invigorated so that they become main entities engaging in market competition. Achieving this requires rationalization of equity relationships, granting enterprises decision-making authority, and changing enterprises' operating mechanisms. The key in doing this lies in separation of government administration and enterprise management. Separation of government administration and enterprise management is, in effect, government delegating to enterprises the right to streamline administration, turning over to enterprises the authority that enterprises should have had all along but that government intercepted, expanding enterprises authority to make their own operating decisions so that they can become independent commodity producers. If government continues to hold fast to the power it now has, refusing to give it up, the separation of government administration and enterprise management will be impossible, and the granting to enterprises of authority to make their own decisions will become a dead letter. Changing enterprises' operating mechanisms, and increasing enterprise vitality will also be difficult to realize. Therefore, separation of government administration and enterprise management requires organizational reform that readjusts the limits of government economic control authority. In addition, it entails reform of the methods of setting up, operating and controlling government economic control organizations.

The second key link in the establishment of a socialist market economic system is change in government's economic control functions, establishing a macroeconomic regulation and control system. Under the former planned economy system, government was the main entity in economic activity. Government exercised direct control over and micro-managed the economy. It used administrative methods to allocate and distribute

the elements of production. Such government control functions and means of control were consistent with the planned economy system. Furthermore, they were a prerequisite and a guarantee that this system would operate. The change from a planned economy to a market economy system is a fundamental change requiring a change in government's economic control functions and control methods, namely a change from the former all-encompassing economic control function to mostly overall planning that takes all factors into account, policy control, providing information, organizational coordination, providing services, and inspecting and supervising. It also means a change from the former direct micro-management to indirect macro-management in the establishment of a macroeconomic regulation and control system. One might say that this change is a prerequisite for going from a planned economy system to a market economy system, as well as for the building of a market economy system. As the 14th Party Congress report said, "Without substantive progress in this regard, the intensification of reform will be difficult, and the founding of a socialist market economy system will be difficult." This is because if the former direct control methods continue to be used for the allocation and distribution of the essential elements of production rather than leaving allocation and distribution to market regulation, the formation of markets will be impossible. At the same time, unless a macroeconomic regulation and control system exists, even if markets form, they will become chaotic. Change in government's economic control function is bound to require reform of government organizations. Functions are the foundation on which organizations are set up; organizations are the carriers of functions; the allocation of functions determines the establishment of organizations; and changes in function must produce changes in organizations. Put another way, without a change in functions, simply making organizational changes absolutely will not work. It is in this sense that we say that change in government functions is the key to organizational reform. It is the starting point for organizational reform; and it is the sum and substance of organizational reform.

The present state of Chinese government organizations suggests the clear existence of problems that are not in keeping with the building of a socialist market economy system.

First of all, the change in government functions lags behind economic system reform. Despite some change in government's function in controlling the economy and the control methods used since the Government Work Report to the Sixth Session of the Fourth NPC in 1986, which called for a change in government functions, no substantive changes have occurred. Furthermore, in recent years, a trend toward strengthening of government's direct control functions occurred for a time. Some government economic organs continue to devote their energies to prescribing norms, approving projects, apportioning funds, and apportioning materials. Thanks

to more than a decade of reform, China's key market elements have increased greatly, the purview of markets is markedly expanding, and prices of most commodities have been decontrolled. However, because of the tardiness of changes in government functions, no macroeconomic regulation and control system has been established. This not only lags behind development of markets, but it also inhibits the further development of markets.

Second, the separation of government administration and enterprise management has not been fully realized. Government interferes too much in enterprises, and enterprises do not truly possess the right to make their own decisions. The invigoration of large and medium size enterprises is also a central task in reform of China's economic system, the key to which lies in an expansion of enterprises' decision making authority. However, practice in reform suggests numerous difficulties in expanding enterprises' decision making authority. Some administrative organs continue to apply the customary body of control methods used in the product economy and the planned economy to control enterprises. As a result, matters that should be controlled are not controlled, and matters that should not be controlled are controlled to death. Some government units also arrogate to themselves the authority that should be delegated to enterprises with the result that enterprises are unable to exercise decision making authority. This seriously hampers enterprises' change of their operating mechanisms.

Next, government organs are set up unscientifically; they are not consistent with requirements for establishing a socialist market economy system. This shows up prominently in the existence of a large number of agencies for control of the economy in the government sector, but few overall economic control agencies exercising macroeconomic regulation and control functions, as well as advisory and information agencies that provide services for decision making. Such an organizational setup is a product of and necessary for a product economy and a plan economy, but no change in the government organizational setup a decade after reform of China's economic system bespeaks the failure to change government's economic control functions. At the same time, this cannot but hamper the building of a socialist market economy system.

Finally is government agency overstaffing, layer upon layer of administration, and low efficiency. Business concerns universally report that contacting government is fairly difficult and wastes a substantial amount of time. Starting a new project or producing a new product requires approval of the government organ in charge, but after filing reports, a certain amount of shepherding, completion of various procedures, the affixing of various seals, and waiting a certain amount of time is required before approval is issued. The result is a waste of time, a waste of money, and a waste of energy that has a detrimental affect on the enterprise or may even entail serious losses.

The only way to solve the above problems is to be determined to carry out organizational reform. Strict attention to the key element—a change in functions—is necessary, genuinely changing government's economic control functions. This can be used as a foundation for reducing the number of party and government agencies and the number of agency personnel. It is particularly necessary to get rid of or merge some agencies in charge of economic control as well as duplicatory agencies or agencies whose functions are similar while increasing staff and enhancing comprehensive economic organs. Reform must be used to make the assignment of organizational functions, the setting up of agencies, operating methods, and control methods meet the needs of a socialist market economy system.

### **Importance of Ideological Work in Economic Progress**

*93CM0214A Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese No 2, 11 Feb 93  
pp 19-21*

[Article by Liu Jianjun (0491 1696 6511): "The Importance of Ideological Work in its Relevance to the Central Concern for Economic Construction"]

[Text] In recent years, economic construction has been initiated on a wide scale throughout the entire nation, and the concept of economic construction as the central concern has been deeply implanted in the minds of the people and has forcefully promoted China's socialist modernization projects. However, in the extremely favorable state of this ongoing economic construction, there is still the problem of how to further enhance ideological work, how to overcome being "firm with one hand and soft with the other hand," i.e. to rather be "firm with both hands," a problem that still requires utmost attention. All the time that emphasis has been on economic construction, the tendency has prevailed of neglecting, intentionally or unintentionally, ideological work; this has been true in the past, and we cannot say that it is not so at present. Some people believe that since economic construction is the central concern, it is only natural that ideology be somewhat toned down, that stepping up ideological work is be something that is "out of tune with the time," or even something "bothersome" to economic endeavor. In actual work, some people took ideological work merely as "ornamental decor," that could be dispensed with, and did not put it on the agenda.

In actual fact, however, ideology has an important place and function in social development. Ideology is part of the superstructure of society; it is the conceptional, condensed reflection of the socioeconomic foundation, and furthermore, exercises an important reactive influence on the economic foundation. The relation between economic construction and ideology is, in its final analysis, the relation between the society's economic foundation and the society's superstructure. It would be quite erroneous, therefore, to place the central concern for

economic construction in an antagonistic opposition to the work of strengthening ideology. Not only is there no conflict and opposition between the two, but adopting economic construction as central concern will even of necessity demand that ideological work be closely coordinated and attuned to it; only by further intensification will ideological work effectively ensure and promote economic construction.

There are historical and actual reasons for the trend and tendency that has arisen in Chinese society to slacken off in matters of ideology.

In earlier days, especially during the Cultural Revolution, when class struggle was the key link, ideology was raised to a position of absolute supremacy. As if ideology were the foundation on which society depended for its existence, ideology was the criterion by which everything was judged. The principle adopted at that time was to deny that the economic foundation determines the superstructure, and in contrast, a one-sided expansion of the superstructure resulted in the thesis of "the superstructure constituting the determining factor." After the Third Plenary Session of the 11th CPC Central Committee, the CPC courageously abandoned the principle of class struggle being the key link, restored economic construction to central position, and rectified the relation between economic foundation and superstructure. However, this was also cause for some people to jump from one extreme to the other, turning from the "thesis of the determining factor of the superstructure" to a thesis of "indifference to and slackening off in ideology." This is also wrong; we must restore socialist ideological work to the important position that it deserves.

Second, some people have been influenced by the ideas of bourgeois liberalization; they have not been able to see through what those in favor of bourgeois liberalization really mean when they expound "slackening off" in ideology. In actual fact, what those people who expound bourgeois liberalization want with their "slackening off," and also with what they call "breaking out of the ideological cage," is not aimed at all at ideology in general and as a whole, but is aimed at the guiding ideology in our society—Marxism. On the other hand, with regard to the ideologies of anticommunism, antisocialism, anticollectivism, and antipatriotism, they will not only refrain from proposing "slackening off," but will even propose that these be forcefully "strengthened." Whether to "slacken off" or not in ideology is basically not a problem at all; what is needed is a forceful strengthening of a type of ideology that conforms to the socialist economic foundation and that is effective in promoting and protecting its development. There is also nothing problematic about any "slackening off" in ideologies that are inconsistent with the socialist economic foundation; they have to be fought in the ideological field with correct principles and methods, so as to have Marxist ideology occupy the dominant position and to continuously overcome all anti-Marxist tendencies.

Socialist ideological work and socialist economic construction are mutually supplementary and complementary, and promote one another. Emphasizing ideological work, on the premise of accepting economic construction as the central concern, will not only not obstruct the progress of economic construction, but will actively promote economic construction, while ongoing economic construction will indeed demand emphasis on and improvement of ideological work.

First of all, socialist ideology is effective in protecting, spurring on, regulating, and controlling socialist economic construction. In a positive way, vigorous Marxist ideological work can provide direction and motivation for economic construction. For instance, Comrade Deng Xiaoping's statements after his southern inspection tour, the party's basic political line, the reports at the 14th NPC, and the propagandistic education on the theory of socialism with Chinese characteristics, all these have in a large measure promoted reform and opening to the outside world, and promoted further progress in economic construction. No one doubts that. In a negative way, if we will only constantly and without relenting pursue socialist ideological work, and do so highly effectively, if we will not allow anything to go wrong in the ideological field, we shall indeed be able to accelerate reform, opening to the outside world, and economic construction more courageously and with much less fear of domestic disturbances. A lesson of the past has been that when no attention is paid to ideological work and when such work is relaxed in normal times, perhaps out of fear of dispersing one's energy, which in turn has an adverse effect on the economy, the result has been that things did go wrong in the ideological field, and that economic construction, ultimately, was indeed adversely affected. Just think, if there had not been the rampage of liberalization ideas, how much more courageously and how much more rapidly would we have been able to pursue reform, opening to the outside world, and economic development some years ago.

Moreover, many items of ideological work permeate economic construction, and all activities of economic construction contain elements of ideological work. For instance, ideological-political work in enterprises is part of the overall economic work; cultural development in enterprises is also part of enterprise development. All this is effective in increasing cohesion among staff and workers within enterprises, harmonizing personal relations, maintaining psychological excellence among all members, i.e. effective in respect of the general spiritual situation. From the point of view of external factors, the state's policy, laws, and regulations normalize and protect economic activities, and with respect to society itself, a law-abiding attitude, morality, and the spiritual attitude of the people are providing the excellent "soft" environment for economic activities.

Ideological work has also the effect of providing assurance of success for economic construction. Development of the economy is important, but not the only important thing. Achievements in material civilization can only be



enjoyed if combined with achievements in spiritual civilization, only then will their true value become more clearly in evidence. If there is only development of material civilization without progress in spiritual civilization, people will not be happy, and socialism cannot possibly be truly realized. Facts have proven that economic development and raising the material living standards will not necessarily and automatically lead to progress in socialist spiritual civilization, and particularly not to ideological and moral progress. It is therefore necessary that economic development and development of material civilization be at the same time accompanied by emphasis on ideological work and development of spiritual civilization.

The importance of ideological work can well be visualized not only in its relation to domestic necessity and in its relation to economic construction, but also in its relation to the overall interests of the state and in international relations. Every country needs a guiding ideology. This is that country's and that society's conscious awareness of the need for self-protection, which internally has a stabilizing and unifying effect, and externally protects the interests of the state and nation in question, and fights off ideological attacks from abroad. This is a clearly established fact of the contemporary world. Some foreign scholars in the middle of this century, for instance, Daniel Beier, have concluded that "the age of ideologies is over," and that a new "nonideological trend" has started. However, the facts are not at

all like this. The facts are that the Western capitalist countries have generally stepped up ideological controls internally and ideological attacks against foreign countries, so that, consequently, a trend of "renewed ideological activity" emerged during the last years of the 1960s. Deepgoing revelations and analyses of this question carried out by "Western Marxists" are still of great value to us in gaining knowledge of the ideology of the capitalist countries.

In the international struggle, ideology is a frequent, commonly used, and irreplaceable weapon. The United States and other capitalist countries are presently using their huge economic and military strength as backup for intensified ideological attacks on other countries, particularly against socialist countries. The accusation by the United States that China is disregarding human rights is one form of ideological attack; and what an overbearing attitude it is! If we were to maintain silence or limit our response to diplomatic parlance, it might appear as if we are in the wrong, and this would land us in a passive position. Ideological attack necessitates ideological defense and counterattack. It may be said that ideological strength is part of the overall national strength. As a socialist state, China not only aspires to great economic, technological, and military strength, but also to great ideological strength. This is consistent with the interests of our state and our nation, and also consistent with the interests of our undertaking of constructing socialism with Chinese characteristics.

## NATIONAL AFFAIRS, POLICY

### 1992, 1993 Economic Situation Viewed

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[Article by research groups of the Chinese Academy of Social Sciences and the State Statistics Bureau: "An Analysis of the Economic Situation in 1992, Forecast for 1993"]

[Text] I. Forecast for 1992, 1993 Economic Situation Forecast for major economic targets is as follows:

#### 1. Production

At constant prices, the GNP growth rate is about 12 percent in 1992, and about 12 to 13 percent for 1993. The national income growth rate is 12.8 percent in 1992, and about 13 percent for 1993. The growth rate of total industrial output value in 1992 will reach 20.5 percent, of which light industry is about 18 percent, and heavy industry about 23 percent; total industrial output value for 1993 will maintain a 20 percent growth momentum and the growth rate of light and heavy industry will be 17 percent and about 23.5 percent respectively; total agricultural output value will increase by 3.5 to about four percent both in 1992 and 1993.

#### 2. Investment

Whole society fixed assets investment in 1992 will reach about 720 billion yuan, up by about 30.5 percent compared with that of the previous year at current prices, and up by 19.9 percent by constant prices. It will reach about 880 billion yuan for 1993, up by 22.2 percent compared with that of the previous year by current prices, and up by 11.2 percent by constant prices.

#### 3. Price

Various price indexes will keep going up in 1992 and 1993. The retail price index will go up by about five percent in 1992, and by about 6.5 percent for 1993. The cost of living index for urban staff and workers will go up by about nine percent in 1992, and by 11 to 12 percent for 1993. The GNP deflators will be 7.5 percent and 8.8 percent for the two respective years.

#### 4. Residents' Income, Consumption, and Market

There will be rapid increases in residents' income levels both in 1992 and 1993. By current prices, the growth rate will be over 15 percent in 1992, and will reach 16 percent for 1993. Residents' consumption will also maintain rapid growth, but the growth rate will be slightly lower than that of the residents' income, 14 to 15 percent in 1992, and about 15 percent for 1993. However, social consumption will maintain an even higher growth rate, over 18 percent in 1992, and 20 percent for 1993. The overall market for the means of production is brisk, the market for retail commodities rises steadily, and the retail volume of social commodities will reach 1,080

billion yuan in 1992, up by 14.5 percent. There will be a continued growth of 15 to 16 percent for 1993.

#### 5. Banking

As a result of the gradual establishment and development of the securities market, there will be a slight decrease in the margin of growth in the savings balance for urban residents compared with that of the previous year, but both 1992 and 1993 will maintain a growth rate of about 21 percent respectively. The growth rate of the savings balance for rural residents is close to 40 percent in 1992, and will be about 38 percent for 1993. Due to the expansion of investment scale, there is a sharp increase in the demand for loans. New loans in 1992 will be about 380 to 400 billion yuan, and various loan balances will increase by 22 percent; new loans for 1993 will reach 420 billion yuan, and loan balances will increase by 19 percent. New money supply in 1992 will reach an all-time high of 90 billion yuan, and money in circulation will exceed 400 billion yuan; new money supply for 1993 will be 65 to 75 billion yuan.

#### 6. Finance

With the picking up of the economic growth rate, the financial situation will be somewhat improved. The growth rate of financial revenue and expenditure in 1992 is 13 percent and 13.7 percent respectively, both exceeding the planned figures, with a deficit of about 25 billion yuan. The financial revenue for 1993 will increase by 14 to 15 percent, expenditure will increase by about 15 percent, and the deficit is expected to be kept under 29 billion yuan. The deficits for the two respective years both account for 6.1 percent and about 1.5 percent of financial income and national income.

### II. Analysis of 1992 and 1993 Economic Situation

#### 1. Judgment of Current Economic Situation

Based on the above forecast, the national economy in the first few months after 1992 and into 1993 will maintain a strong growth momentum and the overall situation is favorable. So long as we do a good job, the national economy will not drop suddenly and the "overheated economy" situation like that in 1988 will not appear either.

Now there is a point of view which believes that the national economy for 1993 will enter a cold and over-cold condition, and which maintains heating it up. Such a judgment is, at the least, not in conformity with the conclusion by positive analysis. The growth of the national economy for 1993 may be lower than that in 1992, but the "over-cold" situation will never appear. Heating it up without careful consideration will only lead to an over-heated economy.

The similarity between the socio-economic environment at present and that in 1988 is that both economic growth rate and investment growth rate are quite high, but other major aspects are obviously different from those in 1988:

First, there have been marked increases in economic strength. The GNP in 1991 grew by about 18 percent compared with that in 1988, and in 1992 the GNP is estimated to grow by 33 percent over 1988; total industrial and agricultural output values in 1991 were up by 33.6 percent and 15.1 percent respectively over those in 1988, and in 1992 they are estimated to increase by 60.9 percent and 20.2 percent respectively over 1988. The inventory and supply capacity of various kinds of commodities, and of consumer goods in particular, are obviously better than those in 1988. This ensures from the supply aspect that there has been no serious imbalance between total supply and total demand.

Second, the growth rate of the residents' consumption and accumulation volumes in 1988 was 27.1 percent and 28.3 percent respectively, and it was 11.9 percent and 7.6 percent respectively in 1991. In 1992, it is estimated at 16 percent and 30.5 percent respectively. The year 1988 was a year of expansion for both consumption and investment. Now residents' consumption grows smoothly, no expansion has appeared, and the contradiction between total supply and total demand is far less acute than that in 1988.

Third, and most important of all, is that after several years of continuing reform, the present socio-economic environment is obviously superior to that in 1988. Its main expressions are: 1) Comrade Deng Xiaoping's talk given during his visit to southern China has taken root in the hearts of the people, and it is impossible for the issue of surname "capitalist" or surname "socialist" to interfere seriously in economic work. 2) The opening-up of the securities market has transferred part of the consumption funds to investment. Therefore, the expansion of investment scale has not brought equally large impact on total demand, and the impact of contradiction between total supply and total demand is smaller than that in 1988. 3) The opening-up drive is moving forward rapidly, and a new round of "investment fever" by foreign businessmen is being set off. In 1988 the growth rate of agreement amounts for using foreign investments was 31.9 percent, and it was 62 percent in 1991. It will keep going up by a big margin in 1992. 4) Various types of markets grow rapidly, and the role of market mechanism is obviously strengthened, which is conducive to preventing the emergence of over-heated economy like in 1988.

In addition, the present financial revenue and expenditure situation, banks' balance amount of deposits and loans, import and export posture, and foreign exchange balance are all distinctly better than those in 1988. In particular, the price rise margin is far lower than the 1986-1988 level. These favorable short-term factors also provide ample space for controlling the possible emergence of over-heated economy.

Analysis of the historical situation since reform shows that the years of high growth of GNP and investment are not necessarily related to an over-heated economy. Over-heated economy appeared in 1988, when the GNP

growth rate was 11 percent, lower than the 14.5 percent level in 1984; the growth rate of fixed assets investment that year was 23.5 percent, also lower than the 38.7 percent level in 1985. Over-heated economy is a result of the comprehensive effects of many kinds of improper economic behavior and one should not lay blame in an oversimplified way on a rapid growth of GNP and investment.

Of course, we must keep a cool head and be sober-minded, because rapid economic growth may indeed lead to two kinds of completely different results. One possibility is that the national economy grows more rapidly, yet various other aspects still maintain a certain coordination, and after a few years of quite rapid growth, the economy has scaled a new height and created quite favorable conditions for further development afterwards. Another possibility is that the economy grows more rapidly in recent years, yet restructuring and performance improvement are neglected, and blind pursuit of speed and rushing headlong into mass action appear again. Macroeconomics runs out of control, economic operations become over-heated again in two to three years, dislocation emerges in both total amount and structure between total supply and total demand, obvious inflation appears, and we are compelled to make readjustment again. Judging from the present situation, the conditions for these two possibilities to become reality are growing and the factors for realizing the first better possibility are more distinct. So long as we unswervingly intensify reform, appropriately strengthen macroeconomic regulation and control in a timely manner, and strive to guide the growth of positive factors and inhibit the impact of negative factors, it is possible to avoid the emergence of "over-heated economy" like 1988.

## 2. The Economic Growth Rate in 1993

In the course of working out the Eighth Five-Year Plan and the 10-Year Program, most of the people believe that the annual average rate of about 8-9 percent is appropriate for the next 10 years of economic development. This is quite suitable to China's state conditions and the requirement of the international situation. However, so far as the year 1993 is concerned, the appropriate rate should be higher than the average rate of nine percent. Its necessity lies in:

First, in the course of long and medium-term economic development, in particular the economic development with a low starting point, the growth rate of the early stage should be higher than the average rate of the overall program period. Rapid growth first and slow afterwards is the common characteristic for almost all industrialized countries in their course of development.

Second, in the course of long-term economic development, economic growth is cyclical, by stages, and is a universal law. Judging from experiences at home and abroad, if the growth rate of upturn (or downturn) stage is about 20 percent relative to the margin of change in average rate, it would not affect the overall growth trend, nor would it bring about vicious fluctuation. China's

economy is in its upturn stage at present, and a growth rate higher than that of the average may not necessarily be inappropriate.

Third, the growth rate from January to August 1992 has actually reached 12 percent, and it is estimated to be even higher for the whole year. There are now many problems to which we should attach importance, yet the overall situation is fine, and the macroeconomic regulation and control strength for controlling the momentum of over-heated economy should not be too great. If "hard" measures are taken to press down the growth rate to 8 to 9 percent, it could bring about a certain degree of confusion in economic order, and will give rise to chain reactions. Moreover, it will increase friction between the central and local authorities, and the reaction of "reverse direction decision making" by local authorities would increase the difficulty of macroeconomic regulation and control, which is unfavorable to carrying out the principle with guidance as the dominant factor.

The possibility of effecting a higher growth rate in 1993 lies in:

First, there are many aspects in the present socio-economic environment which are obviously more favorable than those in the past, and we should seize this opportunity to speed up development.

Second, an important characteristic of current growth is that it is driven by the growth of investment scale. Such a way of growth is normal, and is favorable to industrial structuring, to the promotion of technological progress, and to laying a solid foundation for long-term development. Judging from the plans of departments concerned, to maintain a 9 percent growth rate in 1993 with 800 billion yuan of investment can be realized. With further intensification of reform and opening-up, and the heightening of the initiatives by local authorities and departments, actual implementation results will inevitably be higher than the planned figures.

Third, the agricultural production situation is fine for several years running, which has created important conditions for stabilizing commodity prices.

Fourth, the state has made large amounts of investments in basic industries, which is now creating production capacities one after another, and the production situation of energy and raw materials has not yet constituted serious "bottleneck" restrictions on economic growth within a short period of time.

However, it is necessary for us to pay more attention to various kinds of existing long-term and short-term unfavorable factors, and too high a growth rate would intensify the contradictions caused by these unfavorable factors. Major problems are:

First, the extent of "bottleneck" restrictions on economic growth by communications and transportation keeps increasing. At present, the growth of communications and transportation lags far behind economic

growth. The problem of energy supply is quite conspicuous in some areas. With continuous economic growth, these problems will become increasingly serious. However, there are some other structure problems; for example, delay in the development of tertiary industry, decline in the proportion of investments in basic industries, the growth of consumption slower than that of light industry, and the contradictions between consumer goods production and market capacity would intensify as a result of too high economic growth, etc. However, on the other hand, investments made by the state in the past in communications and transportation industry will build up a certain scale of new supply capacity in a year or two. According to tests made by departments concerned, the communications and transportation industry can still maintain 11 percent GNP growth by tapping potentialities and making new increases. The "bottleneck" restriction is a long-term problem, and it is impossible to get it basically resolved within a short period of time. The existence of the "bottleneck" problem is favorable for us to turn pressure into motive force and to promote the development of the socialist market economy.

Second, the banking situation turned from smooth to tight in 1991. Loans broke through the plan control targets by a big margin, the pressure of additional money supply was very great, new cumulative loans from January to August 1992 were up by 23.3 percent over the corresponding period of the previous year, and the amount of currency in circulation was up by 28.7 percent. These problems have undoubtedly brought about potential inflation pressure.

Third, the leading role of the market mechanism in socio-economic operations has not yet been built up. Under such circumstances, too high growth rate would bring about structure inferiority and performance decline, which are unfavorable to improving reform.

Moreover, we should also take into account the changes in the international political and economic environment, and the negative impact caused by certain unfavorable factors that may appear therefrom.

Based on the above analysis, we believe that the economic growth rate for 1993 should be higher than the average level of 9 percent, and should not be even higher than the present rate. Plan arrangements should be at about 10 percent. This way, it is favorable to easing the tense relations in various macroeconomic aspects, and increase the possibility of high-speed, coordinated, and effective development of the national economy over a longer period of time to come. However, as various quarters are highly enthusiastic in speeding up development, there inevitably intermingles a certain degree of local and departmental blindness. Since the system of the socialist market economy is still in its course of formation, it still lacks effective means for macroeconomic regulation and control. So long as measures to "put on the brakes" are not taken, it is extremely possible that the results of actual implementation would exceed the

planned targets. According to analytical tests, even though the results of actual implementation do not exceed planned targets by about two percentage points, the macroeconomic environment remains basically acceptable, and would not give rise to serious problems within a short period of time. Of course, this would make various kinds of structural problems stand out more sharply, postpone the time for solving the problems that require immediate solution, and increase the difficulty in solving these problems, which is unfavorable to long-term, steady, and coordinated development. If our job is well done, it is completely possible to control the economic growth rate in 1993 below our estimated figures. When the economy is growing at high speed, it is necessary to pay attention to the content and quality of growth, and attach importance to its long-term efficiency. Either purely in pursuit of speed, or simply in consideration of immediate interest runs counter to the major objective of maintaining sustained, steady, and coordinated economic development and striving to scale a new height for the economy. Such a tendency does exist at present, and we must not lower our guard.

### **III. Policy Proposals on Speeding Up Intensification of Reform and Strengthening Macroeconomic Regulation and Control**

The fundamental guarantee for maintaining the favorable momentum in the growth of the national economy that appeared since Comrade Deng Xiaoping's talk given during his visit to southern China, and striving to scale a new height in economic development, lies in speeding up and intensifying reform and in strengthening macroeconomic regulation and control. Intensifying reform in the 1990s should take the complete realization of the socialist market economy for the major direction, and comprehensive and complimentary reform should be carried out in various aspects. Whether the reform guided by the socialist market economy is successful or not ties up the future destiny of the Chinese nation.

#### **1. The key to appropriately controlling the scale of fixed assets investment lies in the rationalization of the investment structure.**

The motive force for economic high-speed growth in 1992 was big increases in investment, and the concentrated efforts made for the continued maintenance of high speed in 1993 will still be investment. On the other hand, the major problems that crop up at present lies mainly in big increases in investment, such as loans exceeding plans by a big margin, too large new money supply, and the intensification of various kinds of structural contradiction. Therefore, investment has become the focus of both success and failure, the focus to which both the credit and the blame should go.

First, is the present fixed assets investment scale too large? This has to be analyzed from both long-term and short-term aspects. From the long-term perspective, the GNP from 1991 to 1993 grew by 17.8 percent, 32.5 percent, and 49.8 percent respectively over that of 1988,

and the actual investment amount of the corresponding period increased by one percent, 21 percent, and 34.5 percent respectively, far lower than economic growth rate. Therefore, one cannot say in an oversimplified way that the present investment scale is irrational; we should even strengthen investments aiming at particular basic industries. However, from the short-term perspective, the growth rate of actual investments in 1992 and 1993 (15 percent and 19.9 percent) exceeded the GNP growth rate of the two respective years, which would inevitably give rise to short-term dislocation, and might possibly produce impact over a long period of time. Therefore, so far as the investment scale is concerned, we should continue maintaining a certain growth momentum and at the same time pay attention to guarding against too drastic expansion of the scale within a short period of time, and suitably lengthen the dues repayment process for insufficient investment since control and rectification that took place a few years ago. Of course, high growth of investment over a long a period of time will inevitably bring about macroeconomic problems. However, the crux of the present investment problems does not lie in scale.

Second, what is the key to the present investment problems, such as the decline in the proportion of investments in basic industries, rise in the proportion of investments in general processing manufacturing industries, lack of effective control for overlapped construction, and too large a scale of projects under construction. This will make the impact of the "bottleneck" restrictions on basic industries become increasingly serious. Now, the difficulty in investment restructuring obviously becomes greater and the existing investment structure lacks the responsibility mechanism for investment performance, which will also make excessive investments with low performance become the cause for inflation.

At present, the short-term impact for too large a scale of newly built capital construction projects and those under construction is not very evident, and there are even favorable aspects for stimulating the national economy. If investment structure is rational and investment performance high, its long-term impact may not necessarily be bad. The crux of the problem is: If the structure is not rational, performance not ideal, and if the scale is too large within a short period of time, they will surely become causes for an over-heated economy and vicious inflation after a certain period of time.

Third, the fundamental way out for effective control of investment scale and solution to irrational sources of funds and investment structure over a long period of time lies in taking steady measures to reform the investment structure and gradually establishing a risk investment mechanism. Now, the setting up of the securities market has taken the first gratifying step. One of the directions for investment structure reform should be: To set up investment companies with the shareholding system as the basis to absorb extensively various kinds of funds at home and foreign investments, realize multiple

investment subjects, and convert a part of financial investments by the state into providing a certain degree of risk insurance to this type of investment companies and deducting interest for investments in basic industries. Under the present circumstances, various levels of economic, planning, and management departments should continue strengthening management of total amount of investment scale, and ensure the implementation of the state's industrial policies by levying regulatory business tax for investment direction.

## **2. Strengthening macroeconomic regulation and control with guidance as the key link.**

At present there are two major direct purposes for strengthening macroeconomic management, regulation, and control: First, to guard against evident inflation brought about by too rapid economic growth, excessive monetary tension, and hardening of "bottleneck" restrictions; second, to shift the emphasis of high-speed economic growth from speed and quantity as the key link to restructuring, and improvement in quality and performance as the key link. Management, regulation, and control of the ever-increasing nonplanned investments is a new subject we encounter, which requires our regulation and control to make more complete and more flexible use of market economic means; more timely and more appropriately seize the opportunity and more accurately and more suitably control the strength of regulation and control.

Under the present situation, macroeconomic management and regulation and control should take guidance as the key link, and in formulating and carrying out specific policies and measures we should take into account possible responses from the objects of implementation to minimize deviation from state policy of "reverse direction decision" that might be taken by objects of implementation, so as to achieve the goal of regulation and control. When there is the danger of further over-heated investment, I suggest the suitable raising bank loan interest rate and under the premise of maintaining relative stability in the basic tax rate, increase the regulatory business tax rate for investment direction.

The emphasis of management for ever-increasing nonplanned investments should be put on restructuring and the emphasis of investments should be guided into such "bottleneck" basic industries as communications, transportation, and energy. To guide nonplanned investments, primarily local investments onto "bottleneck" industries, it is necessary to follow the interest guidance principle: specialized investment joint stock companies organized by central departments concerned for drawing local investments provide appropriate preferential policies to local funds that are put together. For instance, interest deduction given according to subscription amount, tax revenue return effected for locality, output value outside China calculated to be local achievements, a certain number of labor force organized to follow investments, etc. Implementation of the above measures requires carrying out a reform of the existing financial

investment structure; i.e. central financial investment will not only serve as source of funds for direct investment, but also become macroeconomic means of regulation and control and a part of the central financial investment will be taken out to be used as funds for carrying out interest guidance principle to yield twice the result with half the effort, a part which cannot be played if all financial investments are simply used as direct project investments. Moreover, the central departments concerned should better bring into play the functions of information service, step up propaganda and education of localities on investment direction, fully provide subjects of local investments with information to avoid undertaking projects in a blind way, urge them to participate voluntarily in major project investments, and ensure rationalization of the investment structure.

## **3. Seize the opportunity to develop heavy-duty basic industries.**

The economic growth that appeared at present is high-speed growth with heavy industry as the dragon head. How should we look at the present high-speed growth of heavy industry? In the past, we often only paid attention to the fact that the delay in basic industries was an aspect which restricted high-speed growth and did not regard it as the connotation of high-speed growth. Once heavy industrialization is mentioned, people tend to link it up with heavy-duty industrialization under the highly centralized system of the planned economy from the 1950s to the 1970s, and fear to follow the same old disastrous road of "taking steel as the key link."

With the development of the socialist market economy, great changes have taken place in China's economic system and the rapid growth of heavy industry has become an important connotation of market demand. Experiences in the 1980s have proved that without steady and high-speed growth of heavy-duty basic industries, it is impossible for the economy to effect sustained, high-speed, and effective growth. In the 1990s China's economy will enter the stage of development from enough to eat and wear to comfortably well-off, and it is an objective requirement that heavy industry should first develop at high speed. If we do not look upon heavy-duty basic industries as the connotation and support for high-speed growth, it is impossible to realize an annual average growth rate of nine percent in the 1990s. Judging from the present situation, there also exists the possibility of speeding up the development of heavy-duty basic industries. One of the characteristics in the first half of the 1990s is steady consumption and brisk investment. To step up investments in heavy-duty basic industries is not only a natural trend, but steady consumption itself has also provided conditions for the transfer of a part of possible consumption funds to investments.

Therefore, since 1992, investment demand has spurred on high-speed economic growth and the development of heavy industry faster than that of light industry is a normal trend for the transformation of China's economy

to new structure, and for the upgrading of the technological level. We should seize this favorable opportunity, make the best use of the situation, take positive measures, pay attention to readjusting the proportion within heavy industry, develop end products that win popularity among the masses, speed up technological progress of the industry itself, and strive for a steady development of heavy-duty basic industries in the 1990s, to enable them to render better service to the technological renovation and technological transformation of various industries, to meeting the need of the material and cultural life of the people, and to raising the level of development of the national economy as a whole.

### **Journal on Socialist Commodity Economy Theory**

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[Article by Zhou Shulian (0719 0647 5571): "Important Development in Socialist Commodity Economy Theory—Some Points of Understanding in Studying the Report to the 14th CPC National Congress"]

[Text] The report to the 14th CPC National Congress stated for the first time that the aim of our economic structural reform was to establish a socialist market economy. The stating of this aim is of important theoretical and practical significance. It is the result of the continuous deepening of our understanding of the theory of socialist economy; it is also an objective need in the continuous development of the reform and open policy.

Before the reform, China practiced a highly-centralized planned economy which rejected the roles of commodity economy and market mechanism. At that time, not only labor, capital, and land, but also capital goods, were not considered commodities. In fact, only some consumer goods were considered commodities. The advantage of this system was that it allowed the centralized utilization of resources, thus facilitating the fulfillment of tasks handed down by the state. This system did play a positive role and promoted the cause of industrialization in the period immediately following the founding of the People's Republic. However, a major drawback of this system was that it was not conducive to arousing the enthusiasm of the localities, departments, enterprises, and laborers. As the productive forces developed, China finally embarked on the road of economic reform in 1978.

We have always taken the establishment of a socialist commodity economy as our objective since the commencement of reform. Although not everyone subscribed to the idea of a socialist commodity economy in the beginning, as reform measures taken in rural and urban areas in those days indicated, we were already beginning to practice the socialist commodity economy. As pointed out in the "Decision on the Reform of the Economic Structure" adopted at the Third Plenary Session of the 12th CPC Central Committee in 1984: The socialist economy is a planned commodity economy

based on public ownership. This scientific formulation, which negates traditional concepts which set socialism against the commodity economy and lays the foundation for the socialist commodity economy theory, is an important contribution toward the development of Marxism. The "Decision" basically unified the understanding of the whole party and the whole nation, enabling us to more consciously carry out market-oriented reforms on the basis of the socialist commodity economy theory and achieve universally acclaimed successes in our enterprise reform, market development, macroeconomic management reform, and other areas.

Recognition of the socialist market economy is an important development of the socialist commodity economy theory. We know that the commodity economy has to go through a development process from a developing economy into a developed economy. During the developing stage, market mechanism did not play a dominant role in the deployment of social resources. At that time, the commodity economy could not be called a market economy. When the commodity economy reaches a more developed stage and market mechanism has become the main force in the deployment of social resources, the commodity economy becomes a market economy. The socialist commodity economy should be a developed commodity economy, and as such, it should be a market economy. Some comrades have long held the view that the socialist commodity economy should be a market economy and maintained that we should take the socialist market economy as our objective in economic reform. However, this view has not been generally accepted during these past years. The predominant view then was one that drew a hard and fast line between commodity economy and market economy, maintaining that commodity economy can be socialist in nature while market economy can only be capitalist. This set limitations for the socialist commodity economy theory. It not only meant that the theory lacked thoroughness and clarity, but adversely affected the practice of economic reform and increased the difficulties of economic reform.

Seen from angle of the theory and practice since the commencement of reform, the socialist commodity economy theory has its limitations at least in the following areas:

First, the role of market mechanism. As noted above, the socialist commodity economy is a socialist market economy, and market mechanism should be the main force in the deployment of resources. However, the socialist commodity economy theory which has been in vogue for some time, is not very clear on this point. At one stage, it was proposed that the planned economy should play the dominant role, supported by market regulation. This was a step forward compared with views held in the past which totally rejected market mechanism. However, as it only allowed a very limited supporting role for market regulation, it obviously could not meet the needs of the development of the socialist commodity economy, that is, the market economy. Later



came the proposal to integrate planned regulation with market regulation. Though this was another step forward, it still failed to clearly point out that market mechanism should be the main force in the deployment of resources. This proposal was too general and lacked clarity, as it could be interpreted differently by different people. Since 1989, the proposal that has played a dominant role is the view that planned economy should be combined with market regulation. As interpreted by some comrades, this proposal was in fact a return to the view that planned economy should play the dominant role, supported by market regulation. According to these comrades, it allowed the introduction of elements of market regulation within the framework of planned economy and market regulation could only play a supporting role, not the dominant role, in the deployment of resources.

Second, the independence of enterprises. To help market mechanism play the dominant role in the deployment of social resources, enterprises must become independent commodity managers and market entities. The "Decision" requires state-owned enterprises to become independent commodity producers and managers who are responsible for their own profits and losses. This is entirely correct. A view which now prevails is that state-owned enterprises can only have relative independence. What is meant by relative independence is that it is all right as long as they are relatively independent and are relatively responsible for their own profits and losses. This kind of relative independence simply cannot cause state-owned enterprises to become true commodity managers and market entities. It cannot ensure that market mechanism plays its due role and cannot ensure the development of the socialist commodity economy.

Third, the scope of commodity relations. Another condition for market mechanism to play the dominant role in the deployment of resources is the formation of a competitive market system. In other words, in addition to commodity markets, we should also have production factor markets and should recognize labor, funds, land, and enterprises as commodities. It was once stipulated that under socialism, labor is not a commodity and neither are state-owned enterprises and resources such as land, mines, banks, and railroads. We felt that a stipulation was necessary to make a clean break with the capitalist market economy. If we do as stipulated, how can we form the market system and bring the role of market mechanism into play? This stipulation failed to scientifically draw a clear demarcation line between the socialist commodity economy and the capitalist market economy. Rather, it drew a hard and fast line between commodity economy and market economy.

Fourth, the handling of government-enterprise relations. The proper handling of relations between enterprises and the government is the prerequisite for ensuring that state-owned enterprises will truly become commodity managers and for forming a competitive market system;

it is also of crucial importance to the healthy development of the socialist commodity economy. The "Decision" requires that we separate the responsibilities of enterprises and the government and correctly discharge the functions of administrative organs in the management of the economy. This is both necessary and correct. However, progress in the separation of government-enterprise functions, and the transformation of government functions, has been slow since reform, and many difficulties have been encountered. This has a lot to do with theory and understanding. The abovementioned theory of the relative independence of enterprises, which recognizes some kind of administrative jurisdiction between enterprises and the government, makes it difficult for enterprises to completely cast off their image as appendages of government organs. Besides, a popular view is that ownership in the state sector can only be vested in the hands of the government, and as an administrative organ, the government has administrative power. With property ownership and administrative power both vested in the government, it is difficult to truly separate the functions of the government from those of enterprises. In this connection, we need to make one point clear: What constitutes the main force in economic development, the enterprises or the government? The traditional planned economy sees the government as the main force in developing the economy. However, to develop the socialist commodity economy, enterprises must become the main force. At present, the view that the government is the main force still prevails, as reflected in proposals and practices of delegating power to lower levels and letting them retain a proportion of profits, "pumping in water to breed the fish," steering enterprises toward the market, and ensuring a larger share for the state in distribution. We will not be able to properly handle government-enterprise relations if no effort is made to change this kind of concept and understanding.

How can we overcome the limitations of the socialist commodity economy theory? The way to do it is to develop this theory on the basis of taking its scientific content over into the socialist market economy theory. In particular, we must recognize that the socialist commodity economy is a market economy and that market mechanism is the main force in the deployment of social resources. It should also be pointed out that there have been differences of opinion and arguments on these questions in the past and that correct views were put forward. The problem was that incorrect views could find a basis for their existence within the framework of the original theory and could even use that as their justification to criticize correct views. As can be recalled, the 13th CPC National Congress put forward the proposal: "The state regulates the market, the market guides enterprises." This proposal is in line with the needs for the development of the socialist commodity economy. However, as the proposal of "combining planned economy with market regulation" gained predominance after 1989, the correct proposal put forward at the 13th CPC National Congress was not only shelved but was



subject to unfair criticism. If we admit that the socialist commodity economy is a market economy, and that market mechanism is the main force in the deployment of resources, what is right and what is wrong in many arguments will become very clear. For example, we will easily have seen the drawbacks of proposals such as: "Planned economy should play the dominant role, supported by market regulation"; "enterprises are relatively independent commodity producers"; and "labor, land, and state-owned enterprises are not commodities," and will easily have achieved consensus on the basis of a correct theoretical viewpoint. It can thus be seen that developing the socialist commodity economy theory into the socialist market economy theory is completely necessary.

Developing the socialist commodity economy theory into the socialist market economy theory is also something which is inevitable. The socialist commodity economy theory promotes the socialist commodity economy, and along with the development of commodity economy, practice will break through the limitations of theory and promote the development of theory. The following are some of the obvious cases in point: Labor and land have actually been commodities for a long time. The transfer of property rights has been taking place in some state-owned enterprises, suggesting that state-owned enterprises are being regarded as commodities. Following the formation and development of the shareholding system and stock markets, the commodity nature of state-owned enterprises is becoming more obvious. State-owned enterprises are seeking to completely free themselves from government control and to become truly independent to increase their competitiveness. Some government organs are also seeking a transformation of their functions to meet the needs of the development of market economy. The fruits of practice will definitely find reflections in theory. The 13th CPC National Congress pointed out: The socialist market system not only includes markets for commodities, such as markets for consumer goods and capital goods, but should also include markets for production factors like funds, labor, technology and real estate. A single commodity market cannot properly bring the role of market mechanism into play. It also pointed out: On the whole, the new economic operating mechanism should be a mechanism where "the state regulates the market, the market guides enterprises." These points are developments of the socialist commodity economy theory.

What is worth emphasizing is that Comrade Deng Xiaoping pointed out long ago that a market economy is not confined to capitalist societies, that socialist societies can also have a market economy. In his important speeches during an inspection tour of south China early this year [1992], he again pointed out: Whether planning or market is more predominant is not the essential difference between socialism and capitalism. Planned economy is not equivalent to socialism, for capitalism also has planning, and market economy is not equivalent to capitalism, for socialism also has markets. Planning

and market are both economic means. Comrade Deng Xiaoping's speech provided a solid ideological basis for the establishment of the socialist market economy theory and showed the inevitability of the development from socialist commodity economy into socialist market economy.

### Journal Views Foreign Firms' Profitability

*HK2104101293 Beijing JINGJI GUANLI in Chinese  
No 12, 5 Dec 92 pp 52-54*

[Article by Rong Huiliang (2051 1920 5328): "Why Do Foreign Firms Show No Profit?"]

[Text] After more than a decade of opening up, China has achieved remarkable success in introducing foreign funds. By the end of 1991 we had approved more than 34,000 foreign-funded enterprises (equity joint venture, cooperative joint venture, and wholly foreign-owned enterprises) and over 20,000 enterprises are now in operation. The actual foreign investment capital amounted to \$17.63 billion. This has positively facilitated the modernization process of our economic construction, raised the level of production technology and management in our enterprises, and strengthened our capability in exporting and earning foreign exchange. However, there are still some problems that worry us in foreign investment introduction. One of them is the zero profit phenomenon. According to statistics, about 50 percent of the foreign-funded enterprises are running at a loss, or only escape loss. Some of the enterprises only manage to wring out a little profit. Some have been running for quite a few years, but have never seen any profit at all. In 1989, among foreign investments in Fujian Province, those in the red make up 49.9 percent. In 1990, 60 percent of the foreign-funded enterprises in Fuzhou City were in the red. The Shenzhen Special Economic Zone takes a large percentage of foreign investment. By the end of 1991 there were more than 4,000 foreign-funded enterprises there, one-ninth of the total in China. However, of all the foreign-funded enterprises that are now in operation in Shenzhen Special Economic Zone, enterprises running at a loss account for 45 percent, and enterprises with zero or little profit make up 30 percent, altogether amounting to as high as 75 percent; that is, among four foreign-funded enterprises, only one can make normal profit.

As we all know, foreign-funded enterprises have more advanced equipment, technology, and management, and a better working force. At the same time they enjoy preferential policies of our country (especially in special economic zones). They should have gained better economic efficiency than Chinese enterprises. But the actual situation is the opposite. They are suffering worse losses. Common sense tells us that those enterprises which are running at a loss for a long time cannot survive and they should also tend to lose interest in continuing their investment. But those enterprises never go bankrupt although they are in a long-term loss. On the contrary, they expand their investment and production scale. No

doubt, in the fierce competition in the international investment market, the foreign business people come to invest in China for the purpose of making more profit than elsewhere. But the reality looks to be serious loss. It's hard to understand it and it also draws our attention.

In recent years I read some reports and records and visited the people and departments concerned, as well as contacting some foreign business people. I have gained some understanding of the reasons as to why zero profit can exist. The following is how I see it.

### **I. Imperfect Foreign-Related Laws and Systems Give an Opportunity That Can Be Utilized by Foreign Businessmen**

1. The two original documents, the "Income Tax Law of the People's Republic of China for Foreign Enterprises" and the "Income Tax Law of the People's Republic of China Concerning Chinese-Foreign Equity Joint Ventures," and the current law, the "Income Tax Law of the People's Republic of China for Enterprises With Foreign Investment and Foreign Enterprises," all stipulate a tax holiday for foreign-funded enterprises before their profit-making year. For instance, the "Income Tax Law Concerning Chinese-Foreign Equity Joint Ventures" stipulates that a newly established joint venture scheduled to operate for a period of 10 years or more shall be exempted from income tax in the first two years after it has begun to make a profit and is allowed a 50 percent reduction in the third through the fifth years (herein after referred to as the "two-year exemption and three-year reduction"). The "Income Tax Law for Foreign Enterprises" stipulated that cooperative joint ventures and wholly foreign-owned enterprises may be exempted from income tax in the first profit-making year and is allowed a 50 percent reduction in income tax in the second and third year (herein after referred to as the "one-year exemption and two-year reduction"). The current new "Income Tax Law for Enterprises With Foreign Investment and Foreign Enterprises," effective as of 1 July 1991, continues to provide the production-type foreign-funded enterprises with the preferential tax treatment of "two-year exemption and three-year reduction" from the original income tax laws. This preferential treatment provided by both the old and new income tax laws has, in its real sense, given the foreign businessmen the opportunity to evade tax.

Normally foreign businessmen try to enjoy the exemption from income tax by controlling the profit-making year (in transferring profits) and extend as long as possible the nonprofit years. Some foreign-funded enterprises kept making high profits during the period of reduction or exemption from enterprise income tax, while on the expiration of this period, they very quickly began to suffer losses in consecutive years.

There are also some other foreign businessmen that, in order to continue their enjoyment of income tax preferential treatment, adopt the method of "grafting flowers on a tree," that is, on the one hand, they deliberately

reduce the productive scale of their old enterprises, and on the other, apply actively for the establishment of new enterprises or run "grafting" enterprises with other enterprises in China.

2. A joint venture shall adopt renminbi as its book-keeping base currency. All additions of foreign currency income, foreign currency deposits, and other current accounts in foreign currencies shall be recorded in renminbi converted at their recording exchange rates quoted by the State Administration of Foreign Exchange control while deductions shall be recorded in renminbi converted at their book exchange rates. Differences in the renminbi amount resulting from the conversion at different exchange rates shall be recognized as "foreign exchange gains or losses" and taken as current gains or losses. The "Additional Regulations Concerning the Accounting Treatment of Foreign Exchange Business in Joint Venture Enterprises" promulgated by the Ministry of Finance and the General Taxation Bureau in 1987 stipulates that the differences incurred from purchasing foreign currencies by a joint venture enterprise at the swapping foreign exchange rate shall be recognized as current exchange losses. If the enterprise has been in operation, the differences shall be recognized as a current management fee, otherwise as opening expenses to be shared by the participants of the enterprise.

Regulation as mentioned above also provides good opportunities for foreign businessmen to control the profit-making year. As there is a great discrepancy between the quoted and the swapping foreign exchange rates in China, with the former approximately 50 percent higher than the latter, foreign businessmen may adjust in a large margin their profits of the current year only by choosing the right time to buy or sell foreign currency at the swapping exchange rate, and by realizing the differences in the renminbi amount resulting from the conversion. For instance, there is a wholly foreign-owned enterprise that has not yet been in the profit-making year and estimates that it will have a profit of 5,000,000 yuan. To extend its nonprofit year, it may buy \$4,000,000 at the swapping exchange rate of six yuan to one dollar, thus resulting in an exchange loss of 5,200,000 yuan (at the quoted exchange rate of 4.7 yuan to one dollar). This originally profit-making enterprise has now "suffered" a loss of 200,000 yuan.

Some other foreign-funded enterprises that are now in tax holidays are adopting a completely different method. When the period of preferential treatment (especially the exemption from income tax) is about to expire, they usually sell their foreign currency for investment or foreign balance at the swapping exchange rate to achieve exchange gains, increase the current year's profit, and reduce the next year's profit; or they may purchase goods from foreign markets with deferred payments, and next year (when the time of paying taxes begins) they will pay for the purchased goods with foreign exchanges at the swapping exchange rate, thereby reducing the current year's buying cost and thus increasing the cost next year.

## II. Inadequate Price Information Gives Easy Access for Foreign Investors To Transfer Profit

Most of our foreign-funded enterprises have "two ends outside." These production and processing enterprises buy their equipment and production materials through special offices outside China and their products are sold out to the international markets this way. However, an efficient network for collecting, transferring, processing, and feeding back international market information is not yet established. Some foreign investors take advantage of our lack of knowledge of international market prices and our lack of purchasing and selling organizations of our own. They tightly control the right to buy and sell, as well as to set the prices for the products. They practice "high in and low out," that is, they intentionally raise the prices for importing equipment and production materials and cut the exporting prices for their products. In this way they transfer the profit to the related enterprises outside China. This profit should, in a natural way, be left in the enterprises inside China. Thus, unreasonable loss results.

The high price of the advanced equipment can benefit them in three ways: First, the cost of production is raised and the yearly realized profit is cut down and the tax which should be turned in can be lower. Second, the book value of fixed assets is raised. When the depreciation rate is set, the depreciation fee will rise, which in turn lowers the profit and tax in the later year. Third, they can put in less capital and hold more shares in those joint operations. This broadens their right to control the enterprises and get more profit with the shares they hold.

## III. Foreign Investors' Idea To Solely Possess Profits Leads to This Phenomenon

Foreign-funded enterprises in our Special Economic Zones and coastal regions' economic and technological development areas enjoy an income tax rate of 15 percent. In addition, our country gives them a preferential policy of "two free and three reduced" for taxing. Counting this, the enterprises in our economic zones and coastal economic and technological development areas should only turn in tax at the rate of 9.75 percent over the first 10 years. A tax rate like this is not only lower than the Western developed countries and the countries around China, but is also lower even if compared with Hong Kong, the world recognized port for tax escape. According to international taxing convention, the source of tax is transferred from those heavy tax countries and regions to those light tax countries and regions. This is a principle called "tax flows to the low areas."

Based on the above principle, foreign investors should transfer their profit to our special economic zones and economic development regions where the burden of tax is lighter. But the facts are just the opposite. Foreign investors transfer their profit "reversely" out of China. The reasons for this abnormal phenomenon lie in two aspects: One is because in those joint ventures and joint operations, they say rights (the right to purchase production materials and sell products, the right to set prices

and the right to allocate profit) are all controlled by foreign investors so that the participants on China side do not know the fact that profit has been transferred. Another point is that some countries and regions (including Hong Kong) adopt the principle of only taxing the source areas of their own. Only income from their own countries and regions are to be taxed. Although some countries adopt resident tax, the incomes from abroad (business income) are excluded and free from being taxed. From this we can see that foreign investors not only escape tax in our country, but also enjoy the freedom of tax outside of China by transferring profit out of China. Eventually they swallow all the profit occurred in our joint ventures and joint operations.

## IV. Foreign Investors Doubt the Consistency and Reliability of Our Opening Policy

Many of the foreign investors are not willing to make long-term investment and a large investment. They only intend to open joint ventures and joint operations to start projects which can get going easily and make short range profits quickly. This happens partly because of our unsatisfactory hard investment environment and partly because of foreign investors' own psychological factors. They take a skeptical attitude toward the consistency and reliability of our opening policy. For example, our country still has not stipulated laws like the "Shareholding Company Law" and the "Securities Market Law" which are related to long term investment, or those laws have not left the room yet.

In some places laws are replaced by administrative measures and this can cause foreign investors to feel insecure without laws to protect them. What's more, in the past few years, local governments in various places in our country tried to attract foreign investment and stipulated and issued some preferential regulations which went beyond the laws and policies of our central government. By so doing they aroused the psychological counteraction of the investors. From foreign investors' point of view, the local government can now formulate rules and regulations beyond the central government laws and policies and they can possibly cancel some of the central government's preferential regulations at their own will. To avoid the risk of future policy change, some of the investors decide on short range investment so that they can withdraw their investment in our country quickly. The quickest, and also the easiest, way to take advantage of the opportunity to control the right to buy and sell in those joint operations is to make false deals and raise the price of equipment, production materials, and invisible assets. Even before the project is in operation and the products have entered the market the foreign investor has already got back his investment. When the project starts running and the product goes into international markets, they cut down the prices and make huge profits. Attacks from both sides by foreign investors will certainly make their invested enterprises lose money.

The "zero profit" phenomenon in foreign-funded enterprises not only embezzles the interests of our government, cooperators of our side, and all the workers, but also does harm to the image of our country. It gives other foreign investors a false impression that investment in China cannot make money. So we must take forceful measures to turn those foreign-funded enterprises running at a loss into profitable enterprises.

## PROVINCIAL

### Analysis of 1992 Guangdong Economy

93CE0326A *Guangzhou NANFANG RIBAO in Chinese*  
2 Feb 93 p 2

[Article by the Guangdong Province Statistics Bureau: "The National Economy Enjoys Brisk, Profitable Growth; Reform and Opening Up Create New Breakthroughs"]

[Text] Based on preliminary statistics, the Guangdong Province GDP in 1992 was 221.848 billion yuan, a 19.5 percent increase over 1991, and more than quadruple that of 1980.

Primary Indices of the Brisk, Profitable Growth in the National Economy

#### 1. Rapid Growth in All Three Industries

Primary industry (agriculture) enjoyed accelerated restructuring in 1992 in Guangdong. Although grain production was down a bit from the previous year, the proportion of high value crops grew. Grain enjoyed a per unit area yield of 340 kilograms, once again breaking the record. Meat production is estimated to have grown 5.6 percent, while aquatic product production grew 10.1 percent. The estimated annual value of agricultural production grew to 44.71 billion yuan, a growth of 7.3 percent over the previous year.

Secondary industry (industry and the construction industry) maintained a fairly high speed of development. The estimated annual production value hit 99.927 billion yuan, a 28.5 percent increase over the previous year. Industry accounted for 85.089 billion yuan of the increased production value, a 29.8 percent increase. Production of main industrial products generally grew, with 91 of 107 comparable products enjoying production increases beyond the previous year, while steel, cement, and electronic equipment products all enjoyed significant increases in production.

Tertiary industry exhibited growth in the new wave of robust economic construction. The estimated annual production value of tertiary industry grew to 77.216 billion yuan, an increase of 18.6 percent over the previous year.

#### 2. Societal Reproduction Cycles Were Basically Smooth

Production and marketing were basically well-linked. When production cycle rhythms accelerated, industrial product marketing rates basically kept pace, with annual marketing standing at 95.16 percent of production. With improved product marketing, capital circulation accelerated and the proportion of total circulating capital accounted for by industrial enterprise funds tied up in finished product production dropped somewhat. Raw material supply shortages showed signs of lessening. Guangdong experienced significant raw material supply shortages this year due to the effects of nationwide raw material and transportation insufficiencies. However, strong efforts in various sectors ensured that the delivery of goods and materials to Guangdong grew beyond that over the same period the previous year. In addition, nice production levels in Guangdong for various raw materials coupled with increased imports of certain materials meant that raw material supply and demand was balanced overall, except for shortages among certain materials.

Commodity price increases on the retail markets were mild. Annual retail sales of social commodities were 104.395 billion yuan, an increase of 23.5 percent beyond that of the previous year. Despite the fact that in recent years societal demand has been vigorous, consumer product supply has been sufficient and market commodity price hikes have been mild. Retail commodity prices grew 5.8 percent society-wide, and the workers' cost of living grew 8.4 percent.

#### 3. The Staying Power of Economic Growth Increased, and Results Improved Somewhat

In 1992, Guangdong fortified construction of key infrastructure projects. The estimated annual fixed asset investment society-wide reached 67.2 billion yuan, an increase of 40.5 percent over the previous year. Of this, investment in infrastructure projects increased 45.3 percent. Province-wide, 37 key construction projects made significant advances. De-bugging began on the number four generating unit of the Shajiao A electrical plant, smooth advances were made on the Guangzhou-Meixian-Shantou railway project, and the Fuzhou-Guangzhou fiber optic communications link became operational. All of these projects helped to improve the investment environment. Steps at renovation and transformation were markedly quickened, with the estimated annual investment in renovation and transformation by whole people's units 30 percent greater than the previous year, a growth rate greater than that for infrastructural investment.

With an improved environment for economic growth and with increased enterprise vitality, industrial enterprises enjoyed remarkably rapid profits. Province-wide, total profits and product sales tax earnings for county-level and above industrial enterprises with independent accounting grew 54.6 percent and 17.2 percent respectively beyond previous year levels. The capital to profit tax ratios, cost to profit ratios, and labor to production ratios all grew to varying degrees. The annual composite

profit accumulation index reached 95.22 percent, 4.25 percent greater than the previous year level.

#### 4. Liberalized Reforms Lead to New Advances

In 1992, Guangdong successfully released grain sales prices, while adjusting commodity prices and item charges in a batch of areas. New advances were made in comprehensive reform trials in state-run enterprises and in systemic reform of province-level state-run businesses. Reforms in such areas as social security, the township housing system, village commodity circulation, management of state-owned assets, and financial systems are all moving forward.

In 1992, the three Guangdong cities of Shaoguan, Heyuan, and Meizhou formally entered the fold of the coastal development region, allowing Guangdong's efforts at opening up to the outside world to extend from the coast to the mountainous regions of the north. With implementation of the diversified export market strategy, total annual exports reached 18 billion dollars, an increase of 31.5 percent beyond the previous year. Never before in the last decade had Guangdong seen such growth in the actual use of foreign capital as it did in 1992. The estimated annual use of foreign capital stood at 4.9 billion dollars, an 88.5 percent increase over the previous year.

#### 5. Financial Revenues Expand, and the Standard of Living in Both Town and Country Continues To Grow

In 1992, Guangdong financial revenues totalled 22.1 billion yuan, an increase of 25.2 percent over the previous year. Given the economic development and increased financial revenues, the standard of living in both town and country continued to improve. City and town dwellers had a per capita living expenditure income of 3,184 yuan, and per capita peasant net income was 1,308 yuan. Deducting commodity costs, the actual increase were 15.2 percent and 10.4 percent respectively. Guangdong's rapid economic growth in 1992 provides a nice developmental foundation that coincides with Guangdong's objective requirement for accelerated modernization construction in the current phase. During this period of rapid economic expansion, contacts between Guangdong's economy and the world economy have grown even closer, and the consumption demands of residents have grown correspondingly. Market regulatory mechanisms have played a more vigorous role, thus ensuring that societal reproduction cycles remain fundamentally smooth and promoting the efficient use of resources. This, in turn, has led to the achievement of rapid economic growth and has averted marked currency inflation. Hence, the 1992 economic development look in Guangdong is a positive one. The provincial party committee and the provincial government have acted correctly in these new times in fully carrying out the various adjustment and control measures actually formulated by Guangdong Province.

#### Certain Issues Raised by Rapid Economic Growth

1. Energy resources, transportation, and raw materials tend to be in short supply. Infrastructure and basic industry remain incapable of dealing with this.

The sustained explosive economic growth in 1992 exacerbated the restraints caused by "bottlenecks" in the national economy. In the area of electricity, 44.943 billion kilowatt hours were generated in 1992, an increase of 16 percent over the previous year. Yet, we have still not met the growth in demand for electricity. In the area of transportation, the province-wide total amount of transport carriage in 1992 only increased by 12.6 percent over the previous year, which was 20 percent less than the growth in the gross industrial product. The harbor handling capacity is also seriously deficient. In the area of raw materials and fuels, our stores of such vital commodities as steel and coal continue to fall while their prices rise. Prices for steel and cement used in construction, in particular, have fluctuated wildly, with prices skyrocketing twice in brief succession in 1992.

2. A disproportionately large amount of fixed assets was invested in construction.

In the first 11 months of 1992, Guangdong's ownership by the whole people units launched 1,371 new projects of basic construction and renovation. This represents an increase of 16.7 percent over the previous year and accounts for 22.6 percent of all construction projects. With the increase in new construction projects, Guangdong's ownership by the whole people units now have 111.6 billion yuan tied up in construction, and increase of 22.6 percent over the previous year level. There are signs that real estate investment and development zone construction is getting out of hand. There is, right now, the very real problem of longer construction time and reduced returns on investment.

3. The pressures for capital supply are greater.

In 1992, the expanded scope of capital supply in Guangdong was basically sensible in light of the rapid growth of the economy. The scale of state loans and the currency supply plan were handled nicely. Yet, funds remain a bit tight. Calculations reveal that the variable capital demand in Guangdong in 1992 ran at 1.78, which clearly exceeds the appropriate variable capital demand coefficient of 1.5-1.6 that has existed in recent years. The variable capital demand tends to be too high, and although, in the short-term, it will not cause major problems, yet, it has increased the latent pressure of currency inflation, and it will have a less than beneficial effect on normal economic development, and in particular, on overall societal supply and demand.

### Hainan Planning Director on Improving Market Economy

93CE0391A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 7,  
22 Feb 93 p 26

[Article by Chen Tse (3791 1311): "Progressively Establishing and Improving Hainan's Market Economy"]

[Text] Hainan's Planning Office Director Huang Baozhang graduated in 1960 from the People's University Trade Department, and in the more than 30 years since his graduation, he has worked in planning. Huang thus brings considerable experience to a consideration of China's economic development and dynamics. At Hainan Province's First Peoples' Congress, which just ended, he was chosen as a delegate to the Eighth National Peoples' Congress (he also attended the Seventh Congress).

As China's largest special economic zone, how Hainan Island will be able to most rapidly establish and improve a market economic system is of the utmost importance to the future of Hainan's development. Huang spoke very conscientiously on this issue.

Huang said that in 1988, when Hainan became a province, the entire country was still run through a planned economy, while people advocated a planned economy with integration of market adjustments, the central authorities policy for Hainan was: make market adjustments primary. In reality, this meant run a market economy.

Hainan's economy has developed rapidly over the last several years, primarily benefitting from "policy differences," whereby the center provided preferential policies. However, after the 14th CPC Congress, the central authorities instituted the coastal region policies for areas adjacent to the coast. The courage of inner areas was considerable, they dared to use policies to the full, and showed flexibility. Hainan now faces the following situation: how to handle the issue of the loss of preferential advantages as policies have tended to converge. In addition, looking at Hainan itself in a vertical comparison, the pace of economic development after its establishment as a province compared to before is really quite large, but if we compare it with other special economic zones such as Shenzhen, Zhuhai, Shantou, and Xiamen, Hainan's rate of development is quite slow. Five years after Hainan became a province, the per capita GNP growth rate is 10.5 percent. In comparison, the same rate for Guangdong from 1981 to 1991 was 12.8 percent, for Shenzhen, 38.2 percent, Zhuhai 27.7 percent, Shantou 11.5 percent, and Xiamen 17.3 percent. Therefore, if Hainan hopes to achieve the goal of "studying Guangdong, catching up to Guangdong," it will require more elbow grease.

Huang noted that when it comes to facing this current situation, Hainan wants to develop as rapidly as possible, and should focus primarily on two aspects: first,

use policies to the full. Now that within the country a large number of areas enjoy preferential policies, Hainan should study Guangdong and Zhuhai, which have dared to use policies to the full. Second, Hainan must establish a market economy, and work on improving the market system. Which area will establish a market economy rapidly, and as early as possible perfect the system, and which region's economy will develop rapidly, these matters will be proved by practical experience.

On the issue of how Hainan is to develop a market economy, Huang believes that it should work in the following areas:

First, it is necessary to increase consciousness, and inculcate new ideas. The establishment of a market economy is related to whether or not the Hainan SEZ is successfully developed, and only by properly building a market economy will Hainan be able to develop as rapidly as possible. Government workers must possess a concept of value, and at the same time must have a concept of benefits, including that in the development of the society all consideration must be given the concept of benefits and the concept of value. In addition, it is necessary to possess the concept of participation in the market, that all of a society's key elements must be permitted to enter the market. Hainan at present has already entered the market, and jointly set up an education center, schools, high-speed highways, etc., with the cooperation of foreign businesses or established through independent investment by foreign businesses.

Second, it is necessary to bring about two transformations: Enterprises must transform their management systems, and move towards the market. The government, in adapting to this situation, must transform its function, and give power to enterprises. The government must go from administering to providing services.

In terms of transforming the functions of government, Hainan has already begun to implement this in practice. For example, when it comes to the existing power for examination and approval of funding, within the province there has already been a relaxation. For example, in Haikou, Sanya, etc., approval and examination for internally integrated enterprise investment competence has already been expanded from the past level of 50 million up to 100 million, while foreign capital projects, funding and approval authority at the city level has gone from \$5 million to \$10 million.

Third, integrate establishment of Hainan's market economy with reform. If in the past, enterprises were primarily state-run, then from now on, it is possible to have the integration of varied economic entities including collective, and privately-owned enterprises to have a prosperous and flourishing market. In addition, businesses and enterprises must work under a "plural" system, developing diversified ownership components, diversified forms of management, and diversified management frameworks. It is necessary to reduce the

burden enterprises place on the society, and strengthen the function of the "greater society."

Fourth, attention should be given to hooking up with the international market: It is necessary to conduct affairs in accordance with the laws of value, strictly paying attention to trends in the international market. For example, at present, Hainan's rubber industry and sugar industry are in a slump, and the price of rubber and sugar is high in comparison to international prices. The primary problem is that costs are high, and it is necessary to come up with a method for solving this problem to have exchanges with the international market.

Fifth, it is necessary to accelerate the establishment of market facilities and improve the market system. Wholesale markets and rural markets in each of Hainan's counties are not well developed, and it is necessary to establish these in the provincial plan for this year. In addition, various types of fruit and vegetable wholesale markets, futures markets, and various types of production must have markets established for them.

Sixth, it is necessary to draft various types of market management methods and related laws, and it is necessary to conduct affairs according to the law, and strengthen the legal system.

As for the future of the establishment and development of Hainan's market economy, Huang was very optimistic, and brimming with confidence. He said that the provincial level people's congress and the provincial government have just conducted a new election, and are convinced that the new congress leadership will provide a new boost to the establishment of a market economy on Hainan.

#### **Donghaidao Becomes New Investment Hot Spot**

93CE0413A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 10,  
15 Mar 93 p 24

[Article by Zhang Qufei (1728 0637 7236): "A New Investment Hot Spot: Donghaidao"]

[Text] Do you know Donghaidao? This area has become a new investment hot spot. Donghaidao is situated to the southeast of the Zhanjiang City proper in Guangdong Province, facing the South China Sea to the east, the Leizhou Bay to the south, to the west one can see the Zhanjiang land across the sea, while to the north there is a 1960s-vintage 6.8 kilometer long sea wall linking the urban district. From 1899 to 1945, during the period of French rule, there was at one time a free port here of the French concession of Guangzhou Bay, while from 1952-1958, this was at one point the site of the since abolished Aoxiyue County—Leidong County county seat. The whole island covers an area of 286 square kilometers, with a west to east extension of 30 kilometers, and a north to south stretch of 12 kilometers, with the jurisdictions of Donghai, Dongjian and Minan, and a population of over 130,000, making it China's fifth largest

island after Taiwan, Hainan, Chongming, and Zhoushan. For a variety of reasons, in the past it was the least known among the five large islands, "deeply hidden, unknown to men," and also is the only of the country's islands that has not been developed on a large scale.

Donghaidao is suitable for the establishment of a world-class port, and the island as a whole has 73 kilometers of coastline, among which 6.5 kilometers is deep-water reaching to 26-40 meters, making it possible to establish a 300,000 ton cargo dock, 500,000 ton oil terminal and a port capable of handling more than 1,050,000 tons per year. The island is a port with the shortest passage to Southeast Asia, Oceania, Africa, and Europe. The island's topography features smooth terrain, with good geologic conditions, and 400,000 mu of virgin land waiting to be developed. It has 280,000 square meters of underground water resources to be tapped daily, and is suitable for the construction of large-scale iron and steel works, and the development of chemical and other heavy industries. The Lizhan railway and Guangzhan railway can be extended to reach the island, and in addition there is the Zhanjiang People's Airport, the Zhanjiang Port and the Zhanjiang old city district to rely on, while at its back are the vast expanses of southern China, the great southwest, the economic hinterland, and the beneficial conditions of the rich and abundant local aquatic and tourism resources. Over the course of several years of difficult work, Donghaidao can be built into a base for heavy and chemical industries, the tourist industry, and aquatic products, and this is fully realizable.

Last March 1992, the Guangdong provincial party committee decided to take the development of Donghaidao as an act of expanding and opening, and last July, the Guangdong people's government officially concurred with the establishment of the Zhanjiang City Donghaidao pilot zone. Before this an endless stream of visitors came to inspect, including national leaders, the leadership of relevant national ministries, specialists, scholars, as well as foreign businessmen who had previously discussed cooperative ventures. On 20 September 1992, State Council Vice Premier Zhu Rongji, and on 1 February 1993 State Council member and State Science Commission Chairman Song Jian visited Donghaidao to inspect and guide policy, while former State Ministry of Metallurgy Minister Li Dongye [2621 2639 0396] and current Metallurgy Ministry vice ministers, and relevant leaders of the State Planning Committee all visited Donghaidao. In January 1993, Shenzhen City Party Secretary Li Hao lead an observation group made up of some leaders from large corporations which had previously discussed cooperation, while Shenzhen City plans to select on Donghaidao a 10 to 20 square kilometer area for carrying out comprehensive development.

Donghaidao's largest construction project is the establishment of a large-scale steel works, planned to have an annual steel production of 10,000,000 tons. On 3 November 1992, Shanghai Baogang Group Corporation President Li Ming [7812 2494] and Guangdong Province Governor Zhu Senlin [2612 2773 2651] jointly signed a



project proposal for the construction of the Zhanjiang Iron and Steel Corporation, which had already been officially reported to the State Council. At the end of February this year, the Guangdong people's government and the Shanghai Baogang Group Corporation jointly convened on Donghaidao a Zhanjiang Iron and Steel Corporation pre-feasibility research investigation meeting. At the meeting, more than 200 experts and leading cadres were of the opinion that the establishment on Donghaidao of a 10,000,000 ton large-scale steel works, establishing Donghaidao as an iron and steel base straddling the turn of the century, with very good circumstances, a very good environment, and very good conditions, was the best choice. The Zhanjiang Iron and Steel Corporation is a large-scale project involving "Sino-foreign" cooperation, and in addition to investment by the two Chinese entities Guangdong Province and the Baogang Group Corporation, the corporation cordially welcomes major overseas corporations and major financial groups to come to hold discussions and invest.

In addition to a large steel works, the Donghaidao pilot zone management committee, in accordance with the Donghaidao economic development plan, has proposed 80 near-term economic scientific and technical projects to foreigners to attract business. These projects include such businesses as electronics, machinery, communications, agriculture, and building materials, and all welcome foreign businesses to come and discuss cooperation.

## FINANCE, BANKING

### Li Yining Heads Securities Law Drafting Group

93CE0359A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 5, 8 Feb 93  
pp 24-25

[Article by Chin Yu (4440 1342): "Well-Known Scholar Li Yining (0632 0110 1380) in Charge of Drafting: China's Securities Law Poised for Introduction"]

[Text] The securities law drafting committee, headed by Prof Li Yining, National People's Congress Standing Committee member and well-known scholar, has gone through three drafts, and held a special "Securities Law Symposium" in Beijing on 8-10 January of this year to solicit ideas. It is expected that the fourth draft will be completed soon and will be delivered to the NPC Standing Committee for deliberation.

### Putting an Expert in Charge of an Independent Legislative Effort

Last August, the NPC committee chairmen meeting decided that the NPC should put an expert in charge of drafting China's securities law, and Prof Li Yining, NPC Standing Committee member and well-known scholar, was appointed to the task. Last August and September, the drafting committee toured the Shenzhen and

Shanghai stock exchanges, and upon comparing the securities laws and securities exchange administration systems in the United States, Japan, Korea, Singapore, Hong Kong, Taiwan and other nations and regions, it produced the first two drafts, and subsequently, upon soliciting ideas from a wide circle, it produced a third draft.

Putting an expert in charge of drafting a major law is unprecedented in New China's legislative history. Jiang Ping [3068 1627], vice chairman of NPC Law Committee and president of China University of Political Science and Law, commented that this drafting format is a challenge to the traditional legislative approach. In the past, to draft a law, the process would require the State Council's relevant departments and commissions to submit a draft, and upon deliberation by the chairmen, the draft would be handed over to the State Council's Legislation Bureau for coordination and then reported to the NPC Law Committee for examination. This back and forth process often took several years. For example, the drafting of the "Enterprise Law" actually began in June 1988 and took a long time to complete. This method not only was time-consuming but putting a specific department in charge of drafting a law often allowed that department to consider and consolidate its own interests. Today, an expert is in charge of the drafting of the securities law which eliminates departmental interests; it opens the process to the public from the very beginning; it is an independent, objective process and an expeditious process—this in itself is a major reform of China's legislative system.

When Li Yining spoke on the drafting of this law, he emphasized that China's securities law should consider international practices as well as China's own situation and should be as standardized as possible. Even the best law is useless if it is incompatible with the country's own conditions. The law must be acceptable by the majority. As long as this law works in this century, it is good enough, because at the end of the century, China's shareholding system will take off, and things will change dramatically. For example, the United States continued to revise and amplify its securities law after its introduction in 1933.

### Lay Down the Tracks, Pour the Foundation

At the Securities Law Symposium, Liu Hongru [0491 7703 0320], chairman of China's Securities Supervision Commission, said that the securities market is a very sensitive, active, and risky market, and many nations around the world have encountered various management problems. China's market is still underdeveloped, and the citizens are still not very knowledgeable about financial matters. Securities issuance and circulation involve the public, and if not handled properly, it not only can produce economic problems but can trigger social and political problems. If the securities market has no legal safeguard, the investors will lose confidence. Today, many localities are applying to open securities markets, and to promote healthy market development,



we must lay the tracks and pour the foundation before we allow many cars on the road and let them speed down the highway; otherwise, there will be collisions and all kinds of accidents. That is why we need laws now. Laws also prevent people from using their own subjective will and bureaucrats from dictating their wishes.

#### **Openness—the Heart of Securities Legislation**

“Openness, justness, and fairness”—these are the basic principles of the securities market. When he began drafting the law, Li Yining said that openness is the heart of securities legislation. The sun is the best preservative, and out in the open, we can put a stop to behind-the-scene transactions and manipulation of stock prices and other illegal acts. Therefore, we must put openness first to make stock issuance and transactions more above-board. “Fairness” cannot be a legislative principle. Today, the public is unhappy about unequal market participation which gives rise to unequal opportunities in making profit, and the law should guarantee equal investment opportunity but not to guarantee equal wealth. In fact, some people make money in the stock market while others lose money; there is no true fairness. But this is not what the securities law is for; income differences may be ironed out by other means, such as through the income tax. Therefore, China’s securities law only mention “openness and justness” but not “fairness.”

#### **It Is Not the Purpose of the Securities Law To Ensure Appreciation of State-Owned Assets**

Shareholding in China consists of state-owned shares, legal entity-owned shares, individual-owned shares, and foreign-owned shares. State-owned and legal entity-owned stocks together make up about 80 percent of all stocks. Whether these shares can be traded and how they can be traded are questions to be addressed in drafting the securities law. If these shares can be traded openly, they will put pressure on the market and will reduce the state’s share assets as a percentage of the total available stocks. If they are not allowed to circulate, the state-owned assets will remain stagnant, and the shareholding system will lose its meaning, and meanwhile, it will be impossible to fulfill the principle of equal share, equal profit. In this regard, Prof Li Yining feels that the purpose of the securities law is not to protect the appreciation of state-owned assets but to protect the rights of the investors. All investors are equal, and no one particular type of shareholder should have special rights. The law will not prohibit the buying and selling of state-owned shares, nor will it necessarily stipulate that only a specific level of government may offer its stocks. Because the rights of small shareholders are often infringed upon in the securities market, the law should be stricter on the large shareholders than the small shareholders. For example, over the years, the United States’ supplementary securities rules and regulations have added more legal protection toward the intermediate and small investors.

#### **Putting the Central Government in Control of the Securities Market**

The pending securities law has put the State Securities Control Commission in charge of securities. In China’s political system, the Securities Control Commission is under the State Council’s jurisdiction; the vice chairman of the State Council is concurrently the chairman of the Securities Control Commission, and the other members of the commission hold full time positions. Such an administrative organ should be relatively independent. For example, stock issuance and listing should be examined by accountants, auditors, and the listing committee of the stock exchange, and the Securities Control Commission’s main task is to supervise the implementation of the law. The securities market should be headed and controlled by the central authorities; local governments should not install securities control organs but should cooperate with organs dispatched by the state’s Securities Control Commission. As for the management approach, China should not adopt the United States’ “principle of standards,” that is, so long as they satisfy the norms, all securities will be accepted for registration. Instead, we should combine the setting of criteria with an examination and approval process while emphasizing the former. In other words, stocks that do not satisfy the norms will be refused, and those that meet the criteria are registered upon approval by the relevant administrative organs.

#### **Government To Set Up Tax Revenue-Sharing System**

93CE0398A Hong Kong TANGTAI  
[CONTEMPORARY] in Chinese No 24, 15 Mar 93  
pp 42-44

[Article by Wei Chih (4850 3112): “The Central Authorities Try To Prevent Undermining by Regional Governments—New Action Will Be Taken on China’s Financial System”]

[Text] The “abnormal situation” in recent years with respect to central and regional finances has resulted in an increasingly strained financial condition at the central level, and weakened to a great extent the central government’s capacity to regulate and control financial activities. This has prompted the central government to do something to prevent regional governments from contending with it for revenues. The action to be taken, as we have learned, is to replace the present financial responsibility system with a tax revenue-sharing system.

#### **The Financial System Is Irrational**

In general, if the financial system is compatible with the economic system, or in other words, if the financial system itself is rational, government revenue and central finances should increase with the growth of the economy. But the actual financial situation does not follow this rule, suggesting that the financial system is not rational.

The current financial system is based on the system of "dividing revenue and expenditure between the central and regional governments and holding each responsible for balancing its budget" (also known as "serving meals to different diners from different pots"), which was put into effect in 1980. Even though another system known as "dividing taxes between the central and regional governments, approving their revenue and expenditure budgets, and fixing their responsibilities" and several other forms of financial responsibility systems were implemented later, there has been no change in essence from the 1980 system.

#### **How Do the Central and Regional Governments Contend for Revenue**

Dividing revenue and expenditure between the central and regional governments means that their revenue and expenditure budgets are based on the earnings and disbursements of enterprises, institutions, and administrative units under their respective jurisdiction. That is, earnings of central enterprises go to the central government, and their disbursements are borne by the central government. Likewise, earnings and disbursements of local enterprises are received and borne by regional governments. Holding each responsible for balancing its budget means that the governments of various localities take responsibility for balancing their own budgets of revenues and expenditures as specified above. These regional budgets are drawn up by the regional governments themselves. This is called the financial responsibility system.

The main problems of this system are as follows: (1) The central-regional financial responsibility system is not a standard and normal system because it does not clearly define the administrative and financial powers of the central and regional governments (the division of revenue and expenditure is based on the jurisdictions over enterprises, not the functions of the central and regional governments). This affords excuses for local governments to bargain with the central government—their bargains are centered on the base figures for regional revenues and expenditures, and accordingly, the share of the surplus they can retain. The regional governments want to have a higher base figure for expenditure and a lower base figure for revenue so that they can retain a greater share of the surplus. Thus, in the distribution of financial resources, the central and regional governments haggle endlessly over base figures and surplus shares, each trying to get more from the other. As can be seen, the financial responsibility system itself is not a stable, normal, and standard system. Moreover, the central government, unable to stand the heavy financial burden, is compelled to use abnormal means to get money from regional governments and grassroots units. It even resorts to such measures as borrowing money from regional governments or forcibly using their financial funds. On the other hand, regional governments are using various overt and covert tactics to take in money and hide their financial resources. Examples are reduction or exemption of taxes on enterprises, issuance of

preferential loans, and raising funds from or imposing levies on enterprises. The purpose is to obtain more food from the central government's "big pot." Some regional governments even ask the central government for money when their revenues cannot cover their expenditures. The financial responsibility system is, therefore, a system that only makes regional governments "responsible for using surplus, but not for meeting deficits." The result is that the central government's financial revenue is declining, while that of regional governments is shooting up.

As for the financial revenues of different regions, disparities exist because it is difficult to set up reasonable base figures and surplus shares for various localities.

(2) Since regional governments get the earnings of local enterprises, they are, on the one hand, making ceaseless efforts to expand local enterprises to increase regional revenues. All localities are vying to become "big and complete" or "small and complete." Redundant plants are built, and overlapping projects are constructed. On the other hand, they are trying to restrict outside enterprises from entering into their markets so as to guarantee "no outflow of revenue." Of course, the underlying cause of this problem is the current financial system, which divides enterprises between the central and regional governments and blends government administration with enterprise management. This system has resulted in the overemphasis of local interests and an undue increase in regional revenue. It also encourages regional governments to make indiscriminate investment and set up their own economic regimes, making the economic structure extremely irrational.

#### **The Central Government Still Subsidizes Regional Governments**

(3) A pure market economy is a system in which the market regulates all economic activities and determines commodity prices, and there is no need for financial subsidies. However, the pure market economy is characterized by spontaneity. When the government tries to control this spontaneity with financial means, it may take various measures in connection with revenue distribution, such as tax reduction or exemption, submission of revenue to the treasury, and expenditure subsidy. It is in this way that financial subsidies appear in the market economy. Financial subsidies are a measure by which the government adjusts the economy. But the question is that the financial subsidies on the mainland are in large amounts, wide-ranging, multifarious, and long-lasting. Moreover, there is a special subsidy to make up for the operational losses of state-owned enterprises. The mainland's financial subsidies have already drifted away from the purpose of adjusting the market's spontaneity, and their amounts have expanded far beyond the central government's financial capacity. What is more, these subsidies, which no longer serve the purpose of adjusting the market's spontaneity, are very hard to abolish. Such being the case, the central government has

no choice but to cut its necessary spending or suffer a financial deficit to maintain subsidies.

(4) Administrative expenses have increased considerably for two reasons: the over-expansion of administrative organizations and skyrocketing expenses.

Another factor contributing to the mainland's financial predicament is that state-owned enterprises are under the administration of either the central or regional governments. They are belongings of the government rather than main elements of the market. Comparatively speaking, the development of the mainland's economy in these years is attributable to nonstate-owned enterprises (economic sector) rather than state-owned enterprises. State-owned enterprises, which belong to the government, cannot gear their operations entirely to the market and make all-out efforts for market competition. Instead, they rely on the government. For a long time, it has been difficult to quickly improve their economic efficiency, and their revenues have grown only at a relatively slow pace. This means that the government's main financial sources cannot provide it with a big tax revenue. On the contrary, the government has to give some state-owned enterprises subsidies to make up for their big, sustained losses. As a result, the government's spending has climbed up without cease. If these enterprises were not under the government's administration and were market elements subject to the law of survival of the superior and extinction of the inferior, then of course, no such subsidies would be necessary. The central government's current relationship with state-owned enterprises, which is "more spending than receipts," is bound to further aggravate its financial difficulty.

#### Ways To Reform the Mainland's Financial System

With regard to steps to be taken by the mainland to extricate itself from the financial plight, its vice finance minister, Xiang Huaicheng, has noted that the key solution to the problem is to improve the operational efficiency of state-owned enterprises, drastically cut administrative expenses, and boldly reform the current financial system. Specifically, this includes the following:

It is imperative to thoroughly separate government administration from enterprise management. State-owned enterprises should no longer be under the administration of any level or department of government. They should be out-and-out market elements engaged in competition according to the law of survival of the superior and extinction of the inferior. This will not only gradually improve the economic returns of enterprises, and accordingly, increase the government's financial revenue, but also cut down or even eliminate the government's subsidies to enterprises, thus reducing its financial spending. This also constitutes the basis for the "tax revenue-sharing system." If government administration

is still blended with enterprise management, regional governments will do everything possible to protect local enterprises and safeguard local interests, no matter what financial system is introduced. This will impede fair competition between enterprises and the rational flow of resources, hamper the development of the economy, and make it impossible to open new tax sources.

It is imperative to accelerate the tempo of organizational reform, streamline government administration, and control institutional purchases. Now, the government is in the process of a large-scale organizational restructuring. It is necessary to close down excessive organs and merge overlapping departments as soon as possible. All units should have a fixed size and a fixed number of personnel. Administrative personnel should be reduced. On this basis, efforts should be made to strictly control the purchases made by government organs.

The financial responsibility system should be replaced by a tax revenue-sharing system. Xiang Huaicheng said: "The present central-regional financial responsibility system is not a standard system. Its drawbacks are unveiled more and more clearly." As can be seen, this system must be changed. The alternative is a tax revenue-sharing system. The latter reasonably divides taxes between the central and regional governments. A central tax system, including predominantly product tax and value-added tax, is to be formed to guarantee the central government's revenue. Parallel to this will be a regional tax system, which is an independent regional tax revenue system, consisting mainly of business tax, income tax, resources tax, and urban maintenance and construction tax. A prerequisite for such a division of taxes is to clearly define the functions (administrative power) and financial power of different levels of government. With the division of taxes, independent tax management systems should be set up at the central and regional levels. The tax revenue-sharing system should be implemented on the basis of separation of government administration from enterprise management. On the one hand, the central and regional governments each have their independent tax systems, or stable revenue sources, as well as their own expenditures. This will stabilize, normalize, and standardize the financial system. Regional governments will no longer need to haggle with the central government about base figures and surplus shares. On the other hand, as the division of the central and regional revenues is based on the categories of taxes instead of the jurisdiction over enterprises, administrative intervention in enterprises by the government and trade barriers between different regions will be lessened or even eliminated. This will facilitate the flow of commodities and raise overall economic efficiency, thereby increasing the total financial revenue.

All in all, without the above reform, it will be very hard for the mainland to extricate itself from the present financial difficulty. Instead, there is every probability that it will fall into a more acute financial plight.

## SMALL-SCALE ENTERPRISES

### Rural Enterprises Face New Market Challenges

93CE0410A Hong Kong NAN PEI CHI [NORTH AND SOUTH POLES] in Chinese No 272, 18 Feb 93 pp 58-60

[Article by Mei Zhusong (2734 4554 2646): "Township Enterprises Face 10 Challenges in Market Economy"]

[Text] Although they have been a pacesetter in the market economy on the mainland, township and town enterprises will face even more severe challenges as the market economy becomes more sophisticated.

There has been an indissoluble bond between township and town enterprises and the market economy from the very beginning. Today they are the star performers in the market economy on the mainland. Yet even more severe challenges await them as the market economy becomes more sophisticated.

### The Challenge of Diversification of Key Market Players

For particular institutional reasons, enterprises owned by the whole people have never succeeded in truly becoming a part of the market, enabling township and town enterprises to shine in their lone splendor in an otherwise piecemeal market economy. As reform succeeds, township and town enterprises will share the center stage of a single market economy along with its benefits with enterprises owned by the whole people. Diversification no doubt will spur the vitalization and flourishing of the market economy and help the development of township and town enterprises, at the same time generating more conflicts and competition between them and other enterprises. Their ability to cope with competition and pressure from other market players will be one of the factors in determining their success in surviving and developing in a market economy.

### The Challenge of Market Institutionalization

Compared to the traditional market, the modern market is far more highly organized. In the past the unorganized nature of the mainland market economy provided the conditions for the unique operating method of township and town enterprises even as it impeded their entry into the market as well as their operations. The unique operating method of township and town enterprises is characterized by unequal competition and smacks of a gray market. For instance, when a township and town enterprise engages in lateral cooperation with a large or mid-sized enterprise owned by the whole people, they are not competing on a level playing field. A township enterprise has rigid budgetary restraints while an enterprise owned by the whole people has soft budgetary restraints, so the market principle of interest reciprocity cannot be realized. To effect this kind of exchange of unequal value, township and town enterprises must pay

a certain "hidden" cost. Clearly, such irregular and disorderly market practices are not compatible with the rules of a modern market.

### The Challenge of the Integration of Domestic and Foreign Markets

Apart from a few export-oriented enterprises, most township and town enterprises on the mainland today are local enterprises based on mass agriculture and supported by the domestic market (even at the county and village levels in many cases.) Their products are confined to a small geographical area. This kind of enterprise will have a hard time adjusting to market integration. After China resumes its status as a signatory to GATT, in particular, the formation of a unified domestic market will accelerate and competition on the domestic market will sharpen. The entry of foreign enterprises and products will only make competition even more ferocious. China's accession to GATT will help mainland enterprises enter the international market, but you have to meet certain conditions to enter the market and it is a competitive process. Under these conditions, township and town enterprises will face a dual challenge, one on the unified domestic market and one on the international market. In essence it is the challenge posed by the integration of the domestic and international markets.

### The Challenge of Capital Goods Commercialization

The absence of the market mechanism from the allocation of capital goods of township and town enterprises manifests itself as primitive fund accumulation and the free use or low costs of land and labor, among other things. This phenomenon has always been touted by township and town enterprises as their unique advantage. After we start buying and selling capital goods on the market, this advantage now enjoyed by township and town enterprises will gradually disappear. When enterprises have to pay for the land they use, it means higher fixed costs. Meanwhile, there are also signs that labor costs are rising. The reason is that the full-fledged development of the market economy will give surplus rural workers more opportunities to choose jobs. As the costs of rural manpower rise, the gap between the labor costs of township and town enterprises and those of urban industry will narrow over time. The continuous development of the rural market economy will enable even more peasants to achieve prosperity. This will generate more idle social funds for township and town enterprises. On the other hand, as peasants become more and more market-conscious, fewer peasants will join an enterprise armed with capital without compensation and there will be reduced opportunities for pooling capital at low interest. No doubt all of this will directly push up the production costs of township and town enterprises and make their operations more risky.

### **The Challenge of the Rationalization of Operating Philosophy**

The operating philosophy of township and town enterprises has always been markedly irrational, as epitomized by their lack of long-term development objectives or sound and scientific operating principles, by an incoherent enterprise decision-making system, and by unbalanced interest relations. These characteristics can be traced in part to the adverse influence of external economic and social factors on township and town enterprises such as the erratic nature of the policies of the central government toward township and town enterprises and the unjustifiable demands that local governments make upon them. In particular, they result from the shortcomings of township and town enterprises themselves. Township and town enterprises were born and developed locally. It will be some time before they can outgrow their parochialism at the heart of which lies the narrow interests of a small-farmer mentality. In the traditional system, there were no sharp conflicts between the irrationality of the operating philosophy of township and town enterprises and the development of production, so it did not receive much attention. As the socialist market economy becomes well established, particularly after the entry into the market of a host of seasoned enterprises owned by the whole people and foreign funded enterprises as well as the emergence of numerous private enterprises, township and town enterprises with their strong Chinese characteristics will find themselves in a ferociously competitive market environment. Under these circumstances, a developing enterprise will need correct strategic thinking and a correct operating philosophy more and more if it is to realize its long-term interests by following a rational course. This being the general development trend, it is imperative that township and town enterprises overhaul their operating philosophy urgently.

### **The Challenge of the Rationalization of Operating Mechanism**

Through endless experimentation and improvements, township and town enterprises have hammered out their very own flexible operating mechanism. Judging from the present situation, however, many township and town enterprises have failed to take advantage of this mechanism. In some enterprises, offices duplicate one another in violation of the principle of making the organization lean, and efficient. Other enterprises err on the side of egalitarianism in distribution, weakening their drive for development. Yet other enterprises are so enthusiastic about funding social undertakings that they have saddled themselves with a heavy burden. The original operating mechanism of township and town enterprises is deteriorating. If this decline is not checked soon, some township and town enterprises will become utterly unable to compete in the new socialist market economy just as droves of state enterprises are changing their operating mechanisms. What is particularly worth mentioning is that the confusion surrounding property rights relations in township and town enterprises is also a serious

problem. It is common for state revenue and funds to "evaporate, escape, leak, and disappear" through management and production malpractices, with nobody being held accountable.

### **The Challenge of the Scale Management of Enterprises**

Township and town enterprises by and large operate on a fairly modest scale. This has something to do with the history of their birth and their course of development. In the early days, township and town enterprises used limited agricultural accumulation funds as their primitive capital, which excluded large-scale investment. Subsequently township and town enterprises were driven "underground" by the leftist ideological line, again preventing significant development. In the wake of reform, township and town enterprises entered a period of rapid growth only to make the mistake of thinking that "when the boat is small, it is easier to change course." Everywhere people scrambled to build enterprise after another without taking pains to expand their scale of operations. Consequently, there was frequent turnover as enterprises opened and closed in rapid succession. The idea that when a boat is small, it can turn around easily is a scale strategy that has helped enterprises fill gaps and cover shortages in the economy and has served the enterprises well in a planned economy. In a socialist market economy, however, a small scale means higher unit operating costs. The fact of the matter is that small scale can be effective only under a specific set of conditions. Nowadays most township and town enterprises are concentrated in the processing industries. In these industries the absence of scale operations amounts to the absence of a large market and hence of profits. Market competition in the future will be competition among giants. As enterprises owned by the whole people, particularly large- and mid-sized enterprises, enter the market, township and town enterprises will find themselves at a competitive disadvantage because of their overly small scale.

### **The Challenge Posed by Scientific Management Methods**

Traditionally management standards at township and town enterprises are quite low. In production management, the emphasis is on quantity while quality is ignored. In behavioral management, the emphasis is on hardware while software is slighted. For years this kind of managerial backwardness was hidden by a flexible operating mechanism and has not been taken seriously as a result. As the socialist market economy takes shape, the difference between township and town enterprises, on the one hand, and enterprises of other ownership systems, on the other, in terms of mechanism no longer exists, thus exposing in sharp relief the gross backwardness of the former's management methods. Moreover, the personnel of township enterprises are of a lower caliber. There are closer blood ties and other local connections among them than is the case in enterprises owned by the whole people. All this has complicated the effort to improve management methods in township and

town enterprises. In a market economy, an enterprise is held together by modern scientific management. Take away scientific management, and the enterprise will have no place on the market. Our awareness of the backwardness of township enterprise management should be the driving force for our push for scientific management.

#### **The Challenge of Upgrading the Technology Mix**

Township and town enterprises on the mainland are a byproduct of mass agriculture. Compared to large- and mid-sized enterprises owned by the whole people, they still fall short in production facilities and industrial equipment, among other things. While they have made some technological gains as a result of more recent developments, their mix of technology still cannot meet the demands of developing a modern market economy because of the absence of intensive competitive pressures and the drag of absorbing redundant rural manpower. After a socialist market economy is firmly established on the mainland, technical exchanges between the domestic technical market and the rest of the world will multiply by the day. Building on their solid technical base, large- and mid-sized enterprises owned by the whole people will take the lead in adopting an upscale technological mix. For their part, township and town enterprises must rouse themselves to catch up for fear of losing a good opportunity.

#### **The Challenge Posed by a Buyer's Market**

Under the planned economy, commodity shortages gave rise to a perennial seller's market, precisely the very thing that created an opportunity for growth for township and town enterprises. On the other hand, the establishment of a socialist market economy will inevitably lead to the booming of the product market. Commodities will be of an improved quality and there will be more of them, developments that will favor the buyer. In other words, a buyer's market will appear. The appearance of such a market is different from a temporary bout of market sluggishness; it will be a long-term situation which ordinary sales and marketing tactics cannot alter. Faced with this phenomenon, township and town enterprises must radically adjust their product design, production, manufacturing, and marketing and work out totally new management standards and operating requirements to meet the challenge posed by a buyer's market.

## **AGRICULTURE**

### **Chen Junsheng on Measures To Improve Agriculture**

93CE0328A Beijing *NONGMIN RIBAO* in Chinese  
24 Feb 93 p 1

[Text] Recently, the State Council approved a series of policies that hundreds of millions of farmers have long hoped for, including guaranteed procurement prices, price ceilings on farm production materials, and lower tax rates for specialty agricultural and forest products.

These measures protect the interests of farmers, inspire their productive zeal and promote the stable development of grain production. The "National Conference To Announce Policies on Grain Output, Marketing and Product Orders" convened by State Councillor Chen Junsheng on 23 February in Beijing disclosed the aforementioned information.

Chen Junsheng said that China must drastically change its style of leadership in regard to agriculture—that is, change from purely planned directives to leadership based primarily on accurate market information and correct policies; change from pressure to plant and harvest to improving a series of socialized services; and change from relying primarily on administrative orders to applying economic leverage to carry out macroeconomic adjustment. The announcement of the production and marketing policies and the organization of direct ordering of goods is an important starting point in making this change.

State Councillor Chen Junsheng announced eight measures on how to rely on economic policies to advance reform of the grain purchasing system and advance the development of agricultural production:

1. Implement different levels of management for grain, and establish a bi-level regulatory system at the central level and at the level of the province, autonomous region or centrally-controlled municipality. The central authority is responsible for special grain reserves, and only in the event of a national or regional-scale natural disaster or other contingency beyond the ability of the province, region or city to handle can they be used. Provinces, regions and cities are responsible for their own annual balance of grain. Because of the change from centrally planned allocation to market adjustment, each province, region and city will handle the movement of grain across provincial boundaries through direct purchasing or the wholesale market. Each province, region and city must also establish a special system of grain reserves, which will be used to alleviate provincial, regional or municipal grain shortages, regulate supplies and ensure a balance of supply in regions within provinces.

2. Sign sales and purchasing contracts, guide farmers in making fair adjustments to the product structure, and improve the link between grain production and marketing. At this stage, it is necessary to strengthen the contract system of purchasing grain. In places where orders have already been cancelled, grain enterprises should sign sales and purchasing contracts with farmers, and the contracts must clearly specify, before production, the amount, variety and quality of grain required. The grain futures advance payment system must be maintained, with 20 percent of advance payment funds going to farmers.

3. Establish a guaranteed price system for grain purchasing to maintain stability of grain production. The guaranteed price set by China basically uses the current

purchasing price as the base. The guaranteed grain price set by the central government functions as the entire country's base guaranteed grain price. Each province, region and city can refer to the base price set by the central government depending on their own local grain market situation, and set guaranteed prices for grain that falls outside of set purchases, state purchases and special reserves. Implementing a system of guaranteed grain prices requires a risk protection system as an essential component. Currently, risk protection funds come primarily from cuts in central and local grain subsidies; the scope of guaranteed grain prices is limited to state grain purchases and special grain reserves.

4. Improve redemption methods of "linked" chemical fertilizer and diesel oil for grain and cotton, and add surcharges to the contract purchase price of grain and cotton. The State Council decided that beginning this year, the discrepancy in negotiated prices between grain and cotton linked with fertilizer and diesel oil will be converted to cash, and surcharges will be added to grain and cotton purchases. At the time of purchase all purchasing departments are responsible for paying farmers directly. All of the linked fertilizer and diesel oil owed should also be redeemed.

5. Strengthen price management for farm production materials, and establish limits on fertilizer, pesticides, agricultural film and diesel oil for agriculture beyond planned amounts. The State Council requested that an upper limit be established for industrial enterprises according to the principle of guaranteed principal with small profit, and that increased charges at each stage in the sales process not be permitted. Where the limit has already been exceeded, prices should be lowered so that they are within the limit; where real prices are below the limit, those prices in effect must be maintained—just because a limit is set does not mean that prices can be raised to that level.

6. Strive to increase agricultural investment, and strongly support grain regions to develop the economy. In regard to financial investment and so forth, the State Planning Commission, Finance Ministry, Ministry of Agriculture and other departments have concentrated on large counties with heavy grain-producing work, to promote greater product variety and strengthen the production capacity of regions that primarily produce grain.

7. Adjust the tax rate on specialty agricultural and forest products, and promote the development of a completely coordinated, high-yield, high-quality, and efficient agriculture. Even as the tax on specialty agricultural and forest products, which was first imposed in 1989, began having positive effects, there were still some problems, and further reform is needed. In particular, taxes on some items are too high, placing an excessive burden on farmers; some nominal taxes are too high, but in fact not much of this can be collected, and the actual taxes in various areas are very unbalanced. As a result, taxes on

specialty agricultural and forest products must be appropriately lowered, so that nominal taxes and actual burdens gradually coincide, and tax revenue adjustment is brought directly into play.

8. Continue reform of the grain circulation system, and gradually separate management of grain enterprises and management of special grain reserves. The nation's special grain reserve system must be further improved, and based on the principles of unified planning and equitable distribution, the construction of special national grain reserve storehouses must be accelerated to achieve equitable reserves, standard management, secure storage, flexibility and proper handling. This year, there are plans to arrange special funding for the construction of storehouses. The management of grain must be separated from the special national reserves—they must not be combined; state-owned grain enterprises must enliven their operations, and amid competition, form a main channel that affects the market.

Lastly, Chen Junsheng said: Grain purchasing and contract fulfillment must be conscientiously organized. Grain-selling regions must adopt an active attitude and take the initiative in signing contracts with producing regions. The contracts between producing regions and selling regions must be fulfilled, and notary departments should be asked to notarize the contracts. Railroad, transportation, finance, tax and other concerned departments must actively carry out coordinated services. Each province, region and city, especially areas that primarily produce grain, must also earnestly publicize grain production and marketing policies, so that they are known to every household and are more understandable. They must bring grain orders to the household level and fulfill the production.

#### **Chen Junsheng on Improving Cotton Production**

*93CE0380A Beijing JINGJI RIBAO in Chinese  
9 Mar 93 p 1*

[Article by Chen Qigan (7115 0796 3227): "The State Council Adopts Strong Measures To Stimulate Cotton Production"]

[Text] During the National Conference on Cotton Production, convened by the State Council on 8 March, State Councilor Chen Junsheng [7115 0193 3932] spoke on current prospects for cotton production, policies and measures to develop cotton production, adjusting the textile industry structure, and pilot projects to reform the cotton distribution system.

Chen Junsheng said that in fiscal 1992 cotton production in China went down, because of serious disasters in the northern cotton-growing regions. Because China has substantial cotton reserves, there will be no problem this year in meeting demands from the textile industry, and elsewhere. Based on historical experience, unless there is a large upturn in cotton production this year and next, the impact on the future development of the textile industry, and on national economic development, will be



serious. Governments at all levels must put great stress on this, achieve greater unity in their thinking, and put various policy measures into action, thus laying the groundwork for overcoming the negative effects of natural disasters, and struggling to lift this year's cotton production.

Chen Junsheng said that the State Council's general demand for cotton production this year is to maintain the area planted, and to increase yield per unit of area. He also mentioned several policy measures. While we are addressing the problem of area planted, we must also make good use of measures to increase cotton production, achieving a plentiful cotton harvest through scientific cultivation, focusing on production per unit of area, raising total output and achieving a rich harvest. The national level base counties for high quality cotton, that were established in the past, will serve as the framework for development in the cotton industry. This year, we must get a good grip on cotton production in the base counties. Agricultural, commercial, and scientific research units, must all coordinate together, to popularize scientific cotton raising. Before spring planting, governments everywhere must assist the supply and marketing cooperatives in implementing the contract buying plan, to motivate farmers to plant the amount of cotton called for by the plan, by assuring the stability of procurement prices for the cotton that the government guarantees to purchase under contract. As for cotton beyond what is ordered in the contracts, we will adopt a policy of stockpiling cotton on both the national and local levels, and use price supports to stabilize the market. To support cotton production, the State Council has decided to issue 45 yuan in discount loans, for every dan of cotton it purchases on contract, to be repaid when the cotton is delivered. There will be no change in premium payments and incentive sales, for cotton purchased on contract by the national government. From the beginning of the new fiscal year for cotton, on 1 September this year, incentive sales goods will be delivered in the form of price differentials. Instead of providing 70 catties of chemical fertilizer, and five catties of diesel oil, per dan of cotton, through incentive sales, as in the past, we will pay cotton farmers directly, at the rate of 12 yuan per picul of cotton, in accordance with the difference between the state-set and negotiated prices. (No price differentials will be paid this year for chemical fertilizer already provided at state-set prices).

To mobilize the initiative of the cotton producing areas, we will raise the subsidies provided to supplying provinces, by receiving provinces, in addition to the price paid, from 25 to 30 yuan per dan, in accordance with the national cotton allocation plan. Besides doing a good job of supplying agricultural materials, such as chemical fertilizer, diesel oil, and agricultural sheeting, it is especially important that we do a good job of producing and supplying pesticides, and effectively address the comprehensive prevention and control of plant diseases and insect pests, such as the boll worm. We must buckle

down to supplying urgently needed varieties of insecticides. We must aggressively promote production insurance for cotton. We must strike, with determination, against the illegal manufacture and sale of counterfeit and inferior insecticides. He stressed that, this year, we will definitely take steps to guarantee that funds for purchases arrive on schedule, to prevent the issuance of any more IOUs, and continue clearing up overdue payments for cotton. So far as funds for cotton purchasing are concerned, no matter where, we must clear up these debts once and for all, and repay, in a timely manner, what has been appropriated or diverted. Governments at all levels must provide stronger leadership for cotton production. They must apply accurate information about the market, and correct economic policies, to lead farmers into aggressively growing cotton.

Chen Junsheng pointed out that there is now less of a problem with overproduction in the textile industry, and markets are expanding, both in China and in other countries. But overproduction still exists, and the industry's layout, and product mix, are still irrational. Plans for production in the textile industry this year must be modest. Large and medium-sized state-owned enterprises in the textile industry must seize this opportunity, to optimize their product mixes, pursuing high added value, and sophisticated processing. Readjusting the industrial layout is extremely complicated, and must not be done in a hurry. The producing regions must follow the national plan, and ship their cotton out to supply the consuming regions, which will continue to work on limiting production, reducing inventories, and promoting sales.

Chen Junsheng mentioned that reform of the cotton distribution system, must be carried out both aggressively and deliberately, in accordance with the principle of "trying out a pilot project first, and then proceeding to general implementation step by step."

Vice-Premier Zhu Rongji [2612 3579 1015] chaired the conference. He elaborated on the various policies mentioned above, as well as reform of the cotton distribution system, and other problems, with special reference to the present prospects for cotton production. He called on all departments, everywhere, to earnestly study these problems, and be sure to put these policies into action. Attending the conference were: deputy provincial governors (and vice-chairmen); secretaries general, and deputy secretaries general, responsible for cotton in cotton producing and consuming areas; responsible comrades at related departments of the Xinjiang Construction Corps; representatives of outstanding cotton producers; responsible people at related departments of the central government, and the State Council, etc. There were more than 300 people in attendance altogether.

#### State To Purchase All Cotton With Cash in 1993

93CE0404B Beijing NONGMIN RIBAO in Chinese  
9 Mar 93 p 1

[Article by Sun Luwei (1327 7627 1218): "The State Will Procure This Year's Entire Cotton Crop Whatever It May Be"]



[Text] To ensure a stable development of this year's cotton production, the State Council convened a National Cotton Work Conference six months in advance. Representing the State Council, State Counselor Chen Junsheng [7115 0193 3932] said that this year's general demand for cotton production is to maintain area, raise per unit area yield, and assure peasants that the state will procure whatever cotton is produced, no IOUs will be issued, and payments will be in cash.

To ensure cotton production this year, it is necessary first to firmly establish a certain acreage of cotton. It is necessary to mobilize the peasants to sow as much cotton as possible on fallow land in spring, if such land is suitable for cotton growing, and at the same time to appropriately increase some summer cotton acreage. Wasteland should be reclaimed and sown to cotton in places where conditions are suitable. It is, moreover, necessary to rely on technology to increase per unit area yield. For this purpose, the conference invited 10 of the nation's cotton growing experts and asked them to communicate their cotton growing experiences. The 1993 national cotton area guiding plan is 85 to 90 million mu. The State Council asked all local governments to intensify before the spring sowing season their efforts to induce signing of quota purchase contracts, to fulfill the procurement plan, and to firmly establish cotton field area for each household.

Second, contractual quota purchasing should be continued and procurement prices guaranteed. Chen Junsheng said that we can clearly and definitely tell the large number of cotton growing peasants that they need not fear this year that they will not be able to sell their cotton. The state guarantees procurement, and they will definitely be able to sell their cotton at a good price. To solve the problem of insufficient funds, interest-discounted loans will be issued this year to support cotton production. The State Council has decided that an interest-discounted loan of 45 yuan will be granted for the contracted sale of every dan of cotton. For all cotton purchases within the quantity contracted by the state, there will be no change in the policy of granting extra-price inducements and sale inducement premiums. The State Council has decided that beginning 1 September this year, the start of the new cotton trading year, materials supplied as inducement premiums will be converted to cash according to a method of price differentials, and that cotton peasants will be paid directly 12 yuan as the differential between parity prices and negotiated prices for the 70 jin of chemical fertilizer and 5 jin diesel oil per each dan of cotton. This differential price will be borne by state finances, and will be paid in cash to the peasants together with the extra-price inducement at the time of procurement. After conversion of the chemical fertilizer inducement premiums to cash, the available supply of chemical fertilizer must not be reduced, so as to ensure the use of fertilizer at spring sowing time. Furthermore, the extra-price subsidy for cotton taken in by the province and then shipped out of the province has been increased from 25 yuan to 30 yuan.

Chen Junsheng emphasized that special care should be taken to do a good job in the production and supply of farm chemicals, so as to thoroughly eliminate plant diseases and insect pests. Today's conference was presided over by Vice Premier Zhu Rongji, who pointed out: It is absolutely essential that ways and means be found to prevent diversion of funds earmarked for the procurement of grain and cotton; procurement has not been guaranteed mainly because funds were diverted. This year, it is absolutely necessary to find ways and means to solve this problem. It is definitely not permitted to pay the peasants in IOUs instead of in cash.

### Grain Prices Forecast for 1993

93CE0404C Beijing NONGMIN RIBAO in Chinese  
10 Mar 93 p 2

[Article: "This Year's Grain Price Trend"]

[Text] According to available information from relevant departments, domestic market prices for grain will remain stable during 1993.

#### 1. Wheat

The 1992 wheat harvest was good. Supplies for the general public were ample, and in fact supply exceeded demand in the wheat market. The procurement price in the producing districts of the north basically maintained a level of 300 to 320 yuan per ton (third grade white wheat). Judged by the purchase and sales intentions of member units of China's Zhengzhou grain wholesale market, sellers outnumbered buyers for the various grades of wheat, while stocks were quite abundant.

Although the area sown to autumn and winter grain crops in 1992 was smaller than in the previous year, the area sown to grain in the 11 summer grain districts of the north increased. Because of the increased area sown to wheat in the main summer grain producing areas, and the additional improvement of field management, a good wheat harvest can be expected. Even if wheat production remains at the same level as in past years, there are stocks of wheat presently available at parity and negotiated prices, sufficient to meet all market demand.

In view of the above-mentioned two circumstances, it is expected that the 1993 domestic wheat prices will remain stable.

#### 2. Corn and Soybean

In 1992, corn output declined, and soybean production maintained the same level as in the preceding year. During the entire year, market demand exceeded supply, and prices edged up month by month. Prices for both crops regained stability at a high level only at the beginning of the fourth quarter.

In 1993, domestic demand for both crops will remain strong. Although there are presently abundant resources for future supplies, it is due to the fact that supplies from the new season crops will be late in reaching the market,

that the supply-demand situation will still gradually tighten up. It is expected that prices for these two major crops will level out during the first quarter at the present price levels. During the second and third quarter, prices may rise again, but not to any large extent. It is forecast

that corn prices will not rise above 700 yuan per ton (free on truck/railway car at the producing places). The soybean price will not exceed 2,000 yuan per ton (free on truck/railway car at the producing place). The annual average prices will be higher than in 1992.

**Review of New Literary Work by Zhang Xianliang**  
*93CM0201A Hong Kong CHENG MING*  
[CONTENDING] in Chinese No 2, 1 Feb 93 pp 78-81

[Article by Lu Min (6424 2404): "A Powerful Historical Allegory, Zhang Xianliang's (1728 6343 0081) New Work: *Vexation Is Wisdom* Recounts the Past, Uses Actual Persons and Events To Expose the Calamity That Leftist Bosses Have Wreaked Upon the Nation"]

[Text] Vilified by Leftists as a "Two-Legged Beast"

The famous mainland author Zhang Xianliang, who is renown for his labor-reform accounts, has published a new work, *Vexation Is Wisdom*, a unique specimen of reportage literature. From July through September 1960, Zhang kept a diary while imprisoned on a labor-reform farm, succinctly recording that unforgettable experience. Thirty years later, the author has brought out his dust-laden work and presented it, together with copious annotation, to the public, providing a highly readable piece of reportage literature.

*Vexation Is Wisdom* (hereafter referred to as "Vexation") was published in ZHONGPIAN XIAOSHUO XUANKAN No 5, 1992. In a postscript entitled "Complaint Against Earth," Zhang details his motives for producing the work and provides a glimpse of the subtle trends current in mainland literary circles.

He candidly relates that he published "Vexation" in response to calls for guarding against leftism issued by Deng Xiaoping during the latter's inspection tour of the south, that Zhang is no longer unabashedly dedicated to art for art's sake, and that he does not desire to distance himself from politics so as to achieve literary excellence to ensure longevity for his works, but rather wishes merely to use his own true blood and tears to show that if people forsake reform and opening for the barbaric, primitive path cherished by ruthless savages, all Chinese will be forced to relive the experience his diary depicts.

Zhang's goal is not alarmism but to denounce, through account of his own terrible experience, the rampant lawlessness of leftist bosses during the years he was incarcerated.

He self-mockingly reports that someone has calculated that he is the most criticized of all new-era writers. A publishing house put out a very thick book collecting just some of the articles attacking him. He regretfully notes that literary criticism has grown increasingly outrageous in recent years, moving not only to denunciation a la the Cultural Revolution but to outright condemnation; and adds that an undistinguished assistant professor sputtering vilified him as a "two-legged beast"—and reportedly thereby made full professorship.

Even in the face of such slander, Zhang eschewed the response adopted by friends concerned about him at home and abroad—lawsuit. Instead, the invectives hurled against him took his thoughts back to the distant past, when the dignity of the individual was trampled

and when many people, under wanton "leftist" persecution, abandoned their humanity to "make a display" and "save themselves." It was under such inspiration that Zhang completed "Vexation."

**The New Work Is Informed With a Strong Sense of Historical Mission**

I have been moved after each reading of Zhang's *Green Trees* and *Half of Man Is Woman*. The author's keen and forceful portrayals of the bestial mentalities and acts committed when despotic oppression crushes humanity stand as the ultimate exemplar of mainland labor—reform literature. The skill and sincerity he displays stem not only from his own experience, but more importantly, from a conscious, powerful sense of historical mission.

This sense of mission is expressed most broadmindedly in "Vexation." In contrast to Zhang's previous works, the title of the new piece seems to be "zenist," and the work begins with a quotation from a Buddhist sutra: "Common creatures regard bodhi as vexatious, whereas the Buddha regards vexation as bodhi." To be honest, I was disappointed at this line on first reading, fearing that Zhang, like other writers who have won fame and fortune, was striving for "pure literature." Yet I became absorbed after finishing the first page. While not a coherent exposition, being just an annotated diary, "Vexation's" horrifying, yet true stories make the reader tremble and bleed.

It appears that the author has infused "Vexation" with sincere feeling: "Without this thin diary, I myself would doubt whether or not life during that period was real ... [and hope that] history and lives will not have vanished in vain and tracelessly. Yet many people still do not dare to face both current and past reality. Thus I am prompted to publish this veritable account and to provide it with detailed annotation."

He stresses: "I do not desire to critique that era nor plan to exploit available documentation to buttress my notes. All I wish is to let the bald truth presented in the text show how low the world and humanity had sunk and how people actually lived under such depraved material and spiritual conditions.

**"Transforming" People Into "Two-Legged Beasts"**

While the yellowed pages and faded ink frequently yield but a handful of characters, they evoke extended "annotation" by the author. Yet such an ordinary approach in fact is more realistic. As the author states, only a "clean" diary can preserve the record of such an extraordinary time, for otherwise he would have been condemned to death for maintaining a "counterrevolutionary diary."

Zhang was denounced as a "rightist" and sent to a labor-reform camp in 1958, just at the time of the "three years of natural disasters." Through the tribulations of the lowest stratum of society, he learned first-hand the torment of survival. After more than 700 days on the farm, he, once regarded as a "gifted scholar," finally

realized that the ability to preserve life in a purely physiological sense is more important than anything else.

The author clearly demonstrates that, once stripped of all political rights and social status, people, like wild beasts, retain only "the right of survival." The Buddhist citation presented at the beginning of the text is provocative: The reason humans are vexed is because they are beings of higher intelligence. Yet the ultimate goal of Chinese Communist "reeducation" is to eliminate "vexation." How, one might ask, could anyone, after engaging in a full day's struggle just to get another bite to eat, indulge in fanciful rumination and demand anything else? Simply put, Chinese Communist labor-reform and political-study practices in fact aim at nothing less than turning humans back into "two-legged beasts"!

The farm to which Zhang was sent was a vast saline wasteland. Agronomists visiting the site just shook their heads and said the place simply was not worth the human and financial resources necessary to develop. Yet the top leader of the farm, the party secretary, insisted on the importance of this sproutless desert. He lectured later inmates with "tales of past misery and present happiness," always candidly relating the torment and massive deaths suffered by the first contingent sent to establish the farm: "Ah, the misery of that period was real misery. They ate steamed buns day after day, yet still collapsed! When we checked them, we found they had stopped breathing! Was it starvation? No! Weren't they still chewing buns?" Anyone with half a brain immediately realized that it was the arduous labor that broke and killed those men. Even so, when the inmates of the "short rations and squash and herb era" heard that earlier convicts had had steamed buns to eat, they could not help drooling!

Since inmates were given only three bowls of wild-herb soup a day, those with no hope of survival died within a year or so, others died off one by one thereafter, and those that survived did so according to their own fates.

It is said that the inmates were more fortunate than peasants outside the farm, for the former at least were assured of three bowls of soup a day. Yet the inmates steadily atrophied, a fate more painful than sudden death. The process was as follows. That one grew emaciated was obviously natural. But there was also skin blackening and loss of luster of the skin of the face, and indeed, the entire body. Scorched, hair withered, and eye gum accumulated. Yet the eyes emitted an unusual glimmer, a "deceitful light," an avaricious, erratic, over-cautious, cunning, weak, yet fierce and malicious glint. Then came edema, beginning with the feet, quickly spreading to the shins, then to the entire legs, all the way to the head, causing the entire body to bloat like a balloon. That alone was not serious, but if the skin of a bloated body part split and exuded pus, that was considered a "death sign"—the end was near.

"Vexation" does not stop at these superficial accounts. Zhang also describes the various mentalities of people

living in this abominable environment, probing their innermost feelings. He devotes special attention to a somber description of how intellectuals subjected to labor reform lose the ability to think independently and self-confidence under the intimidating sway of Chinese Communist "reeducation," countless large and small study sessions, reading classes, and criticize and struggle meetings.

#### The Party Secretary's Unchallengeable Logic

Successfully portrayed in "Vexation" is the figure mentioned above, the party secretary of Zhang's farm. Employing inflexible, boorish, and unchallengeable logic, this man quickly subdued the wretched, enfeebled intellectuals in the camp. He never cited classical sources, unlike leaders described in most other accounts, who repeatedly mouth quotes from Mark, Lenin, Stalin, and Mao Zedong; still less did one hear from him the alarming approach of class analysis. Indeed, his admonitions to "rightists," for example, usually began thus: "Humans are the most intelligent of all beings. You intellectuals are even more so! Therefore, you should follow orders." If the group he was addressing had been charged with "failure to acknowledge guilt and to submit to law," this rustic member of the Eighth Route Army who had made revolution with Liu Zhidan, would angrily pontificate: "Do you see that tractor over there? Tractors are piles of iron, and even iron piles follow orders! When the workers went out to the fields this morning, one of the tractors wouldn't start. A number of workers grouped around trying to fix it, but still it wouldn't move. I waived them aside, climbed up, and gave it two kicks. They gave a start, and so did it. People, you must understand, cannot be like iron piles, needing a kick before they'll move. They must follow orders and move on their own. They can't be lazy asses, which won't advance when you push and rear when you pull."

This purely peasant reasoning was impossible for intellectuals to refute from the high ground of theory, especially when, as the target of dictatorship, they had lost such right. One by one, they could only hang their heads in shame.

Confronted with the fact that the inmates were growing enfeebled, someone said that the cause was that they ate only herb soup. The party secretary flatly condemned this talk as "counterrevolutionary": "Who says herbs and grass aren't nutritious and that eating them doesn't build strength? Draft animals eat 'em, and they're stronger than anybody!"

The secretary also had a pet phrase: "What is knowledge? It is the ability to feed yourself! If you can't even make a kernel of grain grow after digesting a belly full of learning, what kind of bullshit knowledge is that?" His "innovations" were sufficient to cause the intellectual inmates, who had had very high opinions of themselves, to feel too ashamed to show their faces. Even Soviet experts had pronounced the farm unworthy of development, yet the secretary, with just 10-odd cadres and one

batch of convicts after another, had transformed this saline wasteland into a huge farm. No matter how many lives it cost, all one saw was the fact of fields full of crops. Zhang believes that Chinese intellectuals who were educated through old-fashioned patriotism and nationalism are "materialist fetishists" and will worshipfully prostrate themselves whenever they see barren tracts of land filled with factories, oil wells, farms, and other buildings, believing that such things epitomize progress, prosperity, and development, never considering the costs involved or the impact on the natural environment.

#### To "Make a Display" One Does Not Scruple To Finger Others

Labor-reform farms and the outer world use different standards to judge people. People who are considered unreliable outside are thought very reliable inside, for political prisoners (rightists, counterrevolutionaries, and prisoners of conscience) dare not escape, say counterrevolutionary things, or stir up trouble. Real criminals, on the other hand, have old habits that are hard to correct.

Nevertheless, even though real criminals have harmed other people, theirs remain "internal contradictions among the people," whereas intellectual convicts represent "contradictions with the enemy." The author ruefully remarks that what is strange is not this logic but that intellectuals buy it and willingly accept the judgment that they are lower than real criminals, believing that the latter, no matter how evil, still comprise part of the people, whereas intellectuals have lost status as members of the people. Once, after thinning beet sprouts in the fields, Zhang was paraded, sprout bag hanging from his neck, through the streets. He felt no shame, nor even indignation, and acted like a docile cur making his rounds. All he could imagine was that his was a case of "contradictions with the enemy," and if sabotage had been added to the charge against him, the contradiction would have been even more acute. After the "beet-sprout incident," he, to protect himself, exposed "a few facts" concerning a certain criminal inmate. Analyzing his own state of mind at the time, Zhang writes: "When one confronts imminent danger, one does not see clearly. It is fair to say that all Chinese intellectuals, in the face of such danger, have fingered others or at least 'exposed a few facts' during criticism-denunciation sessions. Once widely spread, syphilis no longer is an honorable disease, a badge of distinction proving that one has whored."

#### The Modern Tragedy of Meng Jiang Nu

At many points in "Vexation," the author carefully reexamines himself and thus intellectual proclivity. For example, there was the young "rightist" who slept at his side. This man never discussed his background, but by chance, Zhang learned that he was an astronomer, and the "signs of death" rapidly spread. Since the astronomer did not finger others as everyone else did, he became a struggle target. One day, the struggle-session chief pressured Zhang to make a denunciation. Zhang hemmed and hawed a while, finally saying that the

astronomer "looked like a pig when he ate." To Zhang's surprise, the denunciation was echoed by a chorus of "he refuses reeducation, he's demonstrated against the government, he's dissatisfied with the party," and a flurry of other accusations. The author perspicaciously remarks: "Please, please, do not think I exaggerate. You don't believe me? Even today, 30 years later, one can still find people all around who are able to perform such penetrating analysis. Regrettably, most of these people are educated intellectuals!"

As a result of the ordeal, the astronomer died the next day with his eyes wide open. Responsibility for this fellow sufferer's death has long disturbed Zhang and destroyed his naivete.

The high point of "Vexation" comes at the conclusion, with the story of a political-class instructor from a small, remote county who was once anointed "progressive worker" but who naturally was labeled "rightist" because he expressed "idealism." His wife, who taught at the same school as he, traveled thousands of li with their young daughter to see him. Because this man had a good record in the camp, the farm leaders broke precedent and let his family visit him in the fields. He was unmoved by the sight of his long-separated family, however, and instead tore open the package they had brought him, cramming the contents into his mouth while his wife covered her face and bitterly wept and the daughter drooled with hunger.

Soon a woman's gut-wrenching scream was heard. It transpired that her husband, upon eating his fill, slashed his wrists with a scythe and died on the spot, turning the yellow water in a nearby ditch bright red.

This modern edition of the Meng Jiang Nu tale is even more tragic than the original. Many people proffered explanations as to why this "rightist" killed himself before his wife and daughter. Some said that he was starved, ignored his family, and did not learn until he had stuffed himself that they, too, were starved. Thus he killed himself out of shame. Others said that he did what he did out of consideration for his family's future. Only with him dead could the wife and daughter make a clean break with him and enjoy a somewhat better life. But the author believes: "He did not lose reason but feeling. He lost all interest in his wife, child, human society, the world, and everything he had painstakingly studied.... That scythe was not directed toward human throat, chest, or belly but rather aimed at cutting the emotional ties binding man and his world. A wooden knife cannot cleave human flesh but is incomparably keen when it comes to cutting invisible things."

#### Extreme Leftism Renders Everyone Shameless

For intellectuals, spiritual destruction is far more injurious than physical destruction. The author vigorously assails the approach of "equating humiliation with education, per force rendering people shameless." He avers that "once this approach is established as standard

practice throughout China, everyone will become shameless. Only later will we discover the colossal harm that universal lack of honor and shame will bring to the country and nation."

It is apparent that "Vexation" is permeated with historical allegory. The author not only recounts the past but also uses real people and events to expose the calamity leftist bosses have wreaked upon the country and nation.

The author candidly states that he has made ideological preparations because publication of "Vexation" is bound to enrage people with high connections. Yet while criticizing their leftism, he also displays magnanimity, for he, too, "has been there before." While not a political theorist, he raises a startlingly original and forceful dictum:

"In point of fact, the minds of Chinese intellectuals became public toilets long ago."

### Investors Encounter Difficulties on Mainland

93CE0394A Hong Kong CHENG MING  
[CONTENDING] in Chinese No 3, Mar 93 pp 73-75

[Article by Shao Nan (6730 0589): "Nightmares of Taiwan Investors on the Mainland"]

[Text] In the last few years, more and more Taiwanese businessmen are investing on the mainland, and both the amount and scope of their investments continue to increase. According to statistics revealed recently by relevant authorities in Taiwan, it is estimated that at present more than 8,000 firms or factories have investments on the mainland, and some have already made money. The amount of Taiwanese investment on the mainland has exceeded \$10 billion and it continues to increase with no sign of slowing down.

In terms of cross-strait investment and trade, one side has reasons to cheer, but the other side is concerned. The mainland side cheers loudly, even calling for stepping up the pace to attract more Taiwan investment, but there is of course another side on that issue. On the Taiwan side, however, President Li Teng-hui has sounded a cautionary note for Taiwanese businessmen, saying that Taiwan should temporarily hold up investing on the mainland until 1994 after the U.S. Government economic policy becomes clear before taking further steps—the reason being that after having studied recently over 100 remarks or statements that Clinton made during his campaign concerning the economy, Li still cannot predict clearly the direction that the U.S. economic policy will likely take in the future.

Some Taiwanese with mainland investments challenge this position: Why should they take into account the future course of U.S. policy before making their investments in the mainland? But these investors also want to take the opportunity of Li Teng-hui having made such remarks to sound their own alarm for other businessmen who may be hoping or preparing to invest in the mainland by outlining the problems they have encountered in their mainland investments, now and in the past, so that others can study and draw the lessons from their experiences. The problems they have encountered mainly consist of the following:

#### Taiwan Investors Are Bitter About Excessive Fees

Taiwanese investors react bitterly to the excessive fees haphazardly levied on their enterprises by the various departments of the mainland government. For example, after Baoan County was incorporated into Shenzhen City, departments of the Baoan Prefecture Government quickly raised by large margins some 20 categories of fees, most notably raising the urban construction fee by 40 yuan per square meter, and the environmental protection fee by 20 yuan. A factory occupying 30,000 square meter of land has to pay a "standard fee" of 1.8 million yuan per year. In addition, while last year's "head tax" (a fee which the party contributing the capital

must pay the local government before signing any investment contract with the workers) was 10 to 15 yuan per person, that fee recently jumped sharply to 40 yuan per person. When the water supply is inadequate, and the factory hires a well-digging specialist from elsewhere to dig a well on factory ground, the factory has to pay the government for the well water; a factory has to pay the government when the latter is unable to carry out trash disposal and the factory proceeds to buy its own truck to haul away the trash. A factory still has to pay the government when the latter sends some one to exterminate rats in the factory. A Taiwanese investor said that before he signed the contract, the government representatives were all accommodating, saying "there is no problem, all the expenses are listed on the inventory sheet"; but after the contract was signed, the situation was totally different, and various "regular fees" showed up one after another.

#### Taiwan Investors Have No Protection When Land Prices Escalate

In recent years, mainland real estate prices have escalated, and some Beijing Government leaders hold the attitude that "only money counts," both of which having bearing on the benefits enjoyed by Taiwanese investors. Recently, several Taiwanese-operated factories in the mainland southeastern coastal area were forced to relocate because the local authorities changed the land utilization plan and decided to build high rises instead. These factories had no appeal recourse and faced the prospect of losing all their investment. It was reported that in Dongguan and Human's Taipinggang in Guangdong Province, Taiwanese businesses were recently asked to dissolve the land leases they signed. A responsible person in a handbag factory in Dongguan pointed out that three years ago, when his company invested in the mainland, they contracted with the state-owned Dongguan Light Industries Company to rent the land for 10 years at about NT\$1,700 per ping (approximately 36 square meters). In the course of the three years, because foreign capital was pouring into the mainland southeast coastal area and the Zhujiang delta area, land prices have increased 10 fold. The land value of the Dongguan factory, for example, has increased to nearly NT\$20,000 per ping. The state-owned Dongguan Light Industries Company, seeing the profit potential in real estate, has recently asked the handbag factory to relocate and to dismantle the dormitories for staff and workers to build on the factory site a 30-story office and residential high-rise building. In view of this, some Taiwanese investors have complained to the Economic Ministry and the Mainland Affairs Commission [MAC] in Taipei about the Beijing authorities' "changing the rules at will" and "pursuing profit in disregard of all else," and about "the situation of disrespect for contracts and the law." The MAC, at present, is seeking clarification of the situation through the mainland's Association for Relations Across the Taiwan Strait.

### Factories Dismantled on the Pretext of Safety and Security

In Baoan County, Guangdong Province, which attracts many Hong Kong and Taiwanese investors, the authorities suddenly had a bright idea and issued a "Directive on Regulating Labor Safety and Health" that forced the Hong Kong and Taiwanese investors to completely dismantle the corrugated iron-constructed factories and thatch-roofed buildings in operation, causing some of these factories to face the threat of suspending production.

Baoan County is one of the important centers on the mainland for Taiwanese investment which concentrated in manufacturing umbrellas, shoes and other labor intensive enterprises. The Taiwan Umbrella Manufacturing Association recently received an urgent cable from the Association's Shenzhen District Economic and Trade Committee which described how the local authorities, alarmed by a recent fire in one of the joint-venture factories, issued an urgent order that unless all Taiwanese and Hong Kong investors whose factories were built with corrugated iron roof dismantle these structures by a certain date, the supply of water and electricity will be cut, and the goods they produced cannot be exported. For those who have not completed the dismantling, the authorities will dispatch bulldozers to finish the job.

Taiwan Umbrella Manufacturing Association executive director Chen Chu-te [7115 2612 1779] pointed out that Taiwanese businessmen investing on the mainland in the early period had negotiated with local authorities to lease the land to build factories, and as leaseholders, were allowed to put up corrugated iron-roof buildings and warehouses in the area defined by the contract terms. Now the order came down to dismantle all these structures, without any room for negotiation or any consideration for the factories' circumstances in terms of practical production needs or any monetary compensation, this kind of policy measure is extremely unreasonable. At present, the Hong Kong and Taiwanese investors on the scene are forming their local associations to seek ways to help themselves and also petitioning their various enterprise associations for assistance. This controversy has aroused the concern of the All Taiwan Industrial Association and the Strait Exchange Foundation.

### Taiwan Investors Became Hostages When Year-End Cash Flow Is Tight

Taiwanese businessmen investing on the mainland not only have no assurance of making money, sometimes even their personal safety cannot be assured. At year's end last year, a Taiwanese-funded textile factory in Shekou, faced with tight cash flow, announced that its checks cannot be cashed for the time being. The local staff and workers were afraid the manager would take off and let them deal with the management fees required by the head office, so they "kidnapped" the manager who then lost his personal freedom and was not allowed to

leave his own residence. The staff and workers, acting like the Cultural Revolution thugs, threatened the manager. Fortunately, the local public security people found out what was happening and rescued the kidnapped manager whose life otherwise would be endangered.

According to Attorney Zhang Xuelin [1728 7185 2651] of the Zhenchang Law Offices in Shenzhen City, the above-mentioned tactic and action obviously were in violation of the law. But the local Public Security Bureau considered "this type of incident basically an economic dispute that the bureau is not empowered to deal with" and refused to consider it an "hostage" issue. After this incident became known, many Taiwanese investors became worried: if a labor and management dispute should arise in the future, would the manager sent from Taiwan be struggled against and beaten up like the time of the Cultural Revolution?

### Incident of People's Liberation Army Wrecking a Factory

According to a LIEN HO PAO story, on 12 February, an incident that alarmed the whole country occurred in the town of Yan, Baoan Prefecture in Shenzhen City: the Taiwanese-funded Anli Five Metals Plastic Manufacturing Factory was forcefully entered into by People's Liberation Army [PLA] personnel who proceeded to wreck the machinery and facilities and beat up the workers and even confiscated identification papers of the Taiwanese investor. The incident grew out of an equity dispute between the factory's two main stockholders. Originally, the Anli factory was established jointly by two Taiwanese investors who are brothers, Chang Kuei-ch'i [1728 6311 1142] and Chang Kuei-an [1728 6311 1344], and stockholder Shih Hsu-lang [2457 2485 6745]. According to Chang Kuei-ch'i, the factory began production last June and was going quite well until August when Shih Hsu-lang, taking advantage of Chang Kuei-ch'i being away in Taiwan, fired the staff and workers hired by Chang, and prohibited the latter from re-entering the factory. On 10 November, with mediation by Taiwan Chamber of Commerce secretary Li Chin-chiang [2621 6930 3068], an ownership agreement was reached with the buyout party promising to pay within two weeks. But Mr. Shih did not observe the agreement and delayed payment again and again. Thereupon the Chang brothers came to take over the factory, and Mr. Shih later discovered the Chang brothers had sent people to dismantle the machinery and discharge all the staff and workers so the factory practically ceased operation. Mr. Shih then arranged through personal contact of his secretary for some 20 PLA soldiers to "assist" in the factory, with the result that four staffers hired by Chang Kuei-ch'i were beaten up. But according to Mr. Shih, it was the Chang brothers who first beat up two retired PLA veterans he had hired which led to intervention by the PLA.

But, no matter what, the beating of workers by PLA soldiers in a Taiwanese-funded factory is an incident that alarmed people! It is said that after this incident,



high-level cadres in both the party and government in Shenzhen are paying close attention and trying their best to assist and solve the aftermath "to prevent incidents such as this from happening again."

### **Renminbi Devaluation, Taiwan Investors Have More To Lose**

Recently, the renminbi has continued to devalue, causing Taiwanese investors on the mainland to lose money with no way of extricating themselves. Taiwan Government Foreign Trade Bureau Research Division chief Chuang Cheng-wan [8369 2973 1346] pointed out that the continued devaluation of the renminbi has in effect led to the devaluation of Taiwanese capital invested in the mainland, and for the same reason, even the profits from or returns of Taiwanese investments can become "illusionary dreams." When profits of Taiwan investments cannot be repatriated, they can only be left in the mainland causing the Taiwanese investors to be involved more deeply with no hope of extricating themselves. The devaluation of the renminbi, and if the Chinese Communists cannot manage the exchange rates well, will lead to inflation on the mainland that will cause further deterioration in the investment climate. The concerned departments in Taiwan are trying to make clear that under such circumstances, Taiwanese businessmen preparing to invest in the mainland should exercise extra caution.

### **Main Worries of Investing in the Mainland**

The writer has visited some of the Taiwanese investors in Guangdong and Shenzhen to find out what they think of investment in the mainland today. Some Taiwanese investors stated that their main worries over investing in the mainland might be summarized in terms of three areas: 1) Can the safety of the person and capital be assured? Some Taiwanese investors living in more isolated areas are concerned that they might be held hostages for no reason over a certain incident. 2) Can the investment capital be repatriated within a certain period of time? 3) If adjudication is required in case of disputes, will there be just settlement? This also relates to the question of the safety of capital. According to some Taiwanese investors who reflected on this question, when they first arrived in the mainland as a delegation to explore investment opportunities, they were enthusiastically welcomed, feasted and told they would receive preferential treatment in every place they visited. Sometimes even the mayors and party secretaries would receive them. But when it came to specific concrete cases, they discovered that the situation was entirely different from what they had originally thought. On the other hand, some mainland cadres do not understand the "money making" psychology of the investors; the cadres only considered how much money they themselves can make personally, and paid no attention to the fact that investors also need to make some money. Furthermore, some Taiwanese investors are undercapitalized, and cannot borrow from banks in Taiwan or on the mainland. Thus, if and when

their mainland investment encounters any unexpected turn of event, they have no recourse and can lose all their original capital!

Today, the authorities on both sides of the Taiwan Strait have their respective political points of view, and tend to treat investment which is a purely economic activity as a sensitive question relating to the politics of both sides of the strait.

### **Politicizing Question of Taiwan Investment Is the Most Disturbing**

At the Taiwan Economic Ministry Foreign Trade Bureau, insider's intelligence (which the writer has no way to confirm) reveals that Chinese Communist Chairman Yang Shangkun, speaking to cadres in the "Taiwan Affairs Office" of the State Council not long ago, pointedly said: "Taiwan is economically rich; we can begin by absorbing as much Taiwan capital as we can and gradually wreck the Taiwan economy." Recently, Chinese Communist Taiwan Affairs Office chief Wang Zhaoguo [3769 0340 0948] also told the concerned personnel to improve the "education involving Taiwan," and to treat cross-strait exchanges as "a contest of two social systems and two ideologies." At a "Symposium on Education Involving Taiwan," Wang said: "due to international trends, the Taiwan authorities are thinking more seriously about 'bringing changes about in the mainland by peaceful means,' therefore in the process of cross-strait exchanges, we ultimately must keep in mind the serious question of 'who influences whom.'" He urged the concerned personnel to manage well the tasks of "education involving Taiwan," so that in the cross-strait exchanges the PRC would "avoid being influenced by Taiwan."

The Chinese Communist State Council has tasked the Taiwan Affairs Office not only to make sure that countrywide work units at the provincial and municipal levels observe and guard against activities of the various "Taiwanese Businessmen Associations" on the mainland, but also to slow down the granting of permission for the establishment of any such new associations. When Taiwanese businessmen in Beijing requested permission to form an association, the Chinese Communist leader's response was: "It is not necessary, and permission will not be granted." As for the Taiwanese investors' request "to sign a cross-strait investment guarantee agreement," Premier Li Peng's response was even more cut and dry: "This matter cannot be considered."

On Taiwan, however, some high government officials continue to emphasize that "the important principle of the cross-strait economic and trade relationship is the hope that the mainland will grow to depend on Taiwan in economic and trade terms, and not the other way around." "If the result of investing in the mainland leads Taiwan to depend on the mainland, with Taiwan not exercising the initiative, then it would be rather dangerous."

With this kind of psychological orientation, both sides are looking carefully at the cross-strait trade and investment of the other side, wary of being "swallowed up" by the other side in an unguarded moment. Because of this, Taiwanese investors on the mainland are afraid that their life and property do not have any guarantees.

**Communist Party Remains Underground**

93CM0226B Hong Kong KAIFANG [OPEN  
MAGAZINE] in Chinese No 75, 18 Mar 93 pp 52-53

[Text] Before the Cooperative Resource Center announced the establishment of the Liberal Party, Hong Kong already had two large and tightly knit political parties, namely the CPC and KMT.

For a variety of complicated political reasons, the two parties have never operated openly in Hong Kong even though their existence is not illegal. They are more like underground parties and covert organizations. In terms of influence, the underground CPC is far more powerful than the covert KMT. As 1997 draws near, the gap will only widen.

How many CPC members are there in Hong Kong to date? This is a closely guarded secret. Past reports put the number at a little over 600. One insider said there are far more CPC members in Hong Kong than that but could not provide a specific figure. Even XINHUA has no idea what the exact number is. In China, there is a special independent body to handle the recruitment of party members here. The vast majority of party members do not know one another's identity. Moreover, the CPC has sent many covert members to Hong Kong at various points over the years who assume another identity to the world. Except for insiders, most people in left-wing circles are not privy to their true background.

For instance, for a long time people at the news agency on Queen's Road East knew nothing about the background of Le Meizhen [2867 5019 4176], deputy director of the Taiwan affairs office at XINHUA, who has been sent here from Beijing. It took someone from Beijing to inadvertently disclose his impressive credentials. As it turns out, Le Meizhen is a veteran CPC member, a former director of the Taiwan affairs office under the CPC Central Committee, and a son-in-law of Wu Xiuyan [0124 0208 2938], a founding member of the party. Before his arrival here to take up his appointment, he had actually visited Hong Kong several times as an ordinary citizen without catching any attention. This individual is said to be infinitely resourceful; he has even visited Quemoy, Taiwan's restricted defense zone, on a special mission.

The highest power organ within the CPC in Hong Kong is the Hong Kong and Macao work committee, which is directly under the CPC Central Committee. But you cannot find it in the CPC Central Committee's official organizational chart; it is super-secret.

The headquarters of the Hong Kong and Macao work committee is housed in the Hong Kong branch of XINHUA. The secretary of the work committee is by convention the director of XINHUA. To the world therefore the secretary of the work committee is the director of the news agency. Right now the director is Zhou Nan [0719 0589], who was elected a member of the CPC Central Committee by the 14th CPC National Congress last year.

Apart from the director and a handful of deputy directors of XINHUA, the Standing Committee of the Hong Kong and Macao work committee, which is its leading group, also consists of the chieftains of the four leading CPC organizations in Hong Kong (the Bank of China Group, China Merchant Steam Navigation Co., Ltd., Huarun, and China Travel Agency), and perhaps the leaders of some left-wing community organizations as well.

There were five Hong Kong and Macao delegates at the 14th CPC National Congress in Beijing last year, including Shen Jueren [3088 6030 0086] of Huarun and Ma Zhimin [7456 1807 3046] of China Travel Agency. But the CPC did not publicize it in the press, so most people were kept in the dark.

CPC members in Hong Kong have always operated most secretly. The CPC created quite a stir here in June 1987 when it announced the names of the four local delegates to the 13th CPC National Congress. It was perceived as the harbinger of a switch from underground to open activities by the CPC, an interpretation not borne out by subsequent events. Reports say that Ceng Yucheng [2582 6877 2052], chairman of the Democratic Construction Alliance, was once a CPC member. Queried by the Hong Kong media about this, however, he flatly denied it and insisted that he was a Bolshevik outside the party during an interview with this publication last year. Informed sources say that while Ceng Yucheng himself would not mind admitting his CPC membership, the policy of the CPC in Hong Kong is to keep party membership confidential.

Since China and Britain began negotiations on Hong Kong's future, this particular underground party has been very active, not only recruiting members diligently and going all out with a united front, but also showing every sign of going public. Why then has it not done so yet? The process was most likely stalled by the events of 4 June and the defection of Xu Jiatusun [6079 1367 1470], the former secretary of the Hong Kong and Macao work committee.

In the wake of the events of 4 June and the defection of Xu Jiatusun, the CPC has rectified and tightened control on the local party organization. One instruction from Beijing required all people in charge of left-wing groups and organizations to be party members. It should therefore come as no surprise if Ceng Yucheng, chairman of the largest pro-Chinese political organization, turns out to be a Bolshevik within the party rather than outside.

In principle all CPC members in Hong Kong are under the jurisdiction of the Hong Kong and Macao work committee. According to people in left-wing circles, however, local left-wing organizations have different masters in Beijing. Huarun, for instance, is under the Ministry of Foreign Economic Relations and Trade; the China Merchant Steam Navigation Company, Ltd., the Ministry of Communications; and the Bank of China Group, the Bank of China in Beijing. Consequently, they

do not necessarily subordinate themselves to XINHUA. Factional strife and power struggles within the CPC are much more fierce and complex than outsiders imagine.

However secretive the CPC may be in Hong Kong to date, it will come out of the closet after 1997. Don't be surprised if countless local communists suddenly rear their heads and go public then.

### Market Reacts to Renminbi Exiting PRC

93CE0412A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 10,  
15 Mar 93 pp 12-13

[Article by Wu Feng-hsia (0702 7685 7209): "Hong Kong Market's Reactions to Exit of Renminbi from China"]

[Text] Beginning 1 March, each Chinese citizen and foreign national entering or leaving China is allowed to bring 6,000 renminbi on each trip to meet his or her actual needs. In certain open border areas, the maximum amount of renminbi that travelers of the two countries can bring into and out of the Chinese territory will be determined by the actual situation.

Both Chinese and foreigners comment that the new policy allowing renminbi to be carried into and out of the Chinese territory is a great convenience to travelers. In the past, outside travelers such as Hong Kong and Macao compatriots, overseas Chinese, and foreigners leaving China must spend all the renminbi they had on hand, temporarily deposit that money in a bank affiliated with the customs, or remit it to relatives or friends before their departure. After foreign exchange certificates were issued, unused certificates were exchanged for foreign currencies upon departure, but this was inconvenient because people had to queue up to make the exchange. Now, the new measure has eliminated at one stroke the decades-old inconvenience for both incoming and outgoing travelers, Chinese and foreigners alike. Needless to say, it is welcomed by people overseas.

In fact, continuation of China's reform and opening-up, and the progressive development of the tourist industry, outside travelers going into and coming out of China have numbered tens of millions annually. As for mainland people going abroad on official and private business, the number has also skyrocketed. Everyday the Guangdong Travel Service alone sends here as many as 11 tourist groups, consisting of about 470 people, under its "Hong Kong Tour" program. If each tourist carries 6,000 yuan, the total would be 2.82 million yuan. Besides, there are other "Hong Kong Tour" programs, such as those sponsored by the China Travel Service and by various provinces and municipalities. Plus, there are numerous business travelers, including business groups coming to Hong Kong for investment-solicitation meetings. Each group comprises from 300 to 500 people. Altogether, the consuming capacity of these travelers is not to be overlooked.

Banking circles in Hong Kong have paid great attention to the mainland's new measure. They believe that renminbi will eventually become one of the essential elements on Hong Kong's foreign currency market. Now, buying and selling renminbi is still a risky business, but the risk is expected to diminish when China further opens its economy and renminbi becomes an international currency. According to the bank supervising authorities here, China's relaxation of restriction on renminbi brought out of the country by travelers will not affect Hong Kong's financial system. This is because many international currencies are in circulation in Hong Kong, including pounds, marks, Japanese yen, and dollars. When renminbi is circulated in Hong Kong, its circulation will not exceed other international currencies. So the effect on Hong Kong's financial system, if any, will be meager.

As for whether banks can accept renminbi deposits, the bank supervising authorities have neither given guidance nor imposed restrictions. But they will discuss with banking circles the risks that may result from the currency itself. The Hong Kong and Shanghai Banking Corporation, says its Executive President Shih Wei-fu, will consider offering renminbi cash deposit service, if such service is permitted by Hong Kong and Chinese laws. Lin Kuang-chao, deputy director of the Bank of China's Hong Kong and Macao Department, also reveals that the Bank of China Group is willing to offer renminbi deposit service, adding that it has filed applications in this regard with the People's Bank of China, the Chinese State Administration of Exchange Control, and the Chinese Customs, and is now awaiting their approval. At the moment, China-funded banks only accept converted renminbi deposits. That is, depositors convert their Hong Kong dollars into renminbi at the official exchange rate and deposit the money in their accounts, and when the deposits have matured, they withdraw the money and convert it back into Hong Kong dollars. Since renminbi has not yet become a currency in circulation in Hong Kong, so far no bank has offered renminbi cash deposit service. If Hong Kong banks are to provide this service, some specific questions must be clarified before the service is put into practice. Examples are how to send the renminbi receipts back to China, whether the banks should do the renminbi business themselves or act as handling agents, and what to do with the renminbi sent back to China.

A member of the Bank of China group in Hong Kong, Posang Bank has taken the lead in offering renminbi exchange service. It quotes the renminbi exchange rate in the same way as the dollar and pound rates. Unlike the local general practice of quoting renminbi against Hong Kong dollars, Posang's quotation shows the Hong Kong dollar amount per 100 renminbi. The rate is adjusted mainly on the basis of the prevailing market rate and the official quotation. People familiar with market conditions predict that other retail banks will probably follow suit and offer similar service.

Prompt reactions have been shown by money changers in Hong Kong. For instance, a foreign currency changer at the Kai Tak Airport began, for the first time, its renminbi exchange service on 1 March. Another money exchanger in Sheong Wan provided renminbi exchange service even earlier than this. Some jewelry stores have also begun renminbi exchange business. In fact, as early as some 10 years ago when exchanging money at the bank was not so convenient as today, some jewelry stores offered money exchange service to customers carrying foreign currencies—of course, these jewelry stores had money exchange licenses. Now, the jewelry stores' money exchange business has rebounded, but this time their business focuses on renminbi. According to a jewelry store owner, his store began providing renminbi services around the end of last year when some tourists from the mainland had no Hong Kong dollars, and for their convenience, renminbi was accepted for the purchases they made at the store. Of the store's daily transactions at present, he said, payments totaling 50,000-60,000 Hong Kong dollars are actually received in renminbi. Because of the increased amount of renminbi on hand, this store was one of the first jewelry stores to offer renminbi exchange service. Now, it sells 2,000 to 3,000 renminbi a day.

Right after China adopted the new measure allowing travelers to bring a certain amount of renminbi out of the country, quick-witted retailers in Hong Kong advertised that they welcome customers using renminbi to make purchases as a way to solicit buyers from the mainland. An example is a jewelry store located between Tin Lok Street and Ngo Keng Bridge in Wanchai, which has put up in its display window a sign written in big characters: "Pure Gold, No Labor Charge, Renminbi Accepted," which is different from the usual business practice, another sign reads: "Pure Gold—89 Yuan Per Gram."

According to the store's responsible person, customers can use renminbi to buy anything at the store from gold and pearls to diamonds, and the renminbi exchange rate depends on the varieties, quantities, and value of the jewels bought by the customer. Similar "money exchange service" is also available at jewelry stores in Western District, Aberdeen, and other areas usually visited by relatively large numbers of mainland travelers. Some electric appliances shops and trading companies serving mainly ship crew members from the mainland have also advertised that patrons are welcome to pay renminbi for their purchases.

As to whether a limited circulation of renminbi in Hong Kong would violate the local law, an official of the Hong Kong government's financial section says a careful study reveals that there is no provision in the present Hong Kong law that prohibits stores from doing business in currencies other than Hong Kong dollars. In fact, however, not very many retail stores accept renminbi because they have little use for renminbi receipts. One way to use renminbi is to engage in money speculation; the other is to use it to settle accounts with mainland traders. Yet, in view of renminbi's recent devaluation and its unpredictable future, the chances of using it for speculation are slender. As for settling accounts, retailers usually have no large accounts to be paid in renminbi. What they need more is Hong Kong dollars with which they can pay shop rentals, employees' salaries, and other expenses. As can be seen, the renminbi they can absorb has a certain limit. As for buying and selling renminbi on the black market in Hong Kong, this has existed in recent years. To sum up, China's relaxed policy allowing travelers to bring renminbi into and out of the country will not lead to a large circulation of renminbi in Hong Kong. Here only the Hong Kong dollar is the legal tender. Circulation of renminbi in Hong Kong can only give rise to an additional foreign currency exchange business.

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