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USSR WOULD WITHDRAW FROM GULF ONLY AFTER WEST

OW081030 Beijing XINHUA in English 0755 GMT 8 Jul 87

[Text] Moscow, July 7 (XINHUA)--The Soviet Union will withdraw its warships from the Gulf if the United States, Britain and France remove their ships from the region first, a Soviet Foreign Ministry spokesman said today.

"If the United States, Britain and France withdrew their ships, Soviet naval ships would undoubtedly be withdrawn from the Gulf also," spokesman Boris Pyadyshev told a Moscow news briefing.

So far the Soviets have five warships in the Gulf--three minesweepers, a frigate and a communications vessel, Pyadyshev said.

Asked whether Moscow would consider pulling its warships from the region first as an example for other nations, Pyadyshev said, "The United States first introduced naval vessels into the Persian Gulf, so wouldn't it be feasible for it to be first to move them from the zone?"

"This would be only just," he insisted.

The Soviet naval presence in the Gulf "is only a drop in the ocean" if compared with the American armada, he said.

Pyadyshev's comments clarified a Soviet call last Friday for all countries outside the Gulf region to withdraw their warships from the waterway. Moscow said the naval build-up could spark an international crisis.

Pyadyshev welcomed Sunday's statement by U.S. White House chief of staff Howard Baker that the U.S. would reconsider its plan to escort Kuwaiti oil tankers in the Gulf if the Soviet Union withdraws.

If Moscow will remove their warships, perhaps Washington will take a fresh look its naval presence in the Gulf, Baker said. "But we're certainly not going to cede control of that region to the Soviet Union," he emphasized.

After Iran and Iraq attacks on merchant vessels in the Gulf in an attempt to cripple each other's ability to sustain their seven-year-old war, both the U.S. and the Soviets deployed warships in the region to protect the vital oil route.

## HU SHENG SPEECH COMMEMORATES JULY 7TH ANNIVERSARY

HK141500 Beijing RENMIN RIBAO in Chinese 9 Jul 87 p 5

["Speech by Hu Sheng [5170 4939] at the Rally To Commemorate the 50th Anniversary of the July 7th Incident, Delivered on 7 July 1987"]

[Text] Comrades and friends!

We are here today to solemnly mark the 50th anniversary of the July 7 Marco Polo Bridge incident. In the history of the struggle of the Chinese nation for liberation, the history of Sino-Japanese relations, and the history of the antifascist struggle waged by all the people of the world, 7 July 1937 is an important date.

In 1931, 6 years before the July 7th Incident, the Japanese Kanto Army, entrenched in the southern part of northeastern China, engineered the September 18th Incident and occupied Shenyang. The KMT government adopted a nonresistance policy of what it called "resigning oneself to adversity." It took the Japanese aggressors only 3 and 1/2 months to occupy the three provinces of northeastern China. This was the first big step in the Japanese militarists' plan of aggression, which included the occupation of "Manchuria and Mongolia" (namely northeastern China and Inner Mongolia), then the invasion of northern China, and eventually the occupation of the whole of China. From January to March 1933, because the KMT troops retreated without putting up any fight, the Japanese troops easily occupied Sanhaiguan and Rehe Province, which took Chengde as its provincial capital. After that, they shifted the target of their attack to northern China. But the KMT government knuckled under at each step and, in line with Japan's demands, actually recognized the "peculiarity" of Hebei and Chahar Provinces in 1933. However, the Japanese aggressors wanted to occupy not only northern China but also Suiyuan, Shanxi, and Shandong. They also thought that the time had come for them to annex the whole of China. At that time, Japan had stationed massive numbers of troops in Beiping, Tianjin and its surrounding areas, and eastern Hebei. The garrison headquarters stationed in Tianjin were promoted to a higher grade in May 1935 and reinforced. The KMT government held that by recognizing the status quo, its 29th Army, stationed in Beiping, Tianjin, and Hebei Province, could live in peace with the Japanese troops. Late on the night of 7 July 1937, under the pretext of holding military exercises, the Japanese troops attacked the garrison troops of the 29th Army near Marco Polo Bridge.

The regiment commanded by Ji Xingwen rose in counterattack. Thereupon, the Japanese Government threw more troops into northern China to expand the hostilities. Thus, the July 7th Incident was an indication that Japan was waging an all-out war of aggression against China.

The July 7th Incident also marked the start of China's all-people's war of resistance. The war of resistance waged by the entire people did not start when Japan invaded and occupied northeastern China, nor did it start when Japan invaded northern China, because the KMT government consistently made concessions to the invaders. It started after the July 7th Incident because of three reasons:

First, in the face of national subjugation, the demand of the people of the whole country to resist Japanese aggression had become an irresistible force. After the September 18th Incident, the students in Beiping and other regions were the first to demand that the Nanjing KMT government resist Japanese aggression. Although their demand was rejected, they won the sympathy and support of the people of all strata. The national bourgeoisie and the upper-class intellectuals also began to [word indistinct] their doubt regarding, and opposition to, the policy of the KMT government. Under the overbearing offensives of the Japanese aggressors, many localities put up partial fights in violation of the KMT government's will. In northeastern China, some KMT generals and popular forces organized volunteers to resist the aggressor troops. The anti-Japanese allied forces, led by the CPC, even persisted in protracted fighting in areas under enemy rule. In 1932, the 19th Route Army resisted the Japanese aggressor troops for 3 months in Shanghai, making it impossible for the aggressor troops to completely have their way. In March 1933, some KMT garrison troops at Gubeikou, Xifengkou, and other passes on the Great Wall voluntarily resisted the enemy. In May 1933, Feng Yuxiang, Ji Hongchang, Fang Zhenwu, and others organized the Chahar anti-Japanese allied forces in Zhangjiakou to fight the Japanese troops intruding into Chahar Province. In 1936 Fu Zuoyi led his troops to beat back the Japanese troops intruding into Suiyuan. These partial wars of resistance against aggression won the enthusiastic support of the people of the whole country and enhanced their morale. Suppressed by the KMT government, the patriotic fervor of the people was like a volcano on the verge of eruption. The 9 December student movement in 1935 thus became the crater, and the anti-Japanese national salvation movement of the people of various strata in all parts of the country sprang up violently. No force on earth could stop it. The KMT and the patriotic forces within the KMT troops also answered the people's demand and became very active. A manifestation of this was that some KMT forces once set up a people's revolutionary government. In particular, the Xian incident, which took place on 12 December 1936, was a positive reaction by the Northeastern and Northwestern armies, under the command of Zhang Xueliang and Yang Hucheng, to the people's national salvation movement. It played an important role in the development of the situation.

Second, the CPC put forward in good time the idea of effecting KMT-CPC cooperation, uniting with all patriotic forces throughout the country, and setting up the anti-Japanese national united front. After the KMT and the CPC split in

1927, the Communist Party consistently upheld the revolutionary program in the first KMT-CPC cooperation period and carried out unyielding struggles for national independence, democracy, freedom, and agrarian reform. The ranks of the KMT, which held the nation's political power, however, were split and were involved in civil wars for years at a time. They also concentrated their main forces on anti-communist wars. The Japanese imperialists took this as a good opportunity to invade China. Proceeding from the overall national interest, the CPC called for an end to all civil wars and for unity in resisting Japanese aggression. As early as in January 1933, the Communist Party issued a declaration, expressing its readiness to cooperate with any troops in the country to realize this stand. During the Long March in 1934 and 1935, after overcoming the "leftist" mistakes within the party, the CPC, headed by Mao Zedong, defined more systematically the policy of a national united front against Japanese aggression. In a "Letter to the Chinese KMT from the CPC," released in August 1936, the Communist Party stated with intense sorrow that the greatest danger faced by the nation at that time was caused by the erroneous policy of the KMT and that this erroneous policy should be completely changed. In this letter the CPC also earnestly indicated to the KMT: "We are ready to form a solid revolutionary united front with you, just as the two parties formed the great united front against national and feudal oppression during the first Chinese great revolutionary period from 1925 to 1927, because this is the only correct road for national salvation and survival today." "Only when the KMT and the CPC cooperate once again, as well as develop total cooperation with all political parties and groups and with people from all walks of life in the country, is it possible to genuinely save the nation and survive." Although this proposal was not immediately accepted by the KMT supreme authorities, it nevertheless evoked strong repercussions inside and outside the KMT. The CPC's proposal concentratedly expressed the people's will and, for this reason, was supported by them. The communist party matched its words with deeds. It vigorously promoted the peaceful solution of the Xian incident and thus created favorable conditions for KMT-CPC cooperation. Prior to the Xian incident, the communist party had sent its representatives for talks with the KMT. After the 12 December incident and before the July 7th Incident, the official representatives of the Central Committees of the KMT and the CPC held talks on cooperation in Xian, Hangzhou, and Lushan. Meanwhile, the CPC took an active part in, and led, the anti-Japanese national salvation movement of the people in all walks of life and discussed with the patriotic figures in the KMT and the local forces, who wanted to resist Japanese aggression, plans for saving the nation and effecting specific cooperation. The initiatives and efforts of the CPC undoubtedly played a decisive role in the rapid formation, after the July 7th Incident, of the anti-Japanese national united front, with the KMT-CPC cooperation as the core, and the realization of the war of resistance against Japan by the entire people throughout the country.

Third, on the eve of the July 7th Incident, with the exception of a handful of completely pro-Japanese elements, the leading circles of the KMT were aware that they should not continue carrying out the policy of concession. After the July 7th Incident, they eventually effected a change of policy. They had implemented the policy of harming the nation with the aim of maintaining

their governing position. They had thought that Japan would stop its aggression before going too far. Persuaded by the Japanese Government's proposal to "cooperate in opposing the communists," they had thought that the Japanese aggressors would still recognize the KMT regime and help it wipe out the communist party. But facts proved that the aim of Japanese aggression was to annex the whole of China. It not only tried to wipe out the communist party, which was most resolute in the national struggle, but also used the pro-Japanese puppet regime to replace the KMT regime. As far as the domestic situation was concerned, if the KMT authorities still continuously carried out their policy of harming the nation, they would certainly be opposed by the people of the whole country, and this would lead to more serious splits within the KMT. Therefore, the July 7th Incident forced both the Chinese nation and the KMT regime into a life-and-death situation. At this critical moment, the supreme leader of the KMT resolutely adopted a new path by deciding to accept the proposal of the communist party, recognizing the second KMT-CPC cooperation, and waging the war of resistance against Japan. This was a great meritorious deed for the state and the nation. Being the party in power, the KMT had 3 million troops at that time. Undoubtedly, the change in policy effected by the KMT authorities was also of great significance to the development of the war of resistance against Japan.

The war of resistance against Japan followed a tortuous and zigzag path. After holding on for 8 years, we eventually won. This was the first great victory in China's opposition to foreign aggression in modern history.

To extricate themselves from the poverty and backwardness resulting from imperialist oppression and aggression, the Chinese people had conducted numerous struggles over several generations but had failed. The war of resistance against Japan achieved a result different from those of previous antiaggression struggles and revolutionary struggles because by that time the Chinese people had brought forth the CPC, the most advanced social force. When the war of resistance against Japan started, the CPC had already struggled for 17 years. Being inexperienced in its infant years, it had been dominated by the erroneous "leftist" and right deviations and had, therefore, suffered many defeats. After summing up the experiences in the previous 17 years, the CPC grew into a force that could integrate the universal truth of Marxism with the concrete practice of the Chinese revolution and correctly led the people in waging struggle. With such a leading force, the united and organized Chinese people could give play to their inexhaustible might along the correct orientation.

The anti-Japanese national united front, with the KMT-CPC cooperation as the core, was initiated and promoted by the CPC. At the start of the war of resistance, the CPC opposed both the theory of national subjugation, which held that the resistance was bound to fail, and the blind theory of quick victory. It correctly pointed out that only by engaging in the protracted war of resistance against Japan would it be possible to win the final victory. It also put forward a whole set of programs for mobilizing the masses of people,

constantly reducing the enemy's superiority, and expanding our forces in the protracted war so as to seize the final victory. In the entire course of the war of resistance against Japan, the armed forces of the CPC and the anti-Japanese bases set up by them faithfully implemented these programs. With concrete actions the CPC consistently led the people of the whole country in persisting in the war of resistance and in unity and progress and in opposing capitulation, splitting, and retrogression, thus ensuring the continued situation of unity in the war of resistance.

There were two battlefields in the war of resistance against Japan. One was the battlefield at the front and the other was the one behind the enemy lines. Generally speaking, the KMT troops responsible for the frontal field were active in fighting in the first year of the war of resistance. At that time, it was inevitable that they should make a strategic retreat in the face of powerful enemy offensives. From the collapse of Wuhan in October 1938 to early 1944, the Japanese troops suspended their strategic offensives in the frontal field. It was chiefly because a battlefield they had never imagined before had appeared behind their backs. And from the onset, the CPC led the Eighth Route Army, the New Fourth Army, and other troops in penetrating the enemy's rear areas to mobilize and arm the masses, to launch mobile and guerrilla warfare, and to set up anti-Japanese bases and liberated areas, thus opening up vast battlefields behind the enemy lines. The enemy could not but throw a major portion of its forces into the battlefields. By 1943, the troops and people in the liberated areas were fighting 64 percent of the Japanese invaders and 95 percent of the puppet troops. The KMT troops were fighting only 36 percent of the Japanese troops and 5 percent of the puppet troops. At the start of the war of resistance, the troops led by the CPC numbered only several tens of thousands, and by early 1945, they had increased to 910,000. In the rural areas there were also over 2.1 million militiamen, who were not divorced from production. Under the extremely difficult conditions behind the enemy lines, they had grown in strength in the course of almost daily incessant battles with the enemy. According to statistics, in September 1944, which was shortly before the launching of the general offensive, the Eighth Route Army and the New Fourth Army had fought over 92,000 battles in 7 years behind the enemy lines. By this time, there were 92 million people in the liberated areas behind the enemy lines, accounting for 44 percent of the total population of the enemy-occupied areas, which numbered 207.8 million people; over 837,000 square km of land had been recaptured, accounting for 66 percent of the 1,263,000 square km of land occupied by the enemy. By penetrating into Chinese territory the Japanese invaders not only failed to fully utilize as their own reserve the manpower and material resources in the occupied land but also landed themselves in the ocean of people's war, which constantly consumed their effective strength. In 8 years, the armed forces of the communist party killed, wounded, or captured over 520,000 Japanese troops. The existence of the battlefields behind the enemy lines was the fundamental cause of the gradual erosion of the Japanese invaders' superiority, turning it into inferiority.

The weaponry of the KMT troops was much better and of greater quantity than that of the communist troops. By early 1944, the KMT troops had increased to 6.5 million. At the request of the United States, a small number of troops entered Burma and India to fight. Had it not been for the restrictions set by the policy of the KMT authorities, the large number of troops stationed in

the frontal field would have been able to play a greater role. The KMT government, which retreated to Sichuan's Chongqing, did not associate itself with the Wang Jingwei clique, which had surrendered to Japan. The people commended it for this. However, the KMT authorities adopted an anti-democratic policy to restrict the people's participation in the war and the activities of the communist party and other anti-Japanese parties and groups, and tried to wipe out the forces of the communist party in the course of the war of resistance against Japan. In the frontal field, only when the Japanese aggressor troops launched partial offensives did relatively fierce battles break out, in which many officers and men of the KMT troops fought bravely. But these battles usually stopped when Japan stopped attacking. The policy of the KMT authorities of passive resistance to Japan and active opposition to the communist party led to repeated crises in unity against Japan. It was because the communist party upheld the policy of an anti-Japanese national united front and because the people of the whole country maintained high spirits in unity against Japan that the situation was not completely wrecked. Beginning in April 1944, in a bid to open lines to communications between the north and the south on the mainland, the Japanese troops launched offensives in the frontal field in Henan, Hunan, and Guangxi. Although the KMT troops put up fierce resistance in some places, on the whole, the offensives resulted in a precipitate retreat on the part of the KMT troops, which retreated all the way to Guizhou. While the KMT troops were retreating from Henan, Hunan, and Guangxi, the communist troops mounted fierce offensives behind the enemy lines and further expanded the liberated areas, thus preparing conditions for the final counteroffensive. When the stage of victory in the war of resistance came in 1945, the communist troops, which were situated around the enemy-occupied big cities, naturally became the pioneer and main force in the counteroffensive.

In short, the victory of the war of resistance against Japan was the great victory of the Chinese people, and the soldiers and people in the liberated areas led by the communist party played a decisive role. With regard to the KMT personnel and troops, other political parties and groups, organizations, and all patriotic figures who made contributions to the war of resistance against Japan, the people will never forget them.

Through the war of resistance against Japan, the Chinese people greatly raised their political consciousness and greatly increased their power. From then on, the fate of China would never be manipulated by foreign imperialists or the governing forces standing on the opposite side from the people. After repeated setbacks over the previous 100 years, the national democratic revolutionary struggle waged by the Chinese people eventually saw the dawn of victory when they won the war of resistance against Japan. For this reason, the day the war of resistance against Japan started 50 years ago is one deserving wide propaganda in the history of the Chinese nation.

China's war of resistance against Japan was won simultaneously with the world's antifascist war. World War II was basically one waged jointly by all the antifascist forces in the world. It should be said that the worldwide war of antifascist struggle began with the start of China's war of resistance against Japan in 1937. The Chinese people, accounting for one-fifth of the world's population, were the first to engage in a life-or-death struggle to

break the link of the world fascist chain in the east. China's war of resistance against Japan received the aid and won the support of the people's various countries. During World War II, all the battlefields in the east and the west coordinated with, and affected, one another. By attacking one island after another in the Pacific, the United States pressed on toward the Japanese homeland; the immediate rout of Japan's Kanto army by the Soviet troops played an important role in the final victory of China's war of resistance against Japan. China's war of resistance, which lasted for 8 years, pinned down the Japanese troops, principally its ground forces. This also played an important role of strategic coordination in the Pacific war and the antifascist war in Europe. Among the Japanese militarists, more than one faction consistently favored going northward to attack the Soviet Union but, when the Nazi troops temporarily gained the upper hand on the western front in the Soviet Union, they still dared not rashly advance northward. An important reason for this was that Japan's ground forces were bogged down in the Chinese battlefield. Japan eventually decided to advance southward. In advancing to the south, it relied chiefly on its navy, but it also required strong land forces in order to occupy the vast regions in the Pacific. Because it could not free itself from the Chinese battlefield, Japan could only throw 20 percent of its ground forces into the Pacific war. Obviously, this provided a favorable opportunity for U.S. troops to launch an offensive.

In the 8-year war of resistance against Japan, China lost some 20 million people. Calculated in terms of the U.S. dollar in July 1937, the losses in property and war consumption amounted to some \$100 billion. By scoring a victory at such an enormous cost China laid the foundation for the complete success of the Chinese national revolutionary struggle and made contributions to the world's people in their antifascist war.

Fifty years ago, to save the nation from subjugation and ensure its survival, the KMT and the CPC gave up the sword for the pen and cooperated with each other, resulting in the nation's unity in, and the victory of, the war of resistance against Japan. It is now of special importance to review this history, as well as its lessons and experiences. The KMT personnel and the people on the other side of the Taiwan Strait also will certainly commemorate the July 7th Incident with us at the same time. China resumed sovereignty over Taiwan after the victory of the war of resistance against the Japanese invasion. It is the solemn task of the Chinese people of the present generation to achieve reunification of the motherland, which includes Taiwan. First, there should be an exchange of mail, trade, and air and shipping services between the two sides of the Taiwan Strait and then reunification can be realized under the concept of "one country, two systems." This has become an irresistible trend of history, just as unity against Japan became an irresistible trend of history 50 years ago. We are willing to fulfill this great historical mission along with the Taiwan authorities and the Taiwan people.

Commemorating the July 7th Incident cannot but also make us think of the history of Sino-Japanese relations. After the Sino-Japanese war in 1894, Japan for a long time participated in the aggression against China by world powers and

gradually became China's most dangerous national enemy. The July 7th Incident indicated the peak of Sino-Japanese hostile relations.

It is only the Japanese militarists who should be held responsible for the crime of invading China. To oppose Japanese militarism, the Japanese laboring people and advanced elements waged numerous struggles in the 1920's and 1930's but they still did not have enough power to curb the development of Japanese militarism. The Japanese liberals and democrats noted that militarism would lead Japan to an extremely dangerous future, but they were unable to wage organized struggles. At that time, the Japanese rulers resorted to militarist propaganda to poison the people's minds, saying that "Manchuria and Mongolia" were Japan's "lifeline" and that dominating the East Asian continent was Japan's "divine mission." The aggressive war finally met with utter defeat. The war and the defeat caused extremely serious losses to the Japanese people. Facts have proved that Japanese militarism is the great enemy of both the Chinese and Japanese peoples.

The Japanese people also made their own contributions to bringing about the defeat of Japanese militarism. As the war dragged on, the people in Japan gradually developed war weariness and antiwar sentiments. Under the fascist high pressure, they put up various forms of resistance. In the Chinese battlefield, Japanese and Chinese communists cooperated in organizing some captured Japanese soldiers to voluntarily set up the "Japanese People's Liberation Alliance." Although they were small in number, it was of great importance that the awakened Japanese soldiers should fight side by side with the anti-Japanese Chinese soldiers and people.

After the war ended, a question facing China and Japan was whether or not they could terminate the hostile relationship between the two countries, which had existed for 50 years, and establish a new, good-neighborly relationship. The solution to this question is two-sided: On the one hand, Japan should eliminate the pernicious influence of militarism and, on the other hand, China should become a genuinely independent country.

As far as China was concerned, the founding of the PRC in 1949 created a favorable historical condition for the opening up of a new Sino-Japanese relationship. But the new relationship was still not immediately established. In the 1950's and 1960's, the Japanese Government followed the United States, which adopted a policy of blockading and containing new China, in refusing to recognize the PRC while maintaining the so-called state relationship with the KMT in Taiwan, which had lost national power. Since the historical shadow of the militarists' invasion of China still existed to a serious extent, it was naturally impossible to normalize Sino-Japanese relations. Even at that time, however, many people with foresight in Japan's political, industrial, and cultural circles noted that adopting a hostile attitude toward China was absolutely unfavorable to Japan's development, while developing Sino-Japanese friendly cooperation was in keeping with Japan's long-term interests. Despite many risks, many friendly personages and delegations strove to establish and develop trade and cultural contacts between the two countries. Their efforts represented the will of the broad masses of the Japanese people and demonstrated the inevitable trend of the normalization of Sino-Japanese relations.

In September 1972, the head of the Japanese Government visited China. The heads of the two governments signed and made public a joint statement of the Chinese and Japanese governments, thus realizing the normalization of Sino-Japanese diplomatic relations. From then on, the history of hostility between the two countries brought about by Japanese militarism came to an end and a relationship of peace and friendship was established, which has continued for 15 years. With the joint efforts of the two governments and peoples, this relationship will certainly be continuously maintained and developed for a long time. The joint statement of the Chinese and Japanese governments in 1972 and the Sino-Japanese Treaty of Peace and Friendship signed in 1978 formed the basis of this relationship.

The July 7th Incident is worth commemorating by both the Chinese and Japanese peoples. A review of this history will enable people to become more aware that the peaceful and friendly relationship between the two countries was not easily achieved, that it should be jointly preserved and developed, and that they should make joint efforts to overcome the tendencies that might endanger this relationship.

History can serve as a mirror to make people more wise and the situation before the July 7th Incident proves there had been a process of growth of Japanese militarism. As a Japanese historian put it: "If we do not extinguish a fire as soon as it breaks out, it will be too late when it rages." There are a number of people in Japan today who are attempting to revive militarism. Though they are only a few, and they are opposed by most Japanese people, it is still necessary to be on the alert. Given the current historical situation, words and actions which support "two Chinas" or "one China, one Taiwan" are a reflection of the shadow left by the Japanese invasion of China. These ideas and words, which are in violation of the Sino-Japanese Joint Statement and the Sino-Japanese Treaty of Peace and Friendship, should be opposed by both the Chinese and Japanese peoples.

There is no reason whatsoever for China and Japan not to get along well with each other. We should never allow any force to drag the two countries onto the old path of hostility. The development of peaceful and friendly relations between the two countries on the basis of the Sino-Japanese Joint Statement, the Sino-Japanese Treaty of Peace and Friendship, and the other principles and agreements reached between the two parties is likewise favorable to both China and Japan and to safeguarding peace in Asia and the Pacific region. While commemorating the 50th anniversary of the July 7th Incident, we hope, and firmly believe, that the peaceful, friendly, and cooperative relationship between the two countries will be carried forward and developed from generation to generation.

Comrades and friends! The Chinese people are working hard for the development of the socialist modernization program, and building socialism with Chinese characteristics through implementation of the reform and open policy. The cause we are now developing is not easier than the national, democratic revolution we carried out in the past. Half a century ago when ours was a weak nation

subjugated to oppression and aggression, we relied on unity of the whole nation and among all the people in the country to defeat the strong invaders. Now, so long as the people of all nationalities throughout the country unite as one and work hard under the leadership of the CPC, we will definitely be able to successfully develop the great cause of socialist modernization.

We must unite as one to achieve the great reunification of the motherland.

We must also unite as one and, along with the peoples of all countries, strive to safeguard world peace.

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CSO: 4005/829

## CHINESE PAPER VIEWS SINO-JAPANESE TENSIONS

HK090946 Hong Kong TA KUNG PAO in English 9-15 Jul 87 p 2

[From "The Past Week" Column: "Political Issues Cloud Sino-Japanese Relations"]

[Text] In a departure from the normally low-key annual observance of the Marco Polo Bridge Incident of 7 July 1937, commemoration of the 50th anniversary of the outbreak of the War of Resistance Against Japanese Aggression was conspicuously charged with political overtones.

Although planned well in advance, the recent opening of the memorial hall at Marco Polo Bridge and another one in Nanjing, where the bloodiest massacre was perpetrated by the Japanese invaders in late 1937, and a host of other commemorative activities held in major Chinese cities cannot but evoke memories of the deep national humiliation, which on this anniversary, was compounded by recent political irritants in Sino-Japanese relations.

China is still committed to a long-term friendship with Japan, a course set by the late Mao Zedong and Zhou Enlai. However, Chinese leaders and responsible officials have recently deemed it necessary to remind the people and world at large a few truths concerning the increasingly worrying problems besetting the bilateral relations.

From Premier Zhao Ziyang came the stern warning last month that Japan should not take for granted that economic relations can supercede political disputes. It would be a grave error to assume that China can be silenced on fundamental political issues once economic problems are resolved, the Chinese premier told a visiting delegation of Japanese cabinet ministers headed by Foreign Minister Tadashi Kuranari on 27 June. And on the next day, Kuranari was to learn from Deng Xiaoping that China bears no responsibility for any of the disputes (referring to political ones) that have recently risen in Sino-Japanese relations.

As far as China is concerned, the political irritants are entirely provoked by Japan, and they fall into two categories. The first relates to the historical nature of the Sino-Japanese war, which involves the textbook dispute of 1982, the issue of Japanese leaders paying homage to the Yasukuni Shrine which China

sees as a sign of growing militarism in Japan and, more recently, the lifting of the ceiling of 1 percent of the GNP set for the Japanese defence budget. The second relates to the even more sensitive question of 'two Chinas,' which Beijing considers to be at the bottom of the ruling by the Osaka Higher Court which awarded ownership of a dormitory for Chinese students in Kyoto to Taiwan, using such flimsy excuses as upholding the property rights of 'a de facto unrecognized government'. As it stands, the outcome of this essentially political case rests with the Japanese Supreme Court but it cannot be supposed that Beijing can be appeased by anything less than the due return of this dormitory to the Chinese Government.

In the final analysis, only the contending forces in Japan can untie these political knots on top of the enormous trade imbalance of US\$21.5 billion at China's disadvantage accumulated during the 15 years since normalization of the bilateral relations.

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CSO: 4000/113

## LIAOWANG DISCUSSES SINO-JAPANESE RELATIONS

HK140843 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 27, 6 Jul 87 p 28

[Article by Huang Sixian [7806 1835 6343]: "For the Good of Sino-Japanese Friendship"]

[Text] The fifth meeting of cabinet members of the Chinese and Japanese Governments concluded in Beijing on 28 June. Since the meeting was held on the eve of the 15th anniversary of the normalization of Sino-Japanese relations, at a time when a fairly solid basis has been laid for the friendly relations between the two countries and some problems have cropped up that call for attention and solution, it attracted wide concern of the people of the two countries and of the international community.

At the 2-day meeting, the responsible government officials of the two countries reviewed the achievements made over the last 15 years since the establishment of diplomatic relations between the two countries, in particular, those made after the previous meeting held in 1985, and had a frank and thorough exchange of views on existing problems.

In the last 15 years, the relations between China and Japan in various fields have rapidly developed and bilateral cooperation and exchanges made tangible results, bringing major benefits to the people of China and Japan. It can now be said that a fairly solid basis has been laid for Sino-Japanese friendship and that the people of the two countries should get along in friendship from generation to generation has further struck root in the hearts of the two peoples. When meeting the Japanese officials attending the current meeting, Chairman Deng Xiaoping pointed out: "The general policy of getting along with Japan in friendship from generation to generation was laid down when Chairman Mao Zedong and Premier Zhou were alive." He said: This policy will not change because of the change of personnel in China's leadership. There is no reason for the two countries and their peoples to be at loggerheads over anything. Chairman Deng also pointed out: So long as China and Japan want to continue their friendship from generation to generation, statesmen of both countries should be more far-sighted. In this way, many problems can be resolved easily.

While fully appreciating the development of Sino-Japanese relations, we must point out that some negative factors are now adversely affecting the development of the relations between the two countries. At a meeting with the Japanese officials, Premier Zhao Ziyang stressed that for the continued development of Sino-Japanese relations, the two sides should face up to the problems that have cropped up in bilateral relations and get rid of interference so that the relations between the two countries would develop in a normal and healthy manner. We should not ignore the existing problems between the two countries just because their relationship is in the main good.

That at the current meeting, the Chinese side stressed facing squarely some current problems that might adversely affect the overall situation of the relations between the two countries, Minister of Foreign Affairs Wu Xueqian pointed out, was based on a series of facts over the last few years, a judgment we made after taking historical experience into account, with an aim to promoting sound and smooth development of bilateral relations.

As everybody knows, the past aggression committed by the Japanese militarists brought catastrophe to the Chinese people of China and other Asian-Pacific countries and inflicted suffering on the Japanese people as well. We have always adopted a look-ahead attitude toward this period of history. However, this does not necessarily mean tolerance should be shown toward a handful of people who distort history, such as the "textbook case" aimed at reversing the verdict on the aggression. Sino-Japanese friendship is based on deep reflections of the past and on the historical lessons.

Japan-Taiwan relations are of great concern to the Chinese people. Although the Japanese Government has reiterated on many occasions that Japan would continue to uphold its stand that there is only one China and definitely refrain from pursuing a policy of "two Chinas" or "one China, one Taiwan" and would keep Japan-Taiwan relations strictly in the framework of nongovernmental and local exchanges, the facts are that instead of being restricted, Japan-Taiwan relations have greatly developed. In the last few years, there have been some violations of the Sino-Japanese agreements, of which the recent Kokaryo case was the most pronounced. Foreign Minister Wu Xueqian pointed out: The Kokaryo case is in essence creating "two Chinas" or "one China, one Taiwan" in the form of legal judgment. On this political issue, which has a bearing on China's legitimate rights and interests and the fundamental principles concerning Sino-Japanese relations, the Japanese side should assume its international commitments by strictly following the Sino-Japanese Joint Declaration, the China-Japan Treaty of Peace and Friendship, the related agreements reached by the two countries, and the norms of international law and handle it properly as quickly as possible to avoid the bilateral relations from being adversely affected. However, during the talks, Minister of Foreign Affairs Tadashi Kuranari still stressed that the Kokaryo case was a legal issue and the Japanese administrative authorities could only silently wait for the judgment of the court. On this, Foreign Minister Wu seriously pointed out that it was a legal issue but more essentially it was an issue of political principles. When meeting the Japanese officials, Chairman Deng Xiaoping also pointed out: It is definitely wrong to put up a legal

smokescreen in the Kokaryo case. He said: The Kokaryo case actually involves the question of one China or "two Chinas," and is not simply an issue of how much it costs. It cannot be treated as a case of financial transaction. He stressed: We hope that the problem will be brought to an end as soon as possible, without any delay. It was not true that the Japanese Government can do nothing about it.

On the eve of the inauguration of the meeting of Chinese and Japanese officials, the tablet engraved with Premier Zhou Enlai's poem at Lan Shan [1526 1472] in Kyoto was vandalized. The people of China and Japan were extremely indignant at this despicable act of sabotaging Sino-Japanese friendship. Although the case was considered an act by a handful of ignorant persons, when judging from the cases of sabotaging the friendship between the two countries over the last few years, it was not completely accidental and therefore, it must be dealt with seriously.

Economic cooperation constitutes an important part of Sino-Japanese relations. Generally speaking, the economic cooperation between China and Japan has rapidly developed, bringing tangible benefits to both sides. The trade imbalance between China and Japan is an outstanding issue in bilateral economic relations. The Chinese side continues to have a huge adverse balance of trade with Japan. In the 15 years since the establishment of Sino-Japanese diplomatic relations, China has suffered continuous deficits, totaling \$21.5 billion, of which more than \$10 billion was made in the past 2 years. Such a phenomenon does not accord with the principle of equality and mutual benefit and is unreasonable. To minimize trade imbalance, the Japanese side needs to open up its market, lower its tariffs and duties, and abolish its restrictions on the import of Chinese goods. In addition, we hope the Japanese side will adopt a positive attitude in investing in and transferring technology to China.

Through the current meeting, the government officials of the two countries exchanged information and ideas, promoted mutual understanding, and deepened their understanding of the problems facing them at present. The important thing to do at present is to adopt effective measures to properly handle and solve the current problems that may adversely affect bilateral relations in accordance with the Sino-Japanese Joint Statement, the China-Japan Treaty of Peace and Friendship, and the four guiding principles concerning Sino-Japanese relations. In this way, we can certainly live up to the expectations of the people of the two countries.

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CSO: 4005/829

## RENMIN RIBAO DISCUSSES SINO-JAPANESE FRIENDSHIP CONFERENCE

HK130810 Beijing RENMIN RIBAO in Chinese 8 Jul 87 p 6

[Article by reporter Feng Chaoyang [7458 2600 7122]: "Review History, Remove Obstacles, Promote Friendship: Sidelights on the 3d Conference on Sino-Japanese Friendly Exchanges"]

[Text] More than one week ago, the 5th conference of the Chinese and Japanese Government officials had just ended in Beijing. On 5 July, the 3d conference on Sino-Japanese friendly exchanges also began in Beijing. Both conferences were held at a time when the 15th anniversary of the establishment of diplomatic relations between China and Japan and the 50th anniversary of the July 7th Incident" were approaching. This showed that the government and people of both countries were earnestly trying to discuss the problems that have emerged in the process of the development of relations between the two countries in order to promote the further development of the friendly relations between them.

One of the important characteristics of the post-war development of Sino-Japanese relations is that the friendly exchanges between the peoples of the two countries have played an important and active role in promoting the development of the friendly relations between China and Japan. "When drinking the well water we should not forget the welldigger." Without the long-term painstaking efforts made by the well-diggers of the old generation of peoples of both countries, the normalization of relations between the two countries which took place 15 years ago would have been out of the question. At present, Sino-Japanese friendship already has a good foundation. However, when problems have emerged in the official relations between the two countries, the unofficial exchanges between the two countries have indeed been playing an increasingly important role in supplementing and promoting the official exchanges between them.

Most of the deputies to the 3d conference on Sino-Japanese friendly exchanges from both countries are old friends. For a long time they have been working shoulder to shoulder to promote the development of friendly relations between China and Japan. Many of them have flown across the East Sea many times to make their contributions to the development of Sino-Japanese friendship over the past 10 years whether the weather was good or bad. The present friendly relations between China and Japan have not come easily. Therefore, all the

deputies to the 3d conference on Sino-Japanese friendly exchange are now particularly concerned about certain political problems that have emerged in the course of the development of friendly relations between the two countries. This is because compared with the economic problems, the political problems that have emerged in the friendly relations between the two countries are more sensitive and more important. Moreover, failing to properly solve the political problems that have emerged in their friendly relations will inevitably harm the relations between the two countries and hurt the feelings of the peoples of both countries. For this reason, the question of how to correctly look at the political problems that have emerged in the relations between China and Japan, how to eliminate the obstacles to the further development of Sino-Japanese friendly relations, and how to promote the development of Sino-Japanese friendship became the major topics for discussion between the two sides at the 3d conference on Sino-Japanese friendly exchanges.

In his key-note report and two other speeches on current Sino-Japanese relations made at the 3d conference on Sino-Japanese friendly exchanges, Sun Pinghua, president of the China-Japan Friendship Association, divided the political problems that have emerged in Sino-Japanese relations into two categories: First, how to correctly treat the history concerning the aggression on China by Japanese militarism; second, how to correctly handle the relations between Japan and Taiwan. Sun pointed out that even now, in Japan there are still some people who do not recognize the aggressive nature of the war fought 50 years ago. These people have always tried to distort the history and create incidents to hinder the healthy and normal development of Sino-Japanese relations. Thus, there has been the issue of Japan revising its textbook and the issue of Japanese Government officials formally paying tribute to the Yasuguni Shrine. Recently, Japan's moves on its defense budget have triggered off widespread concern among its neighbors in Asia. In terms of the relations between Japan and Taiwan, some people in Japan have either publicly or privately tried to create certain incidents leading to "two Chinas" or "one China and one Taiwan." The incident of the "Guanghua Dormitory" is a typical example in this respect.

With regard to the above-mentioned questions, Masao Shimizu, director general of the Japan-China Friendship Association, offered views which were basically identical to those offered by Sun Pinghua at the conference. Masao Shimizu stressed Japanese people should not forget that it was in 1894 instead of 1939 that Japanese militarism began its aggression on China. The year 1894 was the year when the 1894-1895 Sino-Japanese War broke out. Later, Japanese militarism further carried out its aggression on China. He said that Japan must retrospect its past aggressive acts on the basis of the Sino-Japanese Joint Communique and do everything it can to prevent the history from being repeated. He stressed that only by respecting the feelings of the Chinese people who suffered enormous losses during Japan's aggressive war against China will Japan really be able to establish friendly relations between the peoples of both countries on the basis of mutual trust.

During the three days of the conference the deputies also attended the inauguration ceremony for the Memorial Hall of the War of Resistance Against

Japan, visited the Marco Polo Bridge, and attended the meeting on commemorating the 50th anniversary of the "July 7th Incident." During the three days of the conference the deputies participated in a lot of activities and even held group discussions in the evenings.

Seeing the deputies making great efforts to promote the friendly relations between China and Japan, people understand more clearly why President Li Xiannian asked Masao Shimizu, head of the Japanese delegation to the 3d conference on Sino-Japanese friendly exchanges, to pass his regards to Tokuma Utsunomiya, president of the Japan-China Friendship Association, who failed to attend the conference because of his illness. It is true that the Chinese people will never forget their old friends who have devoted themselves wholeheartedly to the cause of the development of friendly relations between China and Japan. The Chinese people and the Japanese people should maintain their friendship for generations to come in the future....

The spirit of the friendly personalities of both countries making joint efforts to promote the friendship between China and Japan, as was demonstrated at the 3d conference on Sino-Japanese friendly exchanges, will doubtlessly be conducive to eliminating the obstacles to the further development of the friendly relations between China and Japan and pushing forward with the continued and healthy development of Sino-Japanese relations.

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CSO: 4005/829

## RENMIN RIBAO VIEWS KOKARYO DORMITORY RULING

HK150403 Beijing RENMIN RIBAO in Chinese 11 Jul 87 p 7

[Article by Fu Zhu [0265 6999]: "Japanese Court's Acknowledgement That the Right of Appeal of the So-called 'Republic of China' Is a Serious Violation of International Law--Commenting on Legal Issues in the Kokaryo Dormitory Case" capitalized passages published in boldface]

[Text] Editor's note: The Kokaryo Dormitory Case is essentially a political and diplomatic issue involving China and Japan. It is entirely wrong for the Japanese judicial organ to create "two Chinas" or "one China, one Taiwan" in judicial form in brazen violation of the Sino-Japanese joint statement and treaty of peace and friendship, and it is also of groundless legality. The Kokaryo Dormitory Case involves a series of important principles in international law. The Japanese court and some Japanese scholars of international law have, in disregard or distortion of generally accepted norms of international law, put forth some paradoxical arguments and used them as legal grounds for this erroneous verdict, which the Chinese legal workers have successively clarified and refuted, to defend the dignity and justice of law. Beginning today, this paper will publish several articles in succession, chiefly to discuss the relevant issues regarding the Kokaryo Dormitory Case from the principle of law. [end editor's note]

With the normalization of Sino-Japanese diplomatic relations, should the Japanese Justice Court accept a legal action (namely the right to appear in court) brought by the Taiwan authorities under the name of "The Republic of China?" This is the primary issue in the Korkaryo Dormitory Case. Because this involves the legal effects of the recognition of a government and the withdrawal from such recognition in reference to international law; therefore, it is necessary to study the general theories regarding the binding force on the court of a nation by its government's position regarding the recognition of a foreign nation, the specific international obligations Japan should bear in this area in particular.

A UNIVERSAL PRINCIPLE IN INTERNATIONAL LAW IS THAT AN UNRECOGNIZED GOVERNMENT IS NOT QUALIFIED TO APPEAR IN THE COURT OF ANOTHER NATION THAT DOES NOT RECOGNIZE IT. In accordance with international law, the legal effect of recognition, is, the recognized state or government enjoys the right of appeal in the courts of the nation that recognizes it, while the unrecognized state or government does not. In his book, "The Tenets of International Law," Brownlee, the famous British expert on international law pointed out, "within the realm of the

domestic law, recognition has important practical effects. Under the condition that the local court is willing, or from the angle of the international law, that it is obliged to observe the suggestions of administrative departments, an unrecognized state or government should not suggest the right of immunity, neither should it make its legislative or judicial actions recognized for the sake of disputing the law, nor should it appeal to the local court as a plaintiff." (Footnote) (Brownlee: "Tenets of the International Law" 1973, Second Edition, p 101) Aside from Western international law experts, the Third World international law experts also uphold such a theory. For example, Poweitelan [3789 4850 3676 5695] holds the view that, "just for an unrecognized state, the effects of an unrecognized government can be seen from the practice of the courts of the state that refuses recognition. Just as an unrecognized state, an unrecognized government is not allowed to appeal as a plaintiff in the courts of a nation refusing it recognition." (Footnote) (Poweitelan: "Essentials of the International Law: East and West," 1965, p 181) Likewise, Mujiewa [4476 2638 3907], the well-known African scholar of international law pointed out, "if we observe various issues emerging in domestic courts, we will discover that the right of appeal of an unrecognized government is often (if not always) denied." (Footnote) (Mujiewa: "The Major Aspect of the International Law," carried in "A Manual of International Law" 1968, p 273)

If we study the practices of the courts of various nations, we will find that cases of denying unrecognized governments the right of appeal are too numerous to cite individually. As a universal principle, the courts of various nations have adhered to the practice that the position of a nation regarding the issue of recognition has binding force on the court of the relevant nation. This is because "the voice of a government leader is not just that of a government department, but one of the sovereignty of a state; therefore, it has a binding force on all departments." (Footnote) (Hudson: "Cases of International Law and Other Materials," 1936, p 91) Hervey further summed up the causes for this binding force as follows: 1) It is a usual practice that the function of recognition is endowed the political department in the constitution of any nation; 2) the state policy requires the court to be in harmony with the government in matters concerning foreign relations; and 3) it is inappropriate for the court to pass judgment because matters in this category are of a political nature. (Footnote) (Chen Tiquang: "On Recognition in International Law," 1951, English version, pp 242-243) In the theory of international law, the practice in which the court is under the binding force of the government's position in matters involving foreign affairs is called "judicial self-restriction." (Footnote) (Ibid, p 88) "The judicial departments of most nations come under the restrictions of the attitude of the administrative departments of their government. (Footnote) (Ibid, p 247) In discussing the practice in the United Kingdom, Arkhurst stated: "When the British court must determine whether a state or government exists, it believes that it must come under the binding force of a certificate from the Foreign Office. Unless the Foreign Office has evidence that the British Government has already recognized the relevant nation or government, then court will regard such a nation or government as non-existent." (Footnote) (Arkhurst: "A General Introduction to Modern International Law," Chinese translated version, p 76) Precedents

are many in Japan's judicial practice. For example, when the Tokyo Court of Appeal handled "the case of the Russo-Asian Bank suing the Mitsubishi Corporation" in 1936, it accepted the explanation of the Japanese Ministry of Foreign Affairs on the recognition of the Soviet Government, ascertained the effects of the Soviet domestic decrees promulgated prior to the Japanese recognition of the Soviet Government based on the principle of recognition possessing tracing power in international law, and the court's judgment was made on this basis. (Footnote) (Takeo Sokkawa and Asa Koda: "Cases of Adjudication Based on International Law of the Japanese Courts," 1978, Japanese version, pp 2-3) The normalization of Sino-Japanese diplomatic relations was realized in 1972. In the joint statement initialled by the two governments, the Japanese Government solemnly declared its recognition of the PRC Government as the sole legitimate Chinese Government. At the press conference on the very day the joint statement was initialled, the Japanese minister of foreign affairs solemnly declared the termination of the so-called 1952 "Japanese-Chinese" Treaty signed between Japan and the Taiwan authorities. All this shows that the Japanese Government has withdrawn its recognition of the government of "the Republic of China." This change of the Japanese Government on the matter of recognition has important legal effects, namely, all Japanese state organs, including the judicial authorities have the obligation to stop recognizing "the Republic of China"; regarding Japan, "the Republic of China" is no longer in legal existence. In accordance with this, the Japanese court should have rejected the lawsuit of the Taiwan authorities brought under the name of "the Republic of China." Only then, would it fall in line with the aforesaid principle of international law and the spirit of the Sino-Japanese Joint Statement.

However, in the process of handling and studying the Kokaryo Dormitory Case, the Japanese court and the Anto Letter of Legal Evaluation (shortened as Letter of Evaluation in the following) have refused to adopt the aforesaid universal principle of international law, negated the binding force of the Japanese Government's position as expressed in the Sino-Japanese Joint Statement, and defended the case with "the theory of realism."

THE JAPANESE COURT SHOULD STRICTLY ABIDE BY THE SINO-JAPANESE JOINT STATEMENT AND TREATY OF PEACE AND FRIENDSHIP, AND "THE THEORY OF REALISM" IS NOT APPLICABLE TO THIS CASE. What is meant by "the theory of realism?" Historically, some new government succeeded in seizing power, and effectively ruled on the territory of its nation wholly or the greater part of it; however, for various reasons, it was not recognized by some foreign governments, like, for instance, the Soviet Government in its early days. Under such circumstances, some foreign courts "transcended" the non-recognition policy of their own governments to settle judicial disputes by proceeding from reality, and granted the unrecognized foreign government the right of appeal at the courts of their own countries or the right of immunity from judicial jurisdiction in the courts of their own countries, or acknowledged the effects of the laws and decrees of the unrecognized government. Academically, some Western experts of international law called such theory of the court characterized by proceeding from reality as "the theory of realism."

In order to demonstrate the right of appeal of "the Republic of China," the Japanese court applied the above-mentioned theory to this case. In rejecting the adjudication of the Kyoto local court in February 1982, the Osaka higher court said: "The so-called recognition of a state or government is mostly a political action,... it is undeniable that under certain circumstances, domestic court, in settling disputes involving private law (including private disputes involving foreign nations), may not fully regard the question of whether the government recognizes it or not, which is the basis of action for the government, as the basis for their own judgment, but it needs to take into account other facts independent of recognition, and consider the eligibility of an unrecognized government or the de facto government losing recognition when acting as one of the parties in a lawsuit." "On the part of the domestic court, the initialling of the Japanese-Chinese joint statement does not form an obstruction to its acknowledgement of the eligibility of the petitioner to act as one of the parties in the process of the court settling the disputes involving the private law." The Letter of Evaluation also holds the view that "to regard full recognition as the basic criterion for the court's judgment may not be appropriate." In short, the expositions of the Japanese court and its Letter of Evaluation aim to show that: 1) whether the government recognizes it or not is a political action, which has no binding force on the court, because the task of the court is to settle disputes involving the private law; 2) non-official trade does exist between Japan and "the Republic of China," and the latter may become one of the parties in disputes involving private law based on such trade relations; and 3) the normalization of Sino-Japanese diplomatic relations does not form an obstruction to "the government of the Republic of China" enjoying the right of appeal at the Japanese court.

To demonstrate that the Japanese court should acknowledge the existence of "the Republic of China" and to grant it the right of appeal in this case, the Letter of Evaluation has on purpose taken stock of some cases of judicial adjudication applicable to "the theory of realism" as the precedents for unrecognized nations enjoying the right of appeal.

Taking all this into account, how should we understand the binding force of the position of the Japanese Government in the Sino-Japanese Joint Statement on the Japanese court, regarding the Kokuryo Dormitory Case? Which is applicable to the case, the theory of the legal effects of government recognition as a universal principle in international law or "the theory of realism" as an exception? Are the cases cited by the Japanese party as evidence appropriate? These are all questions people will naturally put forth, and need be studied.

1) THE TWO PREREQUISITES FOR THE APPLICATION OF "THE THEORY OF REALISM" DO NOT EXIST IN THE CASE IN DISPUTE. We must point out not without regret, when the Japanese court and the Letter of Evaluation did their utmost to grant the right of appeal to "the Republic of China," they had precisely neglected two indispensable prerequisites for the application to "the theory of realism." The first prerequisite is, non-recognition exists between the government of the nation to which the court belongs and a certain foreign nation, which

is involved in a law suit. If the two governments recognize each other, the court should naturally recognize the legal effects of the relevant foreign government and its actions. Under such condition, the so-called "theory of realism" is entirely superfluous. This truth is self-explanatory. The second prerequisite is, when the court "transcends" the position of its government to ascertain the de facto existence of a certain foreign government, the foreign government in question must be one of a newly founded nation, exercising effective rule over the entire, or most parts of its territory, but which has not yet been recognized. This point can be clearly discerned in all the cases applicable to "the theory of realism," affirmed by the 1936 resolution of the International Law Society in particular. (Footnote) ("American Journal of International Law" Vol 44, p 640)

Regarding these two prerequisites, anyone of good sense will immediately see that they do not exist in the Kokaryo Dormitory Case. The grounds are: First, the state of mutual non-recognition does not exist in the case between China and Japan. The Sino-Japanese Joint Statement was initialled in 1972, in which statement, the former solemnly declared that the PRC Government is the sole legitimate Chinese government, and that Japan fully understands and respects the PRC position that Taiwan is an inseparable part of the PRC territory. If the Japanese Government has given such an explicit and unmistakable expression regarding the legitimate Chinese Government, why should the Japanese court recognize another "Chinese Government" on the ground of "the theory of realism," aside from the legitimate Chinese Government recognized by the Japanese Government? Such a practice regardless of the facts has precisely run counter to the basic starting point of the theory of realism, and neglected and violated the principle of the Sino-Japanese Joint Statement and the national will of Japan. Second, the Taiwan authorities are the remnants of an old Chinese Government, which was overthrown and lost effective control over most of China's territory, and Japan withdrew its recognition. Obviously, Taiwan has essential differences, and has in an entirely different legal status from a new government that has effective rule over the entire, or most parts of the territory of that nation, but which has not been recognized yet by a foreign nation, to which the court belongs (as in the case of the Soviet Government in its early days). The former is but a local government of China, and is not qualified to represent China, and the self-claimed "Government of the Republic of China" is no longer in legal existence; this is self-evident regarding Japan in particular, who has already withdrawn its recognition. And the latter is the true representative of the sovereignty of a nation, despite the fact that it was not yet recognized by the nation to which the court belongs. Here we must stress that in ascertaining the legal status of the Taiwan authorities, the Sino-Japanese Joint Statement and the unanimous agreement of the two parties on the Japanese-Taiwan relations should be the sole legal ground for the Japanese court to abide by. Aside from recognizing the PRC Government as the sole legitimate Chinese Government in the Joint Statement, the Japanese Government has taken up the obligation to maintain only non-official and local relations with Taiwan. This has dispelled all possibilities for regarding the Taiwan authorities as a government, not to speak of the existence of a so-called state of non-recognition the Japanese Government and Taiwan. Therefore, the Taiwan authorities have nothing in common with an unrecognized government. The Letter

of Evaluation has confused an unrecognized government with an old government with its recognition withdrawn. No precedents for such practice can ever be found in international law. In accordance with international law, the two are entirely different in legal concept and nature. Specifically speaking, an unrecognized government is invariably a new government that has effective rule over the entire, or most parts of the territory of its nation; no matter by what means it won victory and what form it possesses, its status as the practical representative of that nation is universally accepted. (Footnote) ((Butchart) [butchart 1580 2686 1795]: "Unrecognized Governments at the U.S. Court," "American Journal of Internal Law" Vol 26, 1932, p 261) This is because it has acquired all necessary conditions for a government. It is other political reasons rather than the eligibility for a government that account for the non-recognition by other nations. Therefore, regarding an old government that has lost effective rule, "the withdrawal of recognition is not only acceptable but necessary." (Footnote) ("The Oppenheim International Law," 8th edition, translated Chinese version, p 119) This is because the nation that used to recognize it considers it no longer possessing the qualification for a government and the representation of its own nation. (Footnote) (Ibid, p 120) Regarding the Japanese Government, its de jure recognition of the PRC and withdrawal from recognizing "the Republic of China" belong to this category. As is universally known, with the victory of the revolution of the Chinese people, the old government of the so-called Republic of China was overthrown, and its remnant elements ran away from the mainland and stayed in Taiwan. The victory of the Chinese people has won the recognition of the overwhelming majority of the world's nations, with the governments of more than 130 nations in the world including the Japanese Government establishing diplomatic relations with the PRC Government. Besides, the United Nations General Assembly adopted a resolution in 1971 to expel the Taiwan authorities who had illegally occupied the seat of China, and to restore the legitimate seat of the Chinese Government. This is a fact obvious to all. How can the Japanese court and the Letter of Evaluation turn a blind eye to the above-mentioned facts, while confusing matters of two categories that are entirely different in nature? What is their real intention? Are they really showing respect for reality?

2) THE JAPANESE COURT CANNOT APPLY "THE THEORY OF REALISM" TO AN OLD GOVERNMENT FROM WHICH THE JAPANESE GOVERNMENT HAS WITHDRAWN ITS RECOGNITION. In accordance with "the theory of realism," the court has certain powers of judgment regarding an unrecognized new government before its own government has made a decision on recognition, under the prerequisite that the foreign policy and the national interests of the nation it belongs to are not affected. In other words, the court may ascertain the existence of the unrecognized nation within a certain limit, acknowledge the effects of its legal action, and grant it immunity of judicial jurisdiction (however, the precedent of granting it the right of appeal as the plaintiff never occurs). The court may take such action because the nation it belongs to has not explicitly expressed that it would refrain from doing so out of international obligation. However, regarding an old government, from which recognition has been withdrawn, because the government of the nation to which the court belongs has already passed judgment on the legitimate government of another nation and withdrawn the recognition from the original legitimate government, the court in question has the obligation not to make an opposite judgment. The act of recognition constitutes "the constraint on going back on one's

words." Here, strict pursuance of the principle of judicial self-restriction is precisely needed. Those scholars upholding "the theory of realism" also believe that, when the court is facing two government factions, both claiming the right to represent their own nation, the judgment of the government of the country to which the court belongs, regarding which of the two factions is the legitimate government of the nation in question, is binding force on the court. Only if the government of its nation has not made a judgment will the court exercise its right of adjudgment. Concerning Sino-Japanese relations, as soon as the Japanese Government's recognition of the PRC Government as the sole legitimate Chinese Government came into effect, all state organs in Japan, including its judicial organs should bear the obligation to stop recognition of "the Republic of China." The Letter of Evaluation says, regarding whether "the Republic of China" is eligible to act as one of the parties in a law suit, there is no specific stipulation in the Japanese domestic law, neither has Japan signed a special international treaty on this particular issue. Such a statement has entirely neglected the series of accords and principles reached between the Chinese and Japanese Governments, and its intention is obviously to create a theoretical ground for the Japanese court to grant the right of appeal to "the Republic of China."

3) ALL CASES CITED BY THE LETTER OF EVALUATION ARE NOT APPLICABLE TO THE CASE IN DISPUTE. This is shown in: a) In all the cases cited, the foreign governments facing the courts of various nations were all governments newly founded and had not been recognized by other nations (for example, the Soviet Government, the Burmese Government, the Mexican Government, and the PRC Government), none of them belonged to the category of the Taiwan authorities, which are the remnants of an overthrown old government, with the recognition of the nation to which the court belongs to withdrawn. As mentioned above, these two categories are entirely different in nature.

b) In the "Case of the United Mexican States suing Fernandez" and the "Case of Russian Trade Delegation Stationed in Turkey suing Lawang [2139 2489] Red Sea Coal Corporations," the U.S. court and the Egyptian court accepted the appeal of the plaintiffs based on their recognition of the international character of Russia and Mexico and their inevitable civil character. If the Japanese court and the Letter of Evaluation should persist in granting the right of appeal to "the Republic of China" based on the same consideration, beyond doubt that will be treating Taiwan as a nation, which is an open violation of the Sino-Japanese Joint-Statement and Treaty of Peace and Friendship, and an illegal act of creating "two Chinas" or "one China, one Taiwan."

c) Aside from the two aforesaid cases, the others were either the designated persons of corporations under the jurisdiction of unrecognized governments as plaintiffs, or the unrecognized governments as the accused. In no cases were the unrecognized governments themselves acting as plaintiffs directly appealing at foreign courts. However, in the Kokaryo Dormitory Case, the Taiwan authorities act as the plaintiff under the name of "the Republic of China." There is also an essential difference in this.

4) THE CASE IN DISPUTE IS NOT A GENERAL CIVIL ACTION; IT IS NOT APPLICABLE TO "THE THEORY OF REALISM." The Japanese court and the Letter of Evaluation maintain that as non-official trade exists between Japanese citizens and "the Republic of China," and the Japanese law does not prohibit such trade relations, based on this, the court should recognize the eligibility of the "government of the Republic of China" to act as one of the parties in a lawsuit when it is thus involved. However, we cannot but point out that such reasoning of the Japanese party is entirely out of context. First, as Japan has already withdrawn its recognition of "the Republic of China," so the non-official relations and trade relations between Japan and "the Republic of China" are non-existent; and they can only be people-to-people trade between non-governmental legal entities and natural people of Japan and the legal entity and natural people of Taiwan Province. Second, regarding the parties concerned in this case, it does not involve any Japanese citizens at all. Regarding its form of expression, this is a dispute between the Taiwan authorities in the status of a "government" on the one hand and the Chinese citizens on the other. And third, regarding the objective aspect of the law suit, it does not involve any issues of rights and obligations arising from Japanese-Taiwan trade relations, but the ownership of China's state property, whether it belongs to a legitimate government or an illegitimate and self-styled government. Both the subjective aspect and the objective aspect of this case and the applicable law have all gone beyond the realm of "ordinary civil action" in the defense of the Japanese party.

Through the above analysis, the answer is very clear on whether the Taiwan authorities are eligible to appeal to the Japanese court under the name of "the Republic of China." It is just natural for people to ask, if the universal principle of international law and a large number of cases, the Sino-Japanese Joint Statement and the relevant agreements reached between the two governments in particular, have explicitly and unmistakably denied "the Republic of China" the right of appeal at the Japanese court, the case could have been settled smoothly and successfully so long as the Japanese court observed them honestly, but why should it have spared no efforts to dish up all kinds of specious arguments and to cite as evidence cases that have nothing to do with the case in dispute? What is it aiming at? to put it bluntly, it aims precisely to change the legal status of Taiwan through its judicial adjudication.

The Japanese court has openly created "two Chinas" or "one China, one Taiwan," to endow the Taiwan authorities the qualification for the subjective aspect in international law. It has gravely violated international law, the Sino-Japanese Joint Statement and Treaty for Peace and Friendship, and the agreement between the two governments on the Taiwan-Japanese relations to be confined in maintaining non-official and local relations; hence, an international illegal action. On these issues of important principles, the Chinese Government and people will never concede.

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CSO: 4005/829

## CPC TELEGRAM ON JAPANESE ATTACK ON MARCO POLO BRIDGE

HK081526 Beijing RENMIN RIBAO in Chinese 7 Jul 87 p 1

["Circular Telegram of the CPC Central Committee on the Japanese Offensive on Marco Polo Bridge (8 July 1937)"]

[Text] Editors' note: To mark the 50th anniversary of the July 7th Incident, the beginning of the anti-Japanese war, we specially publish this historical document entitled "Circular Telegram of the CPC Central Committee on the Japanese Offensive on Marco Polo Bridge." [end editors' note]

All newspapers, organizations, and troops of China, the KMT, the National Government, the Military Committee, and all our compatriots:

At 2200 on 7 July, Japanese troops made an attack on Chinese armed units under Feng Zhian's command stationed in Lugouqiao [Marco Polo Bridge] to force Feng's units to retreat to Changxindian. As Feng's units refused to retreat, conflict at last burst out, and the two sides are still fighting at the moment.

The consequence of this provocation by the Japanese invaders at Marco Polo Bridge may develop into a large-scale aggressive war, or the enemy may be creating a circumstance to exert diplomatic pressure with a view to preparing for an aggressive war in the future. Anyway, the Beiping and Tianjin areas and North China are now facing an extremely severe threat from Japanese armed invasion. This dangerous situation indicates that the Japanese imperialists, in prating about "new evaluation" of and "new policy" toward China, are doing nothing but making preparations for new offensives. The danger of the Japanese imperialists' armed invasion of the Beiping and Tianjin area and North China is now presented before every Chinese.

All our Chinese compatriots, be aware that the Beiping and Tianjin area is now in danger, that North China is in danger, and that the Chinese nation is in danger! The only way out for us is to launch a war of resistance against aggression, with the whole nation involved in it. We call for a resolute counteroffensive against the Japanese invading troops and prompt actions to make preparation for any new drastic development. The whole nation should immediately give up any hope and illusion of seeking peace with the Japanese invaders.

All our Chinese compatriots, we should appreciate and endorse Feng Zhian's units' brave resistance! We should appreciate and endorse the manifesto of the North China authorities which have pledged to fight to the death in defense of the country's territory! We urge General Song Zheyuan to immediately mobilize all the troops of the 29th Army to engage the enemy on the front, and we demand that the central government in Nanjing immediately give solid support to the 29th Army, give a free rein to mass patriotic movements in the country with a view to raising the people's morale in resistance to the Japanese invaders, immediately mobilize all units of the Army, Navy, and Air Force, be ready to repulse the invaders, and take prompt action to weed out all traitors, collaborators, and Japanese spies hiding in China with a view to consolidating our rear area. We call on all the Chinese people to exert their utmost to support the sacred anti-Japanese self-defensive war! Our slogans are:

Defend the Beiping and Tianjin area and North China with armed force!

Check the Japanese imperialists from occupying any inch of the land of China!

Fight to the last drop of blood to defend our territory!

All Chinese compatriots, the government, and the Army, unite to build up a strong great wall of the national united front and to counter Japanese invasion!

The KMT and the CPC, cooperate closely to resist new offensives by the Japanese invaders!

Expel the Japanese invaders from China!

The CPC Central Committee

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CSO: 4005/829

## TA KUNG PAO CONDEMNS VANDALIZING OF ZHOU MEMORIAL TABLET

HK300227 Hong Kong TA KUNG PAO in Chinese 25 Jun 87 p 2

["Political Talk" by Shih Chun-yu [2457 0689 3768]: "Zhou Enlai Memorial Poem Tablet at Kameyam, Kyoto, Is Vandalized"]

[Text] The Despicable Behavior of a Handful of People

On the eve of the Japan-China ministerial conference in Beijing, the memorial tablet in the famous tourist spot Arashiyama, Kyoto, Japan, bearing the poem "Arashiyama in the Rain" by the late Chinese Premier Zhou Enlai, to people's surprise, was found coated with red paint, and leaflets carrying the slogan "Smash the Japan-China Ministerial Meeting" stuck around the tablet. This was obviously the act of a handful of anti-Chinese ultra-rightists. They chose to spread anti-Chinese sentiments on the eve of the Japan-China ministerial meeting.

The local police think that "the act is probably a disturbance caused by a small group of people against China's attitude toward recent problems in Japan, including the Kokaryo case." This small group of people certainly do not represent the broad masses of Japanese. They tried in vain to undermine the friendship of the people of China and Japan. The "Arashiyama in the Rain" tablet was built in April 1979, in memory of the Japan-China Treaty of Peace and Friendship. Engraved on the tablet was a poem by Zhou Enlai who visited Kyoto in his young days in 1919. In memory of Premier Zhou and to promote the friendship of both the people of Japan and China for generations to come, this tablet was ceremoniously set up as the symbol of the friendship of the two peoples.

Japanese Prime Minister Nakasone and Chief Cabinet Secretary Gotoda each spoke about the incident, severely denouncing the vandalizing of the tablet as "an act of discourtesy" and "the silly act of a handful of muddle-headed people." That top Japanese Government officials personally reproached this behavior, which was detrimental to the friendship of Japan and China, shows that the Japanese Government has paid much attention to this incident and they hope that it will not affect the coming ministerial meeting between the two countries.

## The Prime Minister and Chief Cabinet Secretary's Speeches

There are various kinds of political organizations in Japan, including the ultra-leftist "Red Army," the ultra-rightist "Great Japan Patriotic Party," and so on. There are also parties which extol militarism and Nazism. The members of these parties always hold activities and give public speeches to spread their views. Many foreign tourists who have visited Japan have seen this phenomenon.

Sometimes these ultra-rightists and ultra-leftists will do things which shock the world. Apart from the blowing up of an aircraft in the Middle East by the Red Army some years ago, there was also the assassination of Socialist Party leader Asanuma, which was carried out by ultra-rightist organizations. If the handful of extremists continue to undermine the friendship between Japan and China, this cannot but cause much worry.

### Reflecting on the Extremists' Feelings

Vandalizing the tablet seems to be the act of a handful of people. Actually, this represents another wave of anti-Chinese sentiment on the part of a handful of Japanese who are still obsessed with the remnants of militarist thinking. They are discontented with the persuasion, criticism, and protests from China in recent years, on the issues of the former minister of education altering the history of the invasion of China in their textbooks, the official visit of the Japanese Prime Minister to the Yasukuni Shrine, and the recent Kokaryo case. They deem that the Chinese "interfere in their internal affairs." This is the background which triggered the case of vandalizing the tablet.

Of course, maintaining friendship between Japan and China is the unanimous and strong desire of the two peoples. The behavior of a handful of extremists definitely cannot harm the main friendly trend in the relationship of the two countries. China understands this. However, China cannot help but worry that even today there are Japanese who still have the remnants of militarist sentiment, and they often remind the Japanese authorities to pay attention to it. Vandalizing the tablet in Arashiyama was a practical example.

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CSO: 4005/829

PLA PRESS PUBLISHES NEW BOOKS ON JAPANESE AGGRESSION

OW071220 Beijing XINHUA in English 1209 GMT 7 Jul 87

[Text] Beijing, July 7 (XINHUA)--"Atrocities of Japanese aggressor troops in China," the most complete of its kind ever published in China, is now available throughout the country, XINHUA learned today.

This is one of the newly-published books dedicated to the jubilee of the July 7th Incident that triggered China's war of resistance against Japanese aggression.

It contains records and articles on the Nanjing massacre in December 1937, during which 300,000 unarmed Chinese men and women were slaughtered in cold blood by the Japanese occupation forces, said a spokesman for the publisher, the people's liberation army publishing house.

Another book tells how the Kuomintang troops fought the Japanese--also the first in China. A third book records how 80 Kuomintang generals gave their lives to national salvation during the 8-year war.

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CSO: 4000/113

## NANJING MOURNS VICTIMS OF ANTI-JAPAN WAR

OW071210 Beijing XINHUA in English 1151 GMT 7 Jul 87

[Text] Nanjing, July 7 (XINHUA)--A ceremony was held here today to mourn the 300,000 men and women massacred by Japanese troops, which broke into the city in December 1937, five months after the Sino-Japanese war began.

The ceremony was held at the memorial hall to the victims of the Nanjing massacre, which the city built in 1985. Historical records show that the massacre lasted for six weeks.

The ceremony, attended by 500, served to remind the people of how China once fell prey to aggression, enslavement and massacre, said Nanjing mayor Zhang Yaohua.

"We should carry forward the spirit of patriotism and internationalism, and, together with the peace-loving peoples the world over, oppose any war of aggression and safeguard world peace," he said.

A forum was held yesterday in this capital of Jiangsu Province, also to mark the 50th anniversary of the July 7th Incident, which triggered China's war of resistance against Japanese aggression.

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CSO: 4000/113

## THAILAND REPORTS INCREASE IN SOVIET ESPIONAGE

OW131121 Beijing XINHUA in English 0713 GMT 13 Jul 87

[Text] Bangkok, July 13 (XINHUA)--Thai security agencies are monitoring increased Soviet intelligence activities in the country, the BANGKOK POST reported today.

It quoted a diplomatic source as saying yesterday that the Soviet Embassy in Bangkok has 87 staff, the maximum permitted by the Thai authorities, and of those, 47 are members of Moscow's intelligence networks.

The source said that Moscow has been employing various tactics to bolster its intelligence-gathering operations in Thailand.

Among the tactics being used is the rotation of training teams, each consisting of a few members at a time, to work in Thailand for spells of three to four months.

Fresh training teams are sent in ahead of the departure of the team they are to replace, ensuring the continuation of espionage operations, he said.

Apart from the embassy, the source said that officials believe many staff members of the Soviet airline Aeroflot and Soviet shipping lines stationed here are also working for intelligence networks and frequently try to extend their terms in Thailand.

Intelligence reports on the fighting in Kampuchea and along the Thai-Kampuchean border are given most interest by the Soviet authorities, the source said.

In 1983, a Soviet trade official was arrested on charges of espionage and given 48 hours to leave Thailand.

In 1974 and 1977, Thailand expelled two Soviet nationals on spy charges but the expulsions were carried out without publicity.

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CSO: 4000/113

## XINHUA ANALYZES AUSTRALIAN ELECTION OUTCOME

OW112209 Beijing XINHUA in English 1751 GMT 11 Jul 87

["News Analysis: Prime Minister Hawke Wins His Third Term (by Xu Yaolin)"--XINHUA headline]

[Text] Canberra, July 11 (XINHUA)--Bob Hawke has eventually won the general election, and will become the first Australian labor party leader to hold the prime minister's office for the third term.

Analysts here attributed Prime Minister Hawke's victory to the economic performance of the government in recent months, disunity among the opposition parties and the timing of the election. As foreign policy was not an issue in the election campaign, most debates were centered on domestic economic issues such as taxes.

Despite the fact that Australia's economic problems are enormous, business circles in this country believe that Hawke's team has made a better "economic management."

Hawke also chose the timing of the election very carefully. Immediately after favorable response to the government's mini-budget in May emerged, the prime minister made up his mind to go to polls. He was also calling an election at a time when significant economic indicators were looking better or steady.

Another factor for the defeat of the opposition is disunity among its ranks. During the campaign, liberal party leader John Howard and the national party leader Sinclair were described by some as "the odd couple" who "couldn't get their act together," while the labor party's team was comparatively united.

However, the new labor party government is still facing big challenges to keep the economy on a right track, to restructure the industries for promoting exports, and to prevent the living standard of the people from falling further, as the country is still burdened by high inflation, unemployment rate of about 9 per cent and a foreign debt of more than 100 billion Australian dollars (about 70 billion U.S. dollars).

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CSO: 4000/113

## XINHUA REVIEWS BATTLES, DIPLOMACY IN GULF

OW161909 Beijing XINHUA in English 1541 GMT 16 Jul 87

["Round-up: War Clouds Hang Over Gulf" by Zhai Jingsheng--XINHUA headline]

[Text] Beijing, July 16 (XINHUA)--The first two weeks of July have witnessed the Gulf flaming with gunpowder. Warships of the United States, the Soviet Union and other countries cruise day and night through the waterway while commercial vessels are ravaged by constant attacks. Tension was mounting with both sides at daggers drawn.

On July 6, Iraq's missiles hit an oil tanker flying the Cypriot national flag. It was the fifth prey to Iraq's missiles since June 20 when the country resumed attacks on Iranian tankers.

In retaliation, Iran attacked four Arab tankers in the two weeks and more.

On July 9, an Iranian speedboat attacked the U.S. supertanker "Peconic" off the Kuwaiti coast. Four days later, two Iranian gunboats assaulted a French freighter, blasting several holes in the ship.

With war flames raging in the Gulf, the U.S. Government decided, as planned, to give escort to Kuwaiti tankers, despite opposition from the congress. At present, two Kuwaiti tankers are waiting off Oman at the mouth of the Gulf to fly the stars and stripes before sailing into the Gulf.

Washington has decided to escort the first reflagged Kuwaiti tanker under the U.S. flag on July 22 and has worked out its second and third plans to escort other Kuwaiti ships.

While mounting attacks in the sea, Iraq took advantage of its air superiority to attack Iran's oil fields, refineries and other facilities in an attempt to weaken its economic strength.

Meanwhile, it continues to carry out a tankers war to block Iran's oil exports. To isolate Iran and win more support from the Gulf states, Iraq also hopes to see the superpowers involved in the seven-year-old war and punish Iran.

Iran, on the other hand, opposed superpower involvement in the war and called for an end to Iraq's attacks on oil tankers.

In the meantime, it solidified its naval base near the Strait of Hormuz, gathered a large number of warplanes, laid mines in the Gulf and formed "suicide squads" to fight U.S. warships.

It began to carry out a "shoot and run" tactic with its small speedboats. Iran warned that if the United States ventured to enter the Gulf, "we shall point our guns at the yankees and will take American captives with their hands on their heads to camps."

The Soviet Union, which had already given escort to three Kuwaiti tankers, is contending more forcefully with the United States.

Moscow criticized the U.S. for stepping up its military presence in the Gulf under the pretext of keeping the region free from any attacks.

The first deputy foreign minister of the Soviet Union said recently that the Soviet Union neither shares any interests with the U.S. nor carries out similar policies as the U.S. does in any part of the world.

On July 3, the Soviet Government issued a statement calling for the immediate withdrawal of all non-Gulf-state warships from the Gulf.

The United States, however, emphasized its vital interests in the area and pledged to keep its leading role in the Gulf. President Ronald Reagan said the U.S. will not allow the Gulf to be dominated by the Soviets.

Now, only a few days are left before the U.S. warships sail into the Gulf. "On such a day," warned Iranian parliament speaker Hashemi Rafsanjani, "the world would witness this action (taking American captives) and there would be no way for the U.S. to return."

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CSO: 4000/113

## IRAN WARNS AGAINST U.S. NAVAL PRESENCE IN GULF

OW152001 Beijing XINHUA in English 1734 GMT 15 Jul 87

[Text] Tehran, July 15 (XINHUA)--Iranian parliament speaker Hashemi Rafsanjani has warned that Iran will fight the U.S. armed forces in the Gulf if they enter the region.

Speaking at a meeting of Islamic revolution's guards corps commanders, Rafsanjani said if the United States ventured to enter the Gulf, "we shall point our guns at the yankees and will take American captives with their hands on their heads to camps."

"On such a day, the world would witness this action and there would be no way for the U.S. to return," he said.

The speaker claimed the U.S. might send many naval ships and warplanes to the region. But undoubtedly it has less than one-tenth of the committed and ready-for-combat forces that Iran has, he said.

During the meeting, Rafsanjani also warned the Gulf states that "if you put your military bases or ports at American disposal, we would capture them."

"We regard their seizure as from America rather than from a neighboring country," he noted.

It was reported that the United States is scheduled to send its warships to the Persian Gulf to escort the first U.S.-flagged Kuwaiti tanker on July 22 from Iranian attacks.

Iran has been strongly opposed to superpower's involvement in Gulf affairs. In the past two months, Tehran has repeated its warnings against foreign military presence and has strengthened its defense systems, including the deployment of various kinds of missiles along the southern border to guard against foreign intrusion. Iran has reportedly held military exercises recently.

Iran declared previously that it has formed "suicide squads" to fight U.S. warships if they escort Kuwaiti tankers.

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CSO: 4000/113

KABUL REGIME ANNOUNCES EXTENSION OF CEASE-FIRE

OW151106 Beijing XINHUA in English 1102 GMT 15 Jul 87

[Text] Islamabad, July 15 (XINHUA)--Head of the Kabul regime in Afghanistan Najibullah has announced a six-month extension of the "ceasefire" the regime unilaterally proclaimed effective since January 15 this year, according to reports reaching here today.

In his 70-minute speech in Radio Kabul last night, Najibullah said that his regime would observe the ceasefire from today to January 15 next year to provide "an opportunity to the combatants to strive for peace."

The "ceasefire" has failed to get response from either the Afghan refugees living abroad or from the Afghan resistance forces fighting the estimated 120,000 Soviet troops and the Kabul regime.

Reports coming from Afghanistan, however, indicated that the Kabul regime had violated its self-announced "ceasefire" and the Soviet-Kabul troops had continued military operations against the resistance guerrillas.

Observers here hold that the Kabul regime's move is aimed at deceiving world opinion and stepping up military suppression on the resistance forces under the cover of "ceasefire."

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CSO: 4000/113

WEST EUROPE

INTERNATIONAL

FIRST EVER FRG NAVAL VESSEL VISITS PRC

Crew Feted in Shanghai

OW081744 Beijing XINHUA in English 1530 GMT 8 Jul 87

[Text] Shanghai, July 8 (XINHUA)--"Deutschland," a training vessel of the navy of the Federal Republic of Germany, arrived here today on a six-day goodwill visit to China.

This is the first time for a naval vessel from Federal Germany to call on a Chinese port.

The Federal German officers and men were honored at a banquet given by the Shanghai unit of the Chinese Navy here this evening.

Leaves China 13 July

OW142331 Shanghai City Service in Mandarin 2200 GMT 13 Jul 87

[Text] According to a station report, the naval training vessel Deutschland of the Federal Republic of Germany, under the command of Captain (Karl), ended its visit to China and left Shanghai at noon on 13 July.

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CSO: 4000/113

## RENMIN RIBAO ON INVIGORATING ENTERPRISES

HK211321 Beijing RENMIN RIBAO in Chinese 13 Jul 87 p 5

[Article by Zhao Linru (6392 2651 1172): "Several Questions Concerning Further Invigoration of Enterprises"]

[Text] 1. The Question Concerning Transformation of the Internal Mechanism and External Conditions of the Enterprise

Since the 3d Plenary Session of the 12th CPC Committee, we have adopted many measures to invigorate the enterprises. Analyzing the road we have taken, we find that people generally have two different views on the question of invigorating the enterprises. One view is that we should invigorate the enterprises by carrying out the transformation of external conditions of the enterprises. In order to realize this, the state will delegate more decisionmaking power to the enterprises, let the enterprises retain more profits, create condition for the enterprises to carry out competition on the basis of equality, carry out the price reform, and so on; the other view is that we should invigorate the enterprises and enable the enterprises to become true enterprises by successively carrying out the transformation of the internal mechanism of the enterprises. The practice over the past few years shows that when the transformation of the external conditions of the enterprises develops to a certain extent, the question of transforming the internal mechanism of the enterprises will naturally become increasingly important and will attract people's attention.

However, the shift from the transformation of the external conditions of the enterprises to the transformation of the internal mechanism of the enterprise does not mean that we should no longer carry out the reform of the external conditions of the enterprises. As a matter of fact, the reform of the external conditions of the enterprises is still very important to the revitalization of the enterprises. Not only should enterprises have relatively perfect internal mechanisms further carry out the reform of their external conditions, but also the vast majority of ordinary enterprises should gradually rationalize their various irrational external conditions while perfecting their internal mechanisms. In the long run, the standardization of the relations between the state and the enterprises and the creation of the conditions under which the various types of trades and enterprises can carry out competition on the basis of equality are of vital importance to the invigoration of the enterprises. We should understand that in order to

completely invigorate the enterprises, we must first of all resolve the following three questions: The relations between the state and the enterprises, the market conditions, and the internal mechanism of the enterprises. We should resolve each of the three questions in the light of the actual conditions. And, in order to completely invigorate the enterprises, we must do our best to successfully resolve all three questions.

## 2. The Question Concerning Reform of the Management Method and Reform of the Ownership System

Viewed from another angle, on the question of invigorating the enterprises, people also have the following two views: One view is that we should invigorate the enterprises by carrying out the reform of the ownership system of the enterprises; the other view is that we should invigorate the enterprises by carrying out the reform of the management method.

The view on the reform of the ownership system of the enterprises is based on two different considerations. One consideration is that only by thoroughly reforming the public ownership system of the enterprises will we be able to eliminate the short-term behavior of and greatly invigorate the enterprises. Obviously, this view is not suitable for us. The other consideration is that in order to meet the demand of the development of the productive forces, it is necessary to turn the public ownership system into the system under which a diversity of ownerships coexist with one another, with public ownership dominating all other ownerships. Compared with the first consideration, the theory and practice of the reform of the ownership system, which are formed on the basis of the second consideration, will no doubt be of great significance to the reform and development of our country. Therefore, when carrying out the reform of the ownership system of the enterprises, we must distinguish the first from the second consideration, negate the first consideration, and adhere to the second consideration.

The view of adhering to the principle of separating the ownership right from the management right and invigorating the enterprises by carrying out the reform of management method of the enterprises is especially applicable to large and medium-sized state-owned enterprises. The large and medium-sized state-owned enterprises are the basis for and principle body in our country's economic development. In order to invigorate these enterprises, we must first of all adhere to public ownership of the means of production. This will require us to actively explore a variety of effective forms of separating the ownership right from the management right.

## 3. The Question Concerning a Variety of Contracted Management Forms

So far, many enterprises have made strenuous efforts to separate the ownership right from the management right of the enterprises and explore new management methods. These enterprises have already created numerous good management methods. In terms of the standardized relations between the state and the enterprises, all these new management methods can generally be called "the contracted management responsibility system." These new management methods

have brought us in varying degrees a lot of social benefits and economic results. However, these new management methods also have a variety of defects and problems that need to be resolved.

Although these new management methods have helped to increase the social benefits and economic results in different ways, they are basically of the same nature in terms of the following three points: 1) They have helped to improve the relations between the state and the enterprises and enabled the enterprises to shake off the yoke of a diversity of administrative barriers and acquire more decisionmaking power in their operations. 2) They have ensured that the enterprises are operated by competent and ambitious entrepreneurs. At the same time, they have helped to more closely link the interests of the enterprise operators to be really concerned about the performance and economic results of the enterprises. 3) They have enabled the enterprises to carry out the reform of the internal administrative system and the reform of the distribution system, implement the contracted management responsibility system at all levels in the enterprises, and more closely link the contributions made by the staff and workers of the enterprises with the personal interests of the staff and workers of the enterprises to more effectively embody the principle of distribution according to work and bring into play the enthusiasm of the broad masses of the staff and workers. Facts show that so long as the enterprises realize these three points, the performance of these enterprises will certainly be greatly improved regardless of what management methods these enterprises adopt.

On the other hand, the various new management methods also share some common limitations and problems. The main common limitations and problems are: 1) The relations between the state and the enterprises have not yet been standardized. This situation will certainly cause an irrational distribution of the enterprise profits between the state and the enterprises and will serve to urge the enterprises to compete with one another in bargaining with the state for retaining more profits. In the meantime, this situation will be detrimental to the creation of conditions for the enterprises to carry out competition on the basis of equality. 2) When the contract system, leasing system, or other type of management system is implemented, very often the newly-increased retained profits of the enterprises and income of the enterprises for operation or to whom the enterprises have been leased for operation do not completely come from the contributions they make in their own work because their enterprises usually lack the necessary potentials. This situation has harmed the interests of the state in varying degrees. 3) All these new management methods have, to a certain extent, failed to resolve the problem of the short-term behavior of the enterprises. This situation shows that we should further perfect the various management methods that have so far been implemented.

At present, there are two trends in the exploration and practice of various management methods. One trend is that new management methods are emerging on the basis of existing management methods. For example, the system of responsibility for targets to be met during a factory director's term of office has emerged on the basis of the factory director responsibility system.

The other trend is that a variety of management methods have merged with one another, infiltrated into one another, and made up one another's deficiencies so that they have been gradually perfected. For example, the contracts concerning the majority of the management methods have all clearly stipulated the percentage of the increase of the relevant fixed assets and the requirements on the technological transformations to be carried out during the term of the contracts. This is conducive to overcoming the short-term behavior of the enterprises. These two trends are of great significance to the reform aimed at invigorating the enterprises because they are not only capable of creating new methods of management but also capable of continuously perfecting the existing methods of management.

In contrast to these two favorable trends, there have also been two unfavorable trends in the reform of management methods of the enterprises. One unfavorable trend is that all the enterprises turn to adopt the same management method; the other unfavorable trend is that the same enterprise adopts a variety of management methods one after another. For example, an enterprise implements the leasing system today, the contract system tomorrow, and the joint-stock system the day after tomorrow. As a matter of fact, this enterprise is trying to bargain with the state to gain more benefits by adopting one method of management after another. Obviously, these two trends are detrimental to the reform.

As far as the reform of management methods is concerned, we must continue to explore and create new management methods. We must also compare and study various methods of management to select and create suitable methods of management to invigorate the enterprises according to the characteristics of the different types of enterprises.

#### 4. The Question of Invigorating the Enterprises and Carrying Out Macroeconomic Control and Management

Macroeconomic control and management touch upon many questions in a variety of aspects. Here, I only put forward three questions in terms of how to unify the microeconomic results with the macroeconomic results after the enterprises have been invigorated. We must carefully study and resolve the three questions.

First, after implementing a variety of contracted responsibility systems, the enterprises have generally increased their economic results. However, some enterprises that can achieve better microeconomic results often cannot achieve good macroeconomic results. These enterprises either often consume a lot of energy, have a high production cost, content with some key and indispensable enterprises for raw and processed materials and energy, or often carry out overlapping production and waste their productive forces. Under the present circumstances, we cannot resolve the contradiction resulting from the disunity between microeconomic results and the macroeconomic results of the enterprises by relying solely on the market mechanism. Therefore, we must also simultaneously adopt the method of regulation through state macroeconomic planning to urge enterprises that cannot achieve good macroeconomic results

to change their lines of production or even stop their production to gradually rationalize the industrial structure and more effectively distribute resources. However, we must carry out a conscientious study on how to realize these.

Second, since the implementation of the contracted management system, the enterprises have been given the right of investment so that a pluralistic principal body of investment has been formed. This situation is without doubt conducive to invigorating the enterprises, but has also given us some questions, such as the dispersion of the investment, the macroeconomic results of the investment, how to guarantee the investment in big and key projects, how to control the scale of capital construction, and so on. Apart from the question of the macroeconomic control of the scale of capital construction, there is also the question of the macroeconomic control of the consumption funds. After linking the income of the staff and workers of enterprises in which the contracted management responsibility system is implemented with the economic results of the enterprises, we will find that the increase of the income of the staff and workers of these enterprises will generally be greater than the increase of the average wage in the society. So, if such a practice is carried out in a more extensive scope, we will certainly come across the problem of the expansion of the consumption funds. All this requires us to further carry out the study on all the scientific methods of strengthening the macroeconomic control.

Third, implementation of the various contracted management responsibility systems has caused some contradictions between the abovementioned microeconomic results and the macroeconomic control and management. Under the present circumstances, we can only resolve these contradictions by relying on the existing planning structure. So, if we cannot successfully resolve these contradictions, we will probably take the road back. For this reason, we should consider this question from a higher plane. From a long-term point of view, the best method of invigorating the enterprises is still to standardize as much as possible the relations between the state and the enterprises. The standardization of the relations between the state and the enterprises will not only be conducive to microeconomically invigorating the enterprises but also conducive to realizing the indirect macroeconomic control.

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## PRC PAPER ON CONTRACTED RESPONSIBILITY

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[Article by Bian Yongzhuang (6708 0516 1104): "On the Basic Nature of the Contracted Management Responsibility System in Enterprises"]

[Text] Various contracted management responsibility systems have not become the main form of deepening enterprise reform, and particularly reform in large and medium state-run enterprises. Fully understand the basic nature of the contracted management responsibility system will help us correctly grasp its role and position in deepening enterprise reform and further promote, develop, and perfect it in the practice of reform.

The Contracted Management Responsibility System Presupposes Public Ownership and Distribution According to Work, and Does Not Change the Socialist Nature of Enterprises

Public ownership and distribution according to work are two yardsticks measuring whether an enterprise is socialist in nature. We hold that to understand the socialist nature of the contracted management responsibility system, we must clarify the theory of the following two problems.

1. Separating ownership from the right of management is the basic requirement for realizing public ownership and distribution according to work at the present stage. Public ownership and distribution according to work built on the basis of modern commodity economy have more varied contents. The most basic characteristics of the contents are the possession of the means of production by society, the use of enterprises by individuals, and distribution according to work with an enterprise as a unit. First, socialist practice has not yet reached and is unable to reach the stage of common use of the means of production by the whole society, so the means of production can only be randomly used by units or organized laborers. On the one hand, this weakens direct ties between individual laborers and the general public property; on the other, laborers can only be integrated with the means of production through enterprises. Second, the nature of distribution according to work lies in that it only recognizes differences between laborers, but does not recognize privileges of any other forms. However, when the socialization degree of production has not reached the stage of being able to eliminate the differences between all component parts of the national economy and when public ownership still treats the possession of means of production by society

and the use of means of production by enterprises as its basic contents, then what public ownership recognizes first is the joint labor of all individual parts. Thus, the principle of deciding reward according to the contribution of each laborers can only be carried out treating the enterprise as a unit. The principle of separating ownership from the right of management, reflected in the contracted management responsibility system, is precisely the foundation for designating the relationship of property distribution between the state and enterprises.

2. The contracted management responsibility system is an effective form for separating ownership from the right of management at the present stage and can ensure distribution according to work within the scope of enterprises. The basic content of the contracted management responsibility system is that the state and the managers of enterprises, by signing contracts, use specific economic indices to define the relationship between the state and enterprises in rights, responsibilities, and interests. During the contract period, the ownership of a contracted enterprise does not change. While linking up their income of laborers of an enterprise with economic results of the enterprise, the contracted management responsibility system adheres to distribution according to work within the scope of an enterprise. Breaking with the practice of eating from the same big pot and changing the internal distribution system of an enterprise is one of the main contents of the contracted management responsibility system. It can thus be said that the contracted management responsibility system is a relatively good form of enterprise reform on the basis of adhering to public ownership and distribution according to work.

The Contracted Management Responsibility System Presupposes Ensuring the State's Interests, Does Not Change the Relationship of Property Distribution of Enterprises

Can the implementation of the contracted management responsibility system ensure that the state gets the "big share" of an enterprise's income? To answer this question, we must first get a clear idea of the dual relationships of interest between the state and state-run enterprises. On the one hand, the state as manager of the whole society assumes the responsibility for developing the economy, culture, and social welfare. This requires that state-run enterprises, just like enterprises of other economic elements, pay tax to ensure the state's interests. On the other, the state as owner of state assets, not only requires that it get corresponding economic results according to the use of assets by enterprises, but also requires that state assets by enterprises, but also requires that state assets increase in value continuously. So, reform of state-run enterprises must be conducted according to the following rule: While enterprises must pay product tax, value-added tax, and income tax to ensure the interests of the state as manager of society, they must also ensure the interests of the state as owner of state assets by sharing after-tax profit and increasing effective output ability of their assets.

Enterprise reform must firmly grasp such problems as increasing the state's financial income and enterprises' reserve strength for future development. On

these problems, the contracted management responsibility system has made some notable progress as compared with the initial form of simply contracting for profit. 1. Enterprises that now institute the contracted management responsibility system usually contract for after-tax profit progressively on the basis of separating profit from tax and reserving income tax, so that they can guarantee a steady increase in the state's income, and can also ensure that the state gets the lion's share of the profit. 2. The contracted management responsibility system links up the amount of retained profits of an enterprise with technological transformation, the updating of equipment, technological progress, the expansion of the enterprise, and the reserve strength for future development of the enterprise, thus ensuring effective appreciation of state assets. The practice of reform proves that setting an orientation for use of an enterprise's retained profit in an oversimplified way cannot ensure that the enterprise uses the bulk of its retained profit to develop itself. Only by integrating the interests of an enterprise, including the interests of managers and ordinary workers of the enterprise, with the development of the enterprise, is it possible to ensure internal motive force for its development. 3. A form of setting a contracting base and a development index for an enterprise by competitive bidding has now appeared in the contracted management responsibility system. To a certain extent this can avoid bargaining between enterprises and responsible government departments in the contracting course, and the Ji Lun [2765 6544] effect of whipping a quick ox that often occurs under a planned system. This can also avoid the fault of underestimating the output ability of an enterprise which often occurred in executing contracts in the early stage.

#### The Contracted Management Responsibility System Presupposes Strengthening Enterprises' Ability To Restrict Their Interests, but Is Not a Simple Way of Delegating Power and Transferring Interests

Giving more decisionmaking powers to enterprises is the starting point of China's enterprise reform. After several years of reform, enterprises now have more and more decisionmaking powers and are continuously increasing their retained profits. Most state-run enterprises now have motives of making profits that they as producers and operators of commodity should have. However, two defects have appeared during the reform that should not be ignored. 1. Enterprises motivated to make profits have not rationalized their production and management accordingly. 2. The interests of managers inside enterprises have not yet been separated from the interests of ordinary workers and the relationships of distribution of interests inside enterprises are vague. As a result, enterprises find it very difficult to rapidly improve their economic results and lack motive power to upgrade their technology and develop themselves, and the increase in their income is usually higher than the increase in labor productivity. Worse, managers and producers often bargain with the state for the same interest and violate the state's interests.

It is thus clear that delegating powers and transferring interests in one way has sown the seed of gaining powers and interests ever since the outset. The key to the problem lies neither in reform and delegating powers and transferring interests itself, nor in excessive powers and interests

enterprises now have. The key is that a main body of accepting rights, responsibilities, and interests has not been created in the course of delegating powers and transferring interests. While building motives of making profits for enterprises, we have failed to pay attention to establishing mechanisms for restricting interests of enterprises.

The contracted management responsibility system has made two improvements in establishing the mechanism for restricting interests of enterprises. 1) It assigns the contracted responsibilities to the contracting collectives or individuals, thus personalizing the right of management. 2) It links up the updating and transformation of an enterprise and appreciation of assets with the enterprise's retained profits, and links up wages with management results of the enterprises. All this forces the contractors to change the operational mechanism within enterprises, to change the form of distribution within enterprises, and to establish a mechanism for restricting the interests of managers and producers.

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## COMMERCIALIZING DESIGN UNITS DISCUSSED

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[Article by Jiang Xingzhou (1203 5281 0719): "Some Thoughts on Commercializing and Socializing Design Units"--edited by Lin Daojun (2651 6670 0689)]

[Text] Eight years have passed since the commencement, in 1979, of piloting, on a compensatory basis, the work on designing the structure of our country's reform. In these 8 years the reform has achieved noticeable results but still needs to be further intensified. What should the steps and pattern be for design units to reform their design structure and realize the stages of commercialization and socialization? And what kind of internal and external environment should be created to accelerate the process of reform? These extremely important problems have occurred in intensifying the reform of the design structure. This article is purported to present certain views thereon.

#### I. The Objective Basis for Commercializing and Socializing Design Units

Premier Zhao Ziyang pointed out: "Design units must develop in the direction of commercialization and socialization." When approving and forwarding the State Planning Commission's "Certain views on reforming the designs of engineering projects," it was also pointed out that the state-run survey and design units should actively create conditions for the gradual conversion to surveying and designing enterprises. This kind of conversion is suited to the demands for development of the planned commodity economy and is supported by an objective theoretical background.

##### 1. Design is a productive force; designed products are special commodities.

Science and technology are productive forces. Design personnel and building and installation workers, labor is productive labor. A design unit is a processing plant. It uses as raw materials, technological basic materials, advanced technologies, results of scientific research, experience from actual practices in production, various kinds of regulations and rules, and the various guidelines and policies of the party to carry out creative processing to convert the results of scientific and technological research into social productive forces. Hence, the fruits of design are commodities and commodities of a knowledgeable nature. They constitute the material and technological prerequisites which cannot be lacking in engineering

construction and are wholly manifested in the end products of a material. But designed products are special products different from ordinary products. The major manifestations are: Designed products all serve specially designated objects. they cannot be produced serially and cannot circulate extensively. Designed production is not merely for the sale of profit making but more importantly to create benefits for society. The value created by design units is manifested not only in the realized profits of the department concerned but also in the comprehensive benefits of the design engineering projects and is also included in the gross value of capital construction. Designing serves as the bridge and link for the conversion of science and technology into social benefits. Designed products consist of intermediate commodities. Designing work must come under the restructure of the development plan of the national economy.

Designs which lack a modernized level cannot build projects on a modernized level. The design is the soul of the entire project. The designing team is an important front army in socialist construction and a design enterprise should also be the representative of an advanced productive force. In reforming the design structure, first of all we must solve the problems of correctly understanding the nature and role of designing work, definitely fixing the status which designing work should have and thereby with highly regarding, studying and regulating and planning and designing work.

2. Design departments are special enterprises of the knowledgeable type.

For a long time, design departments have been treated as business units. their productive nature has been neglected and they have been treated as the rank-and-file administrative organs of the state. The basic differences between a business unit and an enterprise unit are that the former "relies on the state's financial expenditures as a source of support and belongs to the ranks of participants in the redistribution of national income" while the latter "engages in productive and operational activities, carries out independent business accounting, is solely responsible for its own profits and losses and earns profits." Design units under the system of ownership by the whole people are relatively speaking independent production departments of knowledgeable products and should, at an appropriate time, be converted into design enterprises. Some people have said: "If we do not change the business nature of design institutes, we cannot be on the road to the development of commercialization and socialization." This seems to be reasonable.

3. The design trade is an independent trade.

At present, in our country there are over 5,200 design units with a staff of over 460,000. Each year they are capable of completing designs on engineering projects involving construction investments of up to 1 trillion yuan. In the past this important trade was frequently placed in the ranks of "scientific and technological" units, and the special nature and laws of design work were neglected. It should be noted that "scientific research" and "design" work belong to two different fields and should not be mixed together. To put designing in the field of the "building trade" is even more incorrect and

unscientific. The design trade should be the general name for building design units, factory and plan design units and product design units, and should be an independent trade in parallel standing with scientific research and education. When studying and planning the short-term and long-term development targets of the national economy, the design trade should be subject to strategic policies which are directed at it and which are practicable. Best of all, a department of a ministry's ranks overseeing the design trade should be established to take charge of the design work of the whole country.

## II. The Stages, Steps, and Basic Pattern For Commercializing and Socializing Design Units

The reform of the design structure calls for a gradually progressing process and needs to be carried out step by step. The commercialization and socialization of design units may be divided into "four stages with five steps." They are: the preparatory stage (encompassing the two steps of compensatory piloting and enforcing the technological responsibility system); the enterprise piloting stage (third step); the commercialization (conversion to design enterprise) stage (fourth step); and the socialization stage (fifth step). Of them, each stage goes through a conversion process from the start to gradual formation, while each step has its own specific problems and major targets which must be solved. The concrete contents are as follows:

### 1. The preparatory stage (first and second steps).

As far as the design trade is concerned, the preparatory stage may be said to comprise the reforms which started in June 1979 when 18 design units first carried out compensatory piloting (subsequently changed over to enforcing the technological economic responsibility system) to now when they are still in progress. The reform contents of a concrete nature are: Beginning from operating on the strength of appropriations from the state for business expenses to the conversion to the contract system and charging design fees; internally the units begin to copy from the practices of an enterprise and carry out an in comprehensive enterprise-type of management. After turning to and enforcing the technological economic responsibility system, the two practices of "everybody eating from the same big pot" begin to be broken, the enthusiasm of the design units and of the staff members and workers is aroused, a 100 percent increase is made in the number of design tasks, and noticeable results are achieved in the quality and technological level of design work. But because of the adoption of the low charges systems, the design units find it difficult to possess the necessary vitality. Additionally, due to the lack of decisionmaking power, although much time has elapsed, the time is not ripe yet for the conversion into the next stage of reform. As far as the whole country is concerned, conditions should be created to enable the conversion, promptly, into the next stage of reform.

### 2. Enterprises' piloting stage (third step)

This is an economic supportive stage set up in consideration of the present condition of design units which have been for many years behind in such

aspects as technology, equipment and capital construction and for the purpose of enabling them to possess the self-development capacity and the ability to defray the various kinds of expenses following commercialization. This stage will generally cover a period of 3 years.

In this stage, the major contents of the reform are: appropriately readjusting upward the standard for the collection of fees; aside from paying the charges for the energy and communications major construction funds (15 percent of the profits); exemption from all other taxes; the nature of being business units is temporarily unchanged, and continued appropriations from the state for meeting the expenses of scientific research and experimentation; introduction of technological knowhow, large-scale capital construction and large equipment; enjoyment of the decisionmaking power given to enterprises according to the relevant regulations; enforcing the factory manager responsibility system; and internally, further enforcement of the enterprise-type of management. Design units possessing the necessary conditions may be selected to carry out piloting as enterprises, with the summarizing of experiences so that when perfection has been gradually attained, the units are converted into design enterprises.

### 3. Commercialization stage (fourth step)

After entering into this stage, design units of a business nature are converted into design enterprises which carry out an enterprise financial system and enforce enterprise management suited to the special features of design enterprises. The state should then, based on the special features of a knowledgeable design enterprises, formulate for them a rational taxation system. Design enterprises, in addition to enjoying the decisionmaking power of enterprises, also enjoy their own special decisionmaking power (such as the necessary power of opening to the outside and foreign affairs power). Design units should further improve their own character, accelerate their technological progress, heighten their design level, and ceaselessly strengthen their own transformation and development ability.

### 4. The socialization stage (fifth step).

The design trade, after commercializing the whole trade and gradually acquiring maturity, based on the changes in the social environment, may then in accordance with the state's general arrangements for reform of the economic structure, and suitably meeting the needs of the reform of the capital construction structure, forthwith enter into the socialization stage. The major landmarks of this stage are: The design enterprises and the departments in charge (various ministries and commissions of the State Council, planning commission and construction commissions of the provinces, municipalities and autonomous regions, and others) are separated from each other; the state's management of design enterprises will be mainly through indirect control; design enterprises truly become socialist commodity producers and operators which are run autonomously and which are solely responsible for their own profits and losses and become relatively independent economic entities which stand by themselves in society. After realizing socialization, it is

necessary to pay special attention to doing the work of design trade federation well, to carry out effective trade controls and to fully mobilize the role of trade controls.

### III. Internal and External Environments Needed for Commercialization and Socializing Design Units and the Measures that Should Be Adopted

The reform of design units does not proceed in isolation but is closely related to their environments. The internal and external environments required in reforming the design structure and the measures that should be adopted are as follows:

1. Fixing a rational standard for the collection of charges is the key to pushing forward the reform of the design structure.

At present, our country makes low charges for the designing of products and limits the value of the designing of products below the level of the outlay for the business expenses of design units, without considering the profit factor in the value composition, or the various additional expenses that are within reason, and far less the outlay for improving technological conditions, design equipment, and housing facilities for staff members and workers. As a result, design enterprises are confined to a level of balancing receipts and expenses and yielding a slight profit. They barely manage to live and basically are powerless to undertake technological development and intellectual development. Statistics show that the per capital profit yield in building trade which is the lowest among the legally fixed profit yielding rates. Besides, the standard fixed for the collection of charges is much lower than the international level. In order to strengthen the vitality of design units and heighten their development capability, we should, as soon as possible, formulate a rational standard for the collection of charges and thus create a suitable economic environment for the reform of the design structure. Only when design units feel both the pressure and the motive can the reform of the design structure continuously move forward.

2. We must make advance technological progress and improving the design level as the key links to grasp in the reform of the design structure.

Designing belongs to the realm of applied science. It is a key link on converting advanced scientific knowledge and technology into a productive force. Design units must strive hard to accelerate their own scientific progress and greatly develop and promote scientific and technological results which can produce good and quick results and by providing advice, designs, and technological renovation help industrial enterprises to increase technological progress. Hence, they must perform well the work of digesting and absorbing technology that has been introduced and also introducing intelligence and intellect. They must reinforce control over the quality of design work; enforce the principle of charging high prices for good quality; overcome various drawbacks arising out of merely using output value to fix awards and bonuses; carry out a comprehensive checking and inspection system; and pay high regard to the work of storing up technological knowhow to add to their stamina.

### 3. Design units should be given the autonomous power to develop.

Design units must be converted from the closed-type to the open-type and admit the state expanding the scale of the utilization of foreign capital and the introduction of technology and actively developing enterprises in contracting construction jobs abroad and doing cooperative work in technology and labor, must put their own role into full play. For this reason, aside from possessing the same kind of autonomous power which the state gives to enterprises, design units should have the following power in dealing with the outside: autonomously operating and developing engineering and construction businesses with the outside; importing the necessary key equipment and materials for contracted construction jobs; directly signing construction business agreements with the outside; handling import licenses within the scope of authority granted by the state; issuing letters and telegrams to consulates abroad inviting foreign merchants to visit China; checking and examining the units' staff members dispatched abroad and directly handling the procedure required for going abroad; and allowing the units to retain from their receipts an accumulation of a stated amount of foreign exchange funds, giving the units the right to use foreign exchange for the purposes of purchasing technological software, introducing intelligence and introducing intelligence and introducing design equipment, and so forth.

### 4. Taking a step further in perfecting the technological responsibility system.

Labor in designing embraces the special features of brain work and manual work, creative work and regular or ordinary work, and complex and simple work. It is complex in nature, accompanied by a blurred or indistinct nature and hence is not subject to measurement by precise mathematical methods. For this reason, in the current internal technological economic responsibility system the adoption of the method of assessment and awards based on pure output value and the diagrammatic type very easily brings about the drawback of stressing quantity and slighting quality. However, if an assessment and awards method which combines the factors of net output value (profits), the level of design technology, the quality of designs and progression of designs is adopted, and add to it the factors of the direct leadership making the actual examination and administrative decisions, then it will be possible, from the internal operating mechanism, to overcome this unhealthy trend.

A design unit is a knowledge-intensive enterprise. It is a place where the intellectual elements are concentrated. It is necessary to follow the theories of behavior at science, not the characteristics of the intellectual elements, pay attention to their diversified demands and wishes. In determining the leadership form, fixing the management methods and further improving the technological economic responsibility system, this point deserves special attention.

In improving the technological economic responsibility system it is necessary to establish a scientific assessment system, to carry out rigid assessments, and to promptly give feedback of the assessment results to the department in charge so that awards or penalties may be made in accordance with actual conditions.

5. Improving the quality factor of the design corps and heightening the level of design equipment.

At present, in design units the problems of the ageing backbone technology and the backward designing equipment and management levels are universally prevalent. The urgent tasks before design units are to shorten as quickly as possible the disparities, to grasp at an early date the advanced technology which economically developed countries already universally adopted in the 1970's and the early 1980's and which conform with the national conditions of our country, and to learn to perform design work on modernized construction projects.

In order to improve the quality of the designing corps it is necessary to earnestly grasp the training work of the designing personnel, short-term and long-term plans must be formed, the training targets must be clarified and the training measures must actually be carried out. Special attention should be paid to training technological backbone corps and this work must be carried out in a planned and continuous manner. A system providing for the normal separation and retirement from services must be established. The designing corps must be supplemented according to the age ladder and in a rhythmical manner, and the average age of the corps must be kept young. The designing units must be made into major areas providing employment to college graduates. We must rectify the past method in the assignment of jobs to college students which stressed the order of "first, scientific research, second, education and third, designing," and mixing up the order of priorities in this respect. A number of research students must be assigned to design units to research applied technology in design work. In the specialized trades there must be ample calculators and computers and specialized personnel in the fields of energy, environmental protection, technological economics, engineering economics, designing management, and so forth.

At present, our designing personnel still mostly stay at the equipment level of the drawing board, T-square and small sized calculators. The backwardness of the designing equipment directly affects of the drawing board, T-square and small sized calculators. The backwardness of the designing equipment directly affects heightening design efficiently. Hence, we should take improving the working conditions in designing and elevating the level of design equipment as an important phase in the reform of design work. The concrete measures in this connection must be thoroughly implemented and firmly grasped.

6. Accelerating the modernization of design management.

Designing must go together with scientific management since only by doing this can it become a realistic productive force. Designing management in our country principally had its rise through copying the Soviet Union's model of several decades ago. Although certain improvements have been made in recent years, management methods and management measures are still relatively backward and suffer from a great disparity from modern management. Reforming management in designing and accelerating the modernization of design management are currently the urgent tasks of design units.

Modern management is a scientific system. It encompasses not only the modernization of management work but also the modernization of management ideas, organization, and tactics or measures.

First of all, electronic computers should be utilized to supplement management. Enforcing supplementary management by electronic computers can make designing management work scientific, the management structure rationalized, the management method effective, and the management results most superior. At the same time, it can change the nature of the labor of design management personnel and liberate them from the burden of business or routine work. Hence, carrying out supplementary management work with computers not only will reform management measures but also will make management work scientific, organized and systematized.

Second, in design management we can use many modern management techniques, methods and measures. For example, we can apply target management and overall planned management; or utilize the network technology (planned and coordinated technology), formulating design plans and design progression charts; or employ the roving and moving plan method and change static planning into dynamic planning to suit the needs of a changing environment; or enforce all-round quality control and employ forecasting techniques and decisionmaking techniques to carry out operational, technical and economic forecasting and choice in design programs; or enforce all-round business accounting and convert the business-type accounting of reimbursing the enterprise for what is actually spent to enterprise cost management accounting; and in management work use the linear planning method and the optimum seeking method to carry out various kinds of high-level work such as profit and loss analysis, in order to achieve the best results.

Reforming the design structure is a new problem. We have already proceeded at length in this connection. We must still work hard in actual practices and probing to further reform in a realistic way.

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CSO: 4006/823

## PROGRESS IN BANKING INDUSTRY CREDITED TO REFORMS

OW101038 Beijing XINHUA in English 0613 GMT 10 Jul 87

[Text] Shenyang, 10 Jul (XINHUA)--The rural financial reform, which started a few years ago in Guangzhou, Shenyang, Chongqing, Wuhan, and Changzhou cities, has spread to 28 provinces and municipalities, an Agricultural Bank official said today.

The director responsibility system, the core of the reform, has been implemented in the bank's branches in 23 provinces and municipalities.

Under the system, branch directors are elected to take charge of personnel, business, loan approval, allocation of profits, rewards and punishments.

A target will be set for the term of the directors and a job responsibility system introduced for every worker to ensure its fulfillment.

In 1 year, the Agricultural Bank branch in Nanhui County on the outskirts of Shanghai increased its deposits to 100 million yuan and profits to 10 million yuan. Each worker earned an average 20,000 yuan.

Previously, funds flowed vertically in the banking system and now banks in different areas can borrow money directly through capital markets sponsored by the headquarters, and provincial and county branches.

Last year, the bank lent out and borrowed a total of 15 billion yuan, greatly improving capital efficiency.

The bank has shortened its enterprise bill settlement term to an average of 1.2 days this year, as against 4.5 days before.

A checking account service, started by the Guangzhou branch, has benefited the self-employed particularly.

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CSO: 4020/245

## LONG-TERM MONEY MARKET TAKING SHAPE IN PRC

OW150602 Beijing XINHUA in English 0541 GMT 15 Jul 87

[Text] Beijing (CEI)--A long-term money market specialising in issuing large amounts of bonds will take shape in China this year, with the selling of bonds worth rmb yuan 23 billion all over the country.

The terms of the 23-billion yuan bonds issued this year range from 1 to 15 years. Most of the funds raised will be used as working capital for long-term investment.

According to one local financier, the establishment of a market for long-term fixed capital will help break the state monopoly of capital, diversify credit loans and open up more channels to finance projects.

He said that there are two preconditions for establishing a long-term money market. First, there must be abundant social capital. Second, enterprises must have the need for large amounts of capital and the ability to repay their loans through profit earning.

Through the process of China's economic restructuring in recent years, the Chinese government has been delegating more and more decisionmaking power to various localities and enterprises. The proportion of investment in the state budget has been reduced with each passing year, dropping from 36.5 percent in 1978 to 17.8 percent in 1986.

At the same time, extra-budgetary capital has grown. By the end of 1985, extra-budgetary capital raised by various localities and enterprises had reached over 150 billion yuan. On the other hand, the growing income of people in both urban and suburban areas had boosted their savings deposits to 220 billion yuan by the end of 1986. All this has provided a sound basis for forming long-term money market.

As a result of the simplification of administration and delegation of power by the government, many enterprises have begun to exercise autonomy, being responsible for their own losses and profits. Their newly-acquired rights to find their own financial resources and to choose ways of raising funds and areas for investment have also provided conditions for developing such a market.

In fact, local small markets for long-term fixed capital emerged several years ago.

From 1981 to 1986, the state issued treasury and construction bonds totaling 30 billion yuan to offset its financial deficits and finance major construction projects in energy, transport, and other areas.

At the same time, local governments and enterprises also issued bonds and shares. According to incomplete statistics from the People's Bank of China, such bonds and shares issued by 23 provinces, municipalities, and autonomous regions totalled 12 billion yuan by the end of June 1986.

Financial institutions have also played an important role in raising funds by issuing bonds. The Agricultural Bank sold bonds worth 1.5 billion yuan in October 1985. Soon after, the Industrial and Commercial Bank sold bonds worth 2 billion yuan between 1985 and 1986. The four major specialized banks--the Bank of China, Construction Bank, Industrial and Commercial Bank, and Agricultural Bank--have been authorized to sell bonds totaling 4 billion yuan this year.

Besides issuing bonds, banks and trust and investment corporations have also sold shares on behalf of enterprises.

With the growth of bond issues, it has become necessary to form stock exchange markets in China. In August 1986, the Shenyang Trust and Investment Corp. took the lead in opening business in bond transactions, with Shanghai and Beijing following suit in September 1986 and January 1987, respectively.

At present, there are over 40 kinds of bonds being exchanged on markets in various parts of the country. Business in bonds and shares is now done in the manner of transactions between companies, buying and selling on commission, bond evaluation, mortgaging and refunding.

It can be predicted that it will not be long for the establishment of a national stock exchange in China.

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## SHANGHAI AREA CITIES FORM MONEY MARKET NETWORK

OW171228 Beijing XINHUA in English 1207 GMT 17 Jul 87

[Text] Shanghai, 17 Jul (XINHUA)--Fifteen cities in the Shanghai economic area, which includes Shanghai Municipality, and Jiangsu, Anhui, Jiangxi, Zhejiang, and Fujian Provinces, formed an inter-city money market network yesterday.

As part of the restructuring of its financial system, China is experimenting with money markets to better utilize its funds to speed up socialist construction.

According to incomplete statistics, 64 money markets were established in the economic area between August last year and April this year. They have helped promote an inter-flow of capital totalling 27 billion yuan (about 7.1 billion U.S. dollars).

The 15 cities are Shanghai, Nanjing, Changzhou, Wuxi, Yangzhou, Xuzhou, Hangzhou, Ningbo, Hefei, Nanchang, Jiujiang, Shangrao, Ganzhou, Fuzhou, and Xiamen.

According to a local official, the formation of the money market network will help individual money markets to play their role in a coordinated way.

The network will operate under the guidance of the people's bank, China's Central Bank.

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## FINANCIAL SERVICES GROW, DIVERSIFY IN SHANGHAI

OW180812 Beijing XINHUA in English 0641 GMT 18 Jul 87

[Text] Shanghai, 18 Jul (XINHUA)--A variety of financial businesses, which have disappeared for more than 3 decades, is now staging a quiet comeback and showing their increasing role as a powerhouse for the economy in this largest industrial city and once financial center of Shanghai.

Such terms as bill acceptance, discount and re-discount, mortgage loans, financial lease, private and traveler's checks, bonds, debentures, and stocks which sounded strange even to middle-aged people are now on the lips of industrial and commercial personnel and some residents in the Shanghai economic zone.

An electric fan plant in Cixi County, Zhejiang Province, was in trouble when commercial departments were reluctant to use cash to buy its products in winter. As the plant was worrying about what to do, the local bank came to its aid, offering bill acceptance and discount services. This enabled the plant to sell their products and buy in raw materials all on credit.

"We offer the new services to meet the needs of commodity production," said Shen Ruolei, vice-president of the Zhejiang branch of the Industrial and Commercial Bank of China. "In the past, the credit instruments were monopolized by state banks and this practice is being changed."

According to incomplete statistics, specialized banks in the Shanghai economic zone handled 8,000 such deals involving 2.5 billion yuan (about 676 million U.S. dollars) from 1986 to the end of March this year. At the same time, the banks also carried out inter-bank rediscount.

The mortgage loan service has also spread in Shanghai, Zhejiang, Jiangxi, Jiangsu, Anhui, and Fujian within the Shanghai economic zone. In Zhejiang, which started the earliest to offer mortgage loans, local banks offered 1,024 such loans from 1986 to the end of the first quarter of this year. Some enterprise groups failed to pay the mortgage and local banks sold their mortgaged assets.

The renowned Xinguang shirt factory in Shanghai had 520,000 shirts, worth 3.3 million yuan, stockpiled last year. In the past, it may rest upon the banks

and lived on ticks. But now, the local bank refused to provide it with loans unless it had its assets as security. This forced the factory to improve its operations.

"We do so in order to match other reform measures," a credit section chief of a local bank said. "It will make enterprises resume responsibility for profits and losses and bear the risks of their business operations."

Shanghai City has set up eight centers to handle transfer of eight types of bonds and shares, which aroused great interest from urban residents in the zone.

The banks in Shanghai have also begun to issue transferable certificates of deposit (CD) for large sums. The communications bank issued such certificates worth 300 million yuan over the past 6 months.

The restoration and development of money dealing channels and the use of some credit instruments are changing the people's concept in the use and circulation of funds. They are now paying more attention to interest and time and the banks themselves are also striving to improve work efficiency and accelerate fund circulation, which is tantamount to putting additional funds in circulation, an official said.

All large and medium-sized cities in the Shanghai economic zone have opened or reopened bills exchange centers, greatly shortening the clearing time. It was estimated that the practice has enabled the provinces in the zone to have nearly 100 million yuan more working capital every day.

At a recent meeting, bank directors in the zone agreed to continue these practices while trying out new ones.

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## CREDIT COOPS INVIGORATE BEIJING BANKING SYSTEM

OW141045 Beijing XINHUA in English 0630 GMT 14 Jul 87

["Roundup: Competition Invigorates Beijing Banking System"--XINHUA headline]

[Text] Beijing, 14 Jul (XINHUA)--Ten recently-established collectively-run urban credit cooperatives have helped intensify competition between financial institutions in Beijing.

The cooperatives have been set up since November 1986 as a result of reform of the country's financial structure. With the loosening of controls, collectives, and private investors and employees and managers of state banks were able to pool their resources and open the credit co-ops.

They handle the savings deposits and provide loans at the same rate of interest as state banks. They also provide other services not available at state-owned banks.

"Although small right now, they offer flexible services and are showing a great potential for development," said Hou Yang, vice chairman of the municipal commission for restructuring economy.

By the end of June this year, they had 3,069 depositors, mostly collective and individual businesses, and savings deposits reached 179.3 million yuan. They also issued 223 loans worth 81.14 million yuan and lent 42 million yuan to other financial institutions.

With a loan of 900,000 yuan from the Guanyuan credit cooperative, a group of stores leased by individuals were able to make improvements that helped to almost double their business volume in the first month they took over.

"Loan applicants knock at our doors more frequently these days," said Dong Junrui, manager of a credit cooperative in Dongcheng District, adding that the bank only approves one application in two. "It's difficult for us to judge if the loan applicant can pay off the loan and interest so sometimes we demand a financial guarantor," he said.

At present, urban credit cooperatives are attached to Beijing branches of the Industrial and Commercial Bank of China. Beijing plans to set up about 20

more such cooperatives this year, Hou Yang said. Loans can only be issued to collectives and private businesses but some bank officials are afraid that these loans may get out of control and affect investment plans in the capital.

Hou said this problem may be overcome with the introduction of relevant financial regulations.

Specialized savings banks like the Industrial and Commercial Bank of China have also met challenges from other banks and the postal banking service.

The Bank of China, for example, is specialized in handling foreign exchange business and in February also opened savings counters to draw more funds.

It also provides foreign exchange mortgage loans to foreign-invested enterprises who need Chinese currency as operating funds. So far, six foreign-funded enterprises signed contracts with the Bank of China for such loans totalling 12.55 million yuan.

"Our purpose is to promote the financial system to meet the fast changing economy of the capital. To reach the goal, we have to draw more deposits and circulate to the best effect," Hou Yang said.

The city opened a monetary market in January this year where banks and other financial organizations can lend and borrow money. Since its establishment, 11.46 billion yuan has changed hands. Changchun, Tianjin, and Chengde cities have borrowed 800 million yuan here.

Other banks like the Agricultural Bank of China and the Construction Bank of China have issued more bonds to draw funds.

To strengthen its dominance in savings deposits service, the Beijing branch of the Industrial and Commercial Bank of China has set up more than 30 sub-offices.

And it introduced an economic contract system in some offices to stimulate the initiatives of bank employees. Under the new system, the total amount of wages of each savings office is allowed to go up as savings deposits increase.

"We expect to run banks as enterprises," said a financial expert who added, "the first step is to promote their economic gains."

Li Jian, director of a savings office at Shatan said, "the bank is allowed to retain 3 yuan out of every 10,000 yuan in savings deposits." Clerks in his office have become more active at work, he said. The offices stay open long and provided door-to-door services. Savings deposits at Li's office increased by more than 700,000 yuan monthly since the beginning of this year.

Financial experts here said competition between financial institutes will invigorate Beijing's economy, but they urged relevant departments to work out detailed regulations to govern such competition to ensure stability.

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CSO: 4020/245

BANK OF CHINA SAID TO 'PRESSURE' STATE FIRMS

HK180950 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English  
18 Jul 87 pp 1, 2

[Article by Olivia Sin, recently in Shanghai]

[Text] The Bank of China [BOC] has taken "defensive" action to consolidate its position in Shanghai in the face of increasing competition from domestic and foreign banks.

Banking sources said BOC had recently exerted pressure on Shanghai state corporations to use its services, particularly for trade finance.

The move comes just 3 months after the Bank of Communications reopened its Shanghai headquarters.

Bank of Communications has received a mandate from the State Council to engage in a wide range of business, including foreign exchange and renminbi transactions, posing a direct threat to BOC.

It is understood that Shanghai state corporations were "reminded" to use BOC services during a recent meeting with bank officials.

"BOC has interfered before...but it has done so on a much bigger scale this time," noted one foreign banker.

Foreign banks in Shanghai are competing with BOC primarily for export billing from state corporations.

The foreign banks are not allowed to deal in renminbi, nor are they allowed to open letters of credit for the state firms.

Bankers estimated that about 80 to 85 percent of Shanghai state corporations' export bills were handled by BOC, which is apparently keen to hold on to its market share.

The remaining business is split among the four foreign banks--Hong Kong and Shanghai Bank, Standard Chartered, Bank of East Asia, and Oversea-Chinese Banking Corp.

"Some state firms said they were told to surrender about 80 to 90 percent of their business to BOC," said one banker.

Apart from the reopening of Bank of Communications, it is understood that the aggressive marketing methods of the foreign banks have also upset some BOC officials.

Three of the four foreign banks have more than doubled their staff in the past 2 years, primarily to step up their marketing activities in the neighbouring provinces of Jiangsu and Zhejiang.

Foreign banks have reported a drop in their business in Shanghai as a result of the BOC tactics.

"It's unfair competition," said John Sargent, the manager of Standard Chartered's Shanghai branch.

"BOC turns the taps for the state corporations," he said, explaining that the state firms were forced to turn to BOC for foreign exchange loans to fund their operations and the import of equipment.

"The situation is simply that if we get the business, they (BOC) lose the business," noted another foreign banker.

There is apparently a fear among the state firms that they may not be able to get the necessary loans if they turn their back on the BOC.

Nevertheless, foreign bankers pointed out that there should be enough business for everybody in Shanghai.

"The cake is growing... It's impossible for BOC to take all the business," said one banker.

An official from the administrative department of Bank of Communications admitted that a small number of state firms were worried that opening an account with his bank might upset their relations with BOC.

The official emphasised, however, that Bank of Communications had a cordial relationship with BOC and that some senior bank executives were formerly with BOC's Shanghai branch.

He said state firms were allowed to choose their own banks, and Bank of Communications simply added one more choice. "While we (the state banks) compete for business, we also mutually support each other."

Banque Indosuez, which closed its Shanghai branch some 30 years ago, is understood to be one of them.

The vice-president of the Shanghai branch of the People's Bank of China, Luo Shilin, said it was up to the State Council to decide whether more foreign banks were allowed into Shanghai.

He also pointed out that the opening of bank branches was on a reciprocal basis--meaning that China would allow foreign banks to open branches if the bank's home countries granted similar rights to China.

The four foreign banks in Shanghai had branches there before the 1949 communist takeover.

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## COMPANY EXPANDS FOREIGN INSURANCE BUSINESS

HK171149 Beijing CHINA DAILY in English 17 Jul 87 p 2

[Article by staff reporter Zhao Jinming]

[Text] China's national insurance company is striving to expand its foreign insurance business to meet the needs of the country's fast-growing overseas trade and cooperation.

In the first 5 months of this year, the People's Insurance Co. of China received \$129 million in premiums from foreign business, an increase of 7.5 percent over the same period last year.

There was a big jump in foreign business and in insurance covering the transportation of exports, although there was a slight drop in revenue from insurance covering import transport, ocean-going ships, airliners, and oil development, said Wei Ruiquan, president of the company's foreign insurance department.

Wei attributed the increase of insurance on export freight transport to the growth of the country's exports in the first half of the year.

The company offers about 80 different services covering the import-export business, ocean-going ships, technology imports, utilization of foreign funds, contracted projects abroad, labour co-operation, and international tourism.

It has recently added liability insurance for foreign tourists in China to promote tourism, Wei said.

Clients include not only importers and exporters, but also Sino-foreign joint ventures, co-management enterprises and wholly owned foreign businesses, he said.

Most of the country's 7,000 foreign-funded businesses have taken out policies.

The company has also provided risk insurance to large state-controlled projects such as the Daya Bay Nuclear Power Station in Guangdong Province.

The total of the project's insurance is estimated to be \$1.6 billion, with premiums costing about \$20 million a year. The first premium will be paid to the company in the second half of this year, Wei said.

In line with the country's development of the energy and communications industries, risk insurance will be offered to cover the construction of new motorways between Shenzhen and Guangzhou and from Beijing to Tangyu via Tianjin.

Four thermal power stations built by the Huangeng Corp. have already been insured. Insurance covering another three thermal power stations is under negotiation.

The company handles indemnity claims quickly as an effort to improve its service.

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FINANCE, BANKING

ECONOMIC

BRIEFS

CHONGQING MONEY MARKET--Chongqing (CEI)--The Chongqing Money Market, which opened here recently, had a very busy day on the first day of its opening. There were 8 transactions of interbank loans totalling 94 million yuan and 2 rediscounts totalling 18.47 million yuan. Syndicated loans amounted to 10 million yuan and 500,000 U.S. dollars, and sales of Yuzhong Company bonds, 700,000 yuan. [Text] [Beijing XINHUA in English 0604 GMT 17 Jun 87 OW] /9599

CSO: 4020/245

BRIEFS

STEEL OUTPUT--Beijing, 23 Jun (XINHUA)--China produced 18.01 million tons of steel from January to April this year, 1.25 million tons more than in the same period last year. During the first quarter of this year, China's steel enterprises yielded 3.5 billion yuan in profits and taxes, up 14.14 percent over the same period of last year. [Text] [Beijing XINHUA in English 0820 GMT 23 Jun 87 OW] /9599

CSO: 4020/245

## COUNTRY IMPORTS EQUIPMENT WORTH 410 BILLION

HK140403 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1104 GMT 12 Jul 87

[Text] Hong Kong, 12 July (ZHONGGUO TONGXUN SHE)--According to reports from Beijing, during the past few years, China has imported more than 10,000 items of various kinds of technologies and key equipment, using more than \$10 billion. These have played a remarkable role in promoting the development of the national economy and raising the level of science and technology.

The study and analysis by specialists from the China Science and Technology Promotion and Development Center shows that since 1979, the percentage of patented, special-purpose, and software technologies in the entire import structure has gradually increased, and the import of technologies has been integrated with the use of foreign capital in various forms such as joint-venture operations, cooperative production, and joint design. This has resulted in: Making the import of technologies a nationwide task; remarkably increasing the economic results from technology; shortening the technological and economic gaps between China and advanced foreign countries; pushing forward the technical transformation of enterprises; improving the methods of enterprise management; increasing the capability of independent technological development and exploitation; and widening channels for increasing exports and foreign exchange earnings.

However, the phenomena of imports by many departments at the same time, duplication in imports, placing orders by non-professionals who go abroad, and the purchase of outdated or obsolete products, are still drawbacks existing in import work at present.

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CSO: 4006/819

## OPENING OF FOREIGN EXCHANGE MARKET ADVISED

HK200400 Beijing JINGJI YANJIU in Chinese No 5, 20 May 87 pp 26, 71

[Article by Zhang Guanghua (1728 0342 5478) and Wang Dongmin (3769 2639 3046) of the Central Office of the People's Bank of China: "Establishing China's Foreign Exchange Market"--written in February 1987]

[Text] I.

In the current process of economic structural change, a foreign exchange market, as a component part of the financial market in the socialist market system, is a demand of the development of a planned commodity economy.

First, the establishment of a foreign exchange market is an important component of the reform of our nation's foreign exchange management system and it will be able to promote the development of lateral economic relationships. Our country's old foreign exchange management system was basically characterized by a state monopoly in its unified receipt and expenditures of foreign exchange. Under this system, because the foreign exchange earning departments and the foreign exchange using departments were not linked, the enthusiasm of export departments for earning foreign exchange was repressed and import departments were not affected by the actual costs incurred by the export departments in earning foreign exchange. The system of the proportional retention of foreign exchange has been a major reform in our country's foreign exchange management system. It partially motivates the enthusiasm of localities, departments and enterprises for earning foreign exchange. But some problems exist and these are mainly manifested in the irrational allocation of foreign exchange. After the proportional retention of foreign exchange was implemented in departments and enterprises, because there was no concurrent opening of a foreign exchange market, foreign exchange funds could only be allocated vertically and there was no horizontal movement. This produced three situations: 1) Although some departments and enterprises had a certain amount of retained foreign exchange, they did not urgently need to use the foreign exchange to import things. 2) As the amount of foreign exchange retained by some departments and enterprises was very small, they had to accumulate it over a long period of time before they had a purchasing capacity of a reasonable magnitude. 3) Other departments and enterprises had no or very little foreign exchange earning capacity, but because of the demands of production and technological reform, urgently needed foreign exchange to import materials and equipment. This has resulted in a situation

where on the one hand foreign exchange amounts are idle and on the other hand there are places where foreign exchange is lacking. In this situation, the state finds it hard to resolve the problem of the horizontal accommodation of foreign exchange funds through its traditional methods of administrative intervention. The only option is to further reform the foreign exchange management system, establish and develop a foreign exchange market, and through the market mechanism guide the lateral movement of foreign exchange funds. The foreign exchange market links the supply of and demand for foreign exchange by relying on price fluctuations. If foreign exchange accommodation methods are flexible and timely, foreign exchange funds which are idle and static can be brought into use. The market price will be one which both the supply and demand sides are willing to accept. The achievement of lateral accommodation through the market mechanism not only results in guaranteeing the interests of the two sides, but also will inevitably promote the development of lateral economic relationships between departments and enterprises.

Second, the establishment of a foreign exchange market will be able to increase the rationality and effectiveness of the use of foreign exchange. Our country is a developing country and a shortage of foreign exchange will be a long-term phenomenon. Fully utilizing our very limited foreign exchange resources, so that there is highly effective turnover and rational deployment is a requirement if our country is to attain sustained, stable and coordinated development. Our country's current foreign exchange allocation system not only restrict enterprises' foreign exchange accommodation, but to a certain degree, the use of foreign exchange is subject to the fetters of the administrative allocation system which hinders the improvement of foreign exchange use efficiency. The establishment of a foreign exchange market can both increase the quantity of foreign exchange accommodation and also improve the efficiency of foreign exchange use. In this way the limited foreign exchange resources will automatically flow toward those industries, departments and enterprises which are relatively highly efficient economically or which urgently need foreign exchange. At the same time, it will benefit reducing enterprises' dependency on the state, further break down the situation in which enterprises eat from the big pot of the state and will compel enterprises to strengthen economic accounting and improve operational management. This will promote the rational deployment of foreign exchange resources.

Third, the establishment of a foreign exchange market will benefit in establishing a good investment environment for the "three kinds of partially or wholly foreign-owned enterprises." At present, a major factor disadvantages to the inflow of foreign funds is the difficulty of repatriating the profits of foreign-invested enterprises. Foreign exchange market accommodation will both benefit the remittance of profits from foreign-invested enterprises and also benefit the inflow of foreign exchange investments. Also, it will speed the two-way changing of foreign exchange and renminbi for foreign-invested enterprises, providing a new avenue for resolving the problem of the foreign exchange imbalance in the "three kinds of partially or wholly foreign-owned enterprises."

Apart from this, the establishment of a foreign exchange market will benefit in having the renminbi exchange rate approach an international rational level. At present, the exchange rate for renminbi is an artificially controlled rate. Its readjustment is not only slow, but after it is readjusted, it is difficult to say that the exchange rate level will definitely be rational. The foreign exchange black market price certainly cannot be the true exchange rate level. The black market exchange rate includes a factor of foreign exchange illegal speculation costs and the exchange rate including these costs will inevitably be higher than the true level of the renminbi exchange rate. Of course, it will only "approach" the international rational level because at present our country's foreign exchange market can only be a limited elementary foreign exchange market. Only a small part of the foreign exchange will enter the market, while the majority will still be allocated in a planned way. Therefore, the supply of and demand for foreign exchange will not completely reflect the market rate of foreign exchange.

## II.

At present, the deepening of our country's economic structural reform has provided good conditions for the establishment of a foreign exchange market.

First, let us look at the external conditions. 1) The development of our country's commodity economy has provided a macroeconomic environment for establishing a foreign exchange market. A foreign exchange market is an inevitable product of the development of a commodity economy. Foreign exchange is a special type of commodity and will naturally be subject to the conditioning of the laws of the economic movement of commodities. The use of a market mechanism to regulate the flow and allocation of foreign exchange is an innate demand of the commodity economy. At the same time, our reform of the pricing system, planning and management system, and foreign exchange management system has opened a road for the establishment of a foreign exchange market. At present, our country's funds market is in the initial development stage and there have appeared forms of funds markets such as pooled resources in society, nongovernment credit, inter-bank discounted borrowing, and so on. Renminbi credit funds and foreign exchange credit funds are closely related. Foreign exchange funds need renminbi funds in support and renminbi funds need foreign exchange funds as a supplement. The development of a renminbi funds market will ensure that the foreign exchange market has some room for movement. The renminbi funds market and the foreign exchange funds market will jointly form our country's financial market system. The establishment of the foreign exchange market will depend on the development of the renminbi funds market. 3) Enterprises, as relatively independent commodity producers, have created the microeconomic environment for the establishment of a foreign exchange market. Enterprises which are responsible for their own operations and for their own profits and losses need the right to select their own production factors. As far as foreign trade enterprises are concerned, this right of selection includes the free flow and transfer of foreign exchange funds in competition between enterprises. At present, enterprises have some autonomy. After opening up a foreign exchange market enterprises will have the capacity to select the conditions under which

they trade foreign exchange and will accommodate foreign exchange funds by proceeding from investment needs and use efficiency.

Now let us look at the internal conditions. 1) A foreign exchange market is formed by a supply of foreign exchange and a demand for foreign exchange. Since our country implemented the system of proportional retention of foreign exchange some departments and enterprises have had ownership and use rights over a certain amount of foreign exchange. This has formed an important source of the foreign exchange supply in the foreign exchange market. The foreign exchange which foreign-invested enterprises have is also an important source of the foreign exchange supply. Some other departments and enterprises do not have a foreign exchange quota, or else only a very small one, and need foreign exchange to use in improving technology and equipment. This forms the demand in the foreign exchange market. Now that we have both the supply of and demand for foreign exchange, we have the prerequisite conditions for establishing a foreign exchange market, and it is possible for us to open up our nation's foreign exchange market. 2) In the last 2 years, the development of the foreign exchange regulation business has been an initial attempt in using the market mechanism to regulate the foreign exchange supply and demand, and to accumulate experiences for opening up a foreign exchange market. 3) The state since it has foreign exchange resources and gold reserves can, at any time, enter the foreign exchange market as a regulator of foreign exchange supply and demand. On the one hand, it can curb large-scale fluctuations in foreign exchange market exchange rates and on the other hand, in the foreign exchange market it can supply or gather foreign exchange funds. 4) Our foreign trade and foreign exchange management are more stringent than those of developed Western countries and of some developing countries. This is an important guarantee in opening our nation's foreign exchange market. Only if we further perfect management organs, improve legal systems, and use economic levers to correct the flaws in various areas, can we provide good conditions for opening up a foreign exchange market.

### III.

Our country's foreign exchange market must be established in accordance with our country's national conditions and it must have Chinese characteristics. The beneficial experiences of developed Western countries in this respect can be used for reference, but should not be indiscriminately copied. The foreign exchange market that we establish at the present stage must have the following characteristics:

1. It must be a restricted foreign exchange market. The majority of our country's foreign exchange total is arranged by state planning and only a small amount will be subject to market regulation. This determines that our country's foreign exchange market will be restricted in scale. Regulation by the foreign exchange market will only be a supplement to regulation by state planning, and it will not affect the major element, which is foreign exchange allocation by the state.

2. It must be a strictly managed foreign exchange market. In accordance with the demands of a foreign exchange market which has just been established, our nation's foreign exchange supervision and management systems will be fairly strict. This will be a systems guarantee that the foreign exchange market will be well managed.

3. It will be an elementary foreign exchange market. Because renminbi cannot be freely exchanged, and international short-term capital cannot freely flowing, at the present stage, our foreign exchange market can only be a domestic foreign exchange market. We do not have the conditions to establish an international foreign exchange market. Because our country's telecommunications technology and equipment and our financial tools are not very developed, our country's foreign exchange market at present will only be a limited foreign exchange market (meaning that foreign exchange dealings to establish an abstract foreign exchange market (meaning that foreign exchange dealings will be conducted by telex, telecommunications or telephone).

The above characteristics determine that in establishing our country's foreign exchange market, there needs to be a policy of sustained and stable development and gradual expansion, and that the foreign exchange market is opened in a planned and gradual way. The basic concepts are as follows:

1. In terms of market arrangements, we should gradually establish a joint market system formed by the secondary foreign exchange markets. The major foreign exchange markets will play a guiding role and the secondary foreign exchange markets will play a supplementary role and will have a conducting functions. The experiences of developed countries show that different levels of foreign exchange markets need to be established in different places, based on the degree of development of these places in terms of foreign economic relationships and their position in the domestic economy. We can consider the gradual establishment of several major foreign exchange markets in economically developed regional-center cities and in cities on the east coast, and especially in special economic zones where foreign economic dealings are increasing daily and the foreign exchange flow is quite large. In some other areas we can gradually establish secondary foreign exchange markets. However, what is worthy pointing out is that foreign exchange markets cannot be opened everywhere. Rather, foreign exchange markets should be established on the basis of having handled foreign exchange regulatory business in areas which have the conditions. Those areas which do not have the conditions should engage in or continue to engage in foreign exchange regulatory business. However, foreign exchange funds should be allowed to flow freely and move laterally. after the central authorities hand down powers in terms of foreign exchange we must guard against regional divisions and barriers. In this way, the regional foreign exchange markets will gradually develop into a unified, open foreign exchange market.

2. The crux in opening up the foreign exchange market is the question of pricing. For a long period, in our country foreign exchange demand has been greater than the supply. This is a basic fact. If for a long period we maintain a restricted price, then the foreign exchange market will not greatly

appeal to those enterprises which have a surplus of foreign exchange. Only by allowing prices to float freely and letting the pricing mechanism play a guiding role in the foreign exchange market will the precipitated foreign exchange float freely. Some people are worried that after allowing free negotiated prices, the price will shoot up. We think that this view is not a complete one. In current foreign exchange business, the price of foreign exchange is determined by the supply of and demand for foreign exchange. The major factors restricting the foreign exchange supply are the average costs of earning the foreign exchange through exports and the foreign trade profits. The major factors restricting foreign exchange demand are the costs of foreign exchange used for imports and the foreign trade profits. Foreign exchange markets are the same as ordinary commodity markets. When prices are first freed, the price may rise to a level higher than the market balance price. However, over a certain period under the situation of high prices, the foreign exchange supply will be expanded gradually and demand will be reduced. Hence, the price will fall and tend towards the normal level.

3. The insufficiently foreign exchange supply is the major restricting factor in our country's foreign exchange market. Under conditions of gradually changing the foreign trade structure and increasing the foreign exchange earning capacity through exports, we need to expand the supply to the foreign exchange market. The key to this lies in reforming the foreign exchange management system, gradually reducing directive planning, expanding guidance planning, reducing imports of materials which are allocated in a unified way by the central authorities and expanding the range over which regions and enterprises have the right to use foreign exchange. This will, under the principle of state guidance planning, give enterprises greater autonomy in terms of using and transferring foreign exchange funds. By gradually opening the scope of foreign exchange regulation and permitting foreign exchange credit and individual's foreign exchange to be sold in the markets, it will allow more foreign exchange to flow into the market.

4. In terms of the nature of the market, there will be a gradual transition from a quota market to a spot exchange market. Our country is at present practicing the system of quota proportional retention of foreign exchange. This determines that at present the foreign exchange market will be a foreign exchange quota market. After a certain period, when the economic structural reforms and the foreign exchange management system reforms reach a certain stage, and the financial market is completely open, we can consider opening a spot exchange market. Only when there is a spot exchange market can it be truly considered a foreign exchange market. Opening a spot exchange market is preconditioned on the proportional retention of spot exchange. The implementation of spot exchange proportional retention will basically resolve the problem in the proportional retention of foreign exchange of "one girl having numerous marriages." However, as far as exporting enterprises are concerned, implementing the spot exchange proportional retention may take up their renminbi funds. If the amount take up is too large, it will affect the turnover of their production funds. There are two methods for resolving this: 1) The exporting enterprises can accommodate renminbi funds in the funds market. 2) The exporting enterprises can first sell the foreign exchange they

do not urgently need in the foreign exchange market and then purchase it again when they need it. We should also allow individuals to enter the spot exchange market.

5. The market structure should be fairly simple. The foreign exchange markets in Western countries are usually comprised of foreign exchange suppliers and requirers such as stipulated foreign exchange banks, foreign exchange brokers, discount companies, bill traders, importers and exporters, and so on, as well as foreign exchange investors, multinational companies, central banks, and other government foreign exchange management organs. The structure of our country's elementary foreign exchange market should be simple and not as complex as that noted above. At present, it will be formed from the foreign exchange trading center, the foreign exchange control administration, importing and exporting enterprises and other foreign exchange suppliers and requirers. In this market structure the functions of the foreign exchange trading center will be: 1) To assume the position of intermediary between foreign exchange purchasers and sellers. 2) To handle the transaction formalities for which it will receive an appropriate handling charge. 3) To collect and calculate data and information on foreign exchange transactions. 4) To maintain rational prices. The foreign exchange control administration's main tasks will be: 1) Supervising and managing the business and operations of the foreign exchange trade center. 2) Examining and approving the sources and uses of foreign exchange supplied or purchased by foreign exchange sellers or buyers. In the initial stage after the foreign exchange market is opened up, foreign exchange suppliers will mainly be state enterprises and wholly or partly foreign owned enterprises. In the special economic zones it will also be possible to permit individuals (primarily small-scale border traders and cross-border cultivators) to enter the market, but only to sell, not to buy.

Following the development of the country's foreign exchange market, its structure will change. Apart from trading between client and client, trading will also appear between banks and clients and between banks. Under this fairly complete market structure the major function of the central bank will be to maintain order in foreign exchange market trading and stability in exchange rates. Thus, the central bank should establish a foreign exchange market at any time and buy or sell. The foreign exchange trading center will, on its original base, have new functions: 1) In accordance with the foreign exchange supply and demand situation, to discuss and decide on the buying and selling rates between banks and clients. 2) To act as the intermediary in the buying and selling of foreign exchange between banks. 3) To supply domestic and international foreign exchange market information and to provide it to stipulated banks for their reference. 4) To study the business, situation, and trends in foreign exchange trading. The central bank should gradually approve stipulated foreign exchange banks to enter the foreign exchange market. The major tasks of stipulated foreign exchange banks will be to undertake the purchase and sale of foreign exchange for clients and carry out selling and buying in the foreign exchange market. Thus, the stipulated foreign exchange banks will play an important role in the foreign exchange market. At present, the central office of the Bank of China and its branch

offices are the majority of our nation's stipulated foreign exchange banks. In the future the number of stipulated banks should be gradually expanded and should include foreign trade banks to form a situation which benefits competition.

#### IV.

Undoubtedly, the opening of a foreign exchange market will promote the lateral accommodation of foreign exchange funds. However, accompanying this some problems may occur. With respect to these problems, we should adopt appropriate countermeasures.

1. With the current situation, where in foreign exchange regulation demand is greater than supply and prices are a little low, after the foreign exchange market prices are freed, it may cause foreign prices to rise sharply. The increase in the foreign exchange price will cause the cost of imported commodities to rise and prices will also rise. Although this will lead to a great increase in foreign trade enterprises' costs, the purchase price for export commodities will increase some. The increase in the prices of import and export commodities will inevitably promote an increase in domestic prices, commodity prices will quickly rise and export profits will grow accordingly. This will further promote the increase in foreign exchange prices on the foreign exchange market.

If management is not appropriate then a vicious cycle of commodity price and exchange price spirals will occur. In order to prevent the irrational increase of exchange prices and commodity prices, apart from expanding the supply sources of foreign exchange for the market and strengthening central bank intervention in the market, we must also appropriately control renminbi credit funds. The supply of and demand for renminbi credit funds and the supply of and demand for foreign exchange funds have an inverse relationship. On the basis of the laws of supply and demand in the market, controlling renminbi credit will, to a certain degree, control prices on the foreign exchange market. At the same time, pricing management departments should coordinate and restrict the arbitrary raising of import and export commodity prices, the forcing up of prices and the rush purchasing of export commodities. They should encourage enterprises to put their efforts into reducing costs and raising economic efficiency.

2. If, after the foreign exchange market is opened the foreign exchange management is not strict, it will be difficult to control the direction of foreign exchange use. In the domestic market where demand for consumer goods is high, and profits are high, the amounts of foreign exchange traded by trade departments may be greater than those of production departments. In trade departments, profits are high and the capacity for bearing exchange prices is also great. They may use much foreign exchange in importing consumer goods and then sell them at high prices on the domestic market. In production departments there is also a tendency to import more raw and semi-finished materials than advanced technology and equipment. We believe that having a foreign exchange market means that foreign exchange purchase and sales should

be quite free. However, import controls cannot be relaxed. Foreign exchange controls and foreign trade controls are complementary. In the past our country implemented the "two stricts" policy. That is, there was coordinated strict foreign exchange control and strict foreign trade control. The opening of the foreign exchange market means that our nation's foreign exchange management system has begun to change from direct control to indirect control. In this situation, we should adopt a policy which combines both quite relaxed foreign exchange controls and quite tight foreign trade controls. Then we should gradually implement an overall import permit system and appropriately stipulate an import commodity regulatory tax. This will promote the import of advanced technology, equipment and necessary raw and semi-finished materials and restrict consumer goods imports.

3. After the foreign exchange market is opened foreign exchange speculation may also occur which will exacerbate the foreign exchange market price fluctuations. Thus, we will need to strengthen foreign exchange market management, strictly forbid speculation and the illegal purchase and sale of foreign exchange, and suppress trading outside the market. This will guarantee the healthy development of the foreign exchange market.

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CSO: 4006/819

## GUANGDONG SUFFERS LOSSES FROM EXCESS IMPORTS

HK160353 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1141 GMT 14 Jul 87

[Report: "Guangdong Province Has suffered Serious Losses From Its Duplicated Imports"]

[Text] Beijing, 14 Jul (ZHONGGUO XINWEN SHE)--Due to improper attention to macroeconomic management and control over coordination, Guangdong Province has in recent years witnessed a province-wide situation in which many departments are involved in foreign trade, blindly setting up offices everywhere and introducing duplicated imports, causing a serious waste of manpower and material resources.

WEN HUI BAO of Shanghai said in a report today: Since Guangdong Province relaxed controls over the power to approve the use of foreign capital to carry out technical transformation in 1984, the whole province has whipped up "a passion for imports." Industrial and communications departments alone imported that year \$350 million worth of "modern equipment." Moreover, imports were concentrated on some production projects, such as copying machines, batteries, beverages, petroleum stoves, particle boards, and so forth, which are near a saturation point and have exceeded domestic market needs. For example, the enterprise introduced for the making of pull-tab, easy-open cans is now in a plight, with not enough work for its capacity and with products piling up.

Basic factors responsible for such a situation are: First, the province has so far not formed a unified management system for the import of equipment. Second, decrees given are not acted upon. Prohibitions laid down are not carried out. Some relevant units have thought of only the interests of given areas and given enterprises, so that production lines, such as refrigerators, color off-set printing machines, high-grade foodstuffs, and so on are still being continuously imported. Third, such factors as a given area's resources, its ability to pay in foreign exchange, market demand, so forth are not taken into consideration. There is a lack of data to prove feasibility. Such items as quartz watches, soft packing for beverages, and so forth, which are very expensive and use a large amount of foreign exchange are blindly imported. Even pieces of equipment which have been dropped in some foreign countries, or which involve serious pollution problems have also been blindly imported.

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BRIEFS

HEILONGJIANG FOREIGN TRADE--In the first half of 1987, the total exports of Heilongjiang Province were valued at \$473 million, an increase of 43.3 percent over the same period last year, fulfilling 78.8 percent of the annual export plan. [Excerpt] [Harbin Heilongjiang Provincial Service in Mandarin 2100 GMT 14 Jul 87 SK]/6662

CSO: 4006/819

## 14 COASTAL CITIES DEVELOP RURAL ECONOMIES

HK160417 Beijing RENMIN RIBAO in Chinese 9 Jul 87 p 1

[Report: "Open Coastal Cities Orient Rural Economies to Export"--passages within slantlines published in boldface]

[Text] The 14 coastal cities, including Shanghai, Tianjin, Dalian, Guangzhou, and so on, that were opened up in turn have accomplished notable results in developing export-oriented economies in accordance with the guiding principle of "trade, industries, and agriculture."

/The market demand in both our own and foreign countries produces enormous pulling effects on the production of agricultural products./ The 14 coastal cities have taken full advantage of their respective superiority in natural environment and economic condition in order to greatly develop agricultural products which are famous, high in quality, and special, and are needed by markets in both our own and foreign countries. In Dalian City, the number of fruit trees increased by 57.9 percent in 1986 as compared with 1983. The prawn breeding area increased by nearly 7 times and prawn production by more than 13 times. The number of chickens grew by 150 percent.

Lianyungang City is enthusiastic about the development of hilly ground and Haizhouwan, and has set up a number of production bases for foreign exchange-earning products, such as lean pigs, milk products, aquatic products, fruit, mink, long-haired rabbits, goats, and miniature flowers and trees. The development of the export-oriented economies has promoted the commercialization of agricultural products, and rapidly raised the export volume. In 1986, the agricultural, and sideline products sold to the state by the 14 cities amounted to 17.87 billion yuan, a growth of 52.1 percent compared with 1983 when the opening up had not commenced. Besides, the total amount of agricultural and sideline products for export increased by 66.9 percent.

/With the rapid development of rural industries, the export of processed products has increased year after year./ Making use of the advantageous conditions of the key cities, such as solid foundation, comparatively convenient transportation, and abundant resources for agricultural and sideline products, these open cities have greatly developed rural industries. In 1986, according to calculations by the 14 cities in terms of comparable prices, the output value of rural industries amounted to 41.98 billion yuan,

a 200 percent growth over 1983. This is much faster than the average growth rate of the whole country during the corresponding period. According to an investigation and calculation in five cities, namely Shanghai, Tianjin, Guangzhou, Dalian, and Qingdao, the total export volume of industrial products in 1986 amounted to 23.4 billion yuan, of which over 85 percent were exported industrial products using agricultural products as raw materials.

/To develop economic ties by absorbing capital and importing technology from abroad, and by establishing internal links; promote the development of rural economies by doing away with the closed-door economic pattern./ What comes first is the multi-level and multi-form internal lateral economic ties. Ties have been built up between township and town enterprises and state-run enterprises; city and town enterprises under the collective ownership system; or township and town enterprises, in production, technology and capital, and sales of products. According to an investigation and calculation in six cities, namely Shanghai, Lianyungang, Dalian, Guangzhou, Tianjin, and Qingdao, there were 1,918 township and village enterprises participating in the development of lateral economic ties in 1986, and 0.28 million people were employed in them. They realized output value amounted to 3.75 billion yuan. Moreover, in order to inject new vigor into the development of township and town enterprises, the six cities are also enthusiastic about importing technology and absorbing capital from abroad. In 1986, there were 93 township and village enterprises jointly operated by the six cities, namely Shanghai, Lianyungang, Tianjin, Dalian, Qingdao, and Guangzhou, and foreign businessmen, overseas Chinese, and compatriots from Hong Kong and Macao. Their realized output value was 68 million yuan or so.

/Adjust rural industrial pattern in line with the demand of export-oriented economies so that overall results can be rapidly improved./ Taking rural industries, animal husbandry, and aquatic products industry as breakthrough points in developing export-oriented economies since 1984, various cities have accomplished notable results in these new product undertakings and markedly changed the status of these undertakings in rural economy. In total agricultural output value, the animal husbandry and aquatic products industry increased from 14.8 percent in 1983 to 29.3 percent in 1986. In total rural society output value the rural industrial output value rose from 30.8 percent in 1983 to 45.6 percent in 1986. An initial production foundation has been laid for industries processing agricultural products and product industries that serve export. With rational adjustment of the industrial structure, overall results will be rapidly improved.

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CSO: 4006/819

## BRIEFS

CHINA AGRICULTURAL ENCYCLOPEDIA--Beijing, 24 Jun (XINHUA)--The first two volumes of the CHINA AGRICULTURAL ENCYCLOPEDIA, were released today by the China Agricultural Publishing House at home and abroad. At today's press conference, He Kang, minister of agriculture, animal husbandry, and fisheries, said, the encyclopedia is comprised of 30 volumes, is 30 million Chinese characters long and features 10,000 illustrations. He said, the CHINA AGRICULTURAL ENCYCLOPEDIA is being compiled by about 6,000 Chinese experts and scholars in agriculture, to meet the needs of China's modernization program in agriculture. The text covers farming, forestry, animal husbandry, water conservation, agricultural machinery, and agricultural meteorology, agricultural economy, biology, soil, agro-engineering, agro-chemistry, insects, plant pathology, crops, vegetables, fruit trees, forestry, animal husbandry, beekeeping, and aquatic products. The first volumes published are AGRICULTURAL METEOROLOGY, compiled by the State Meteorological Bureau, and WATER CONSERVATION, compiled by the Ministry of Water Resources and Electric Power. [Text] [Beijing XINHUA in English 1403 GMT 24 Jun 87 OW] /9599

ECONOMIC DICTIONARY--Beijing, 19 Jul (XINHUA)--China's first DICTIONARY OF ECONOMIC LAWS was published recently. Running to 1,515 entries, the dictionary is thought to be the most authoritative reference book for legal and economic departments. [Text] [Beijing XINHUA in English 1031 GMT 19 Jul 87 OW] /9599

CSO: 4020/245

MILITARY, PUBLIC SECURITY

GROUP ARMIES HAVE NEW TECHNICAL ARMS

OW211318 Beijing XINHUA Domestic Service in Chinese 0131 GMT 21 Jul 87

[Article by reporter Xu Jingyue]

[Text] Beijing, 21 Jul (XINHUA)--Streamlining and organizational reform have given the PLA a new appearance. The infantry's role as the main force of the Army has been replaced by that of technical arms to meet the needs of future war. This is a historic change in PLA building.

With the strengthening of the PLA's organizational reform and the reduction of PLA strength by 1 million in the last few years, the Central Military Commission has decided to strengthen technical arms. It has further strengthened the artillery corps, the armored forces, the engineering corps, the signal corps, and the chemical defense corps. It has also added to the PLA order of battle many new technical arms, such as the army aviation corps, electronics countermeasure units, meteorological units, mountain operations force, marine corps, nuclear submarine force, and Air Force surface-to-air missile units. In the Army, the technical arms have for the first time exceeded the infantry in total strength.

Under the new circumstances, great changes have taken place in the tasks, importance, weaponry, and equipment of various arms. The artillery corp has become the number one major arm of the Army. Gratifying success has been achieved in the automation of fire control communications between command posts and gun crews, and fire reaction time has been shortened to seconds instead of minutes. The armored force has great firepower, mobility, battlefield survival ability, and strong armor protection. With the addition of new type main battle tanks and special-purpose tanks, it has become a powerful main assault force in ground battle instead of being a supportive force for infantry. In addition to supporting combatant units, the engineering corps and the chemical defense corps today also have the capability to directly annihilate enemy troops.

In the past it was very difficult for field army commanders to consider weather conditions when organizing combat operations or military maneuvers because the field armies did not have any attached meteorological units. Since the field armies were reorganized into group armies, the group armies have had attached meteorological units, enabling the commanders to make better

weather forecasts for joint military operations and exercises. Since the establishment of electronics countermeasure units, the PLA has had an electronics countermeasure capability, which is a new type of defense.

The development of technical arms has changed the PLA's structure. At present, a group army is composed of armored and infantry units as its ground assault force; artillery, air defense, and army aviation units as its fire support force; meteorological, signals, engineering, chemical defense, and electronic countermeasure units as its combat support force; and transport, medical, and linemen's units as its logistics support force. With these units working together, the group army has become stronger in terms of firepower, defense capability, assault capability, mobility, rapid reaction capability, and joint operations capability.

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CSO: 4005/862

MILITARY, PUBLIC SECURITY

PLA OFFICIAL ON DEVELOPMENT OF ARMORED FORCE

HK160721 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0249 GMT 15 Jul 87

[Report by reporter Wang Fuli (3769 2105 3680): "Mechanizing and Armoring Troops Is a General Trend in Developing the Ground Forces--An Interview with Chen Benting, Director of Armored Forces Department Under the PLA General Staff Headquarters"]

[Text] Beijing, 15 Jul (ZHONGGUO XINWEN SHE)--What is the general trend in the development of China's land force? Chen Benting, director of the Armored Forces Department of PLA General Staff Headquarters, holds the view that being mechanized, armored and highly combined is a measure of the modernization of a developed country's army, and also a direction for the development of China's land force.

This 53-year-old Armored Forces Department director acted before as instructor, staff officer, and tank school principal. He had pursued higher studies in a military academy and did a lot of research on the theory of modern warfare. He believes that the tank is a weapon combining what is needed on the offensive and on the defensive with the concentration of firepower, mobility and physical protection in one. The armored unit plays an ever important role in war. In modern warfare, a land force without a powerful armored unit as a main shock force can hardly win any large-scale war of annihilation.

Director Chen, who has been with the Armored Forces Department for more than 30 years, is unusually familiar with the course followed by China's armored force in its growth. He said: In November 1945, the Northeast Unit of the Chinese PLA captured in Shenyang a Japanese-made tank as the first tank of our army. The Chinese Communist Northeast Bureau [as published] immediately made the decision to establish the Northeast Tank Brigade. This tank was awarded the title of "hero" for its credible performance in the battle to storm Jinzhou and Tianjin. Now, this tank with a string of outstanding performances to its credit is put on display in the Chinese People's Revolutionary Military Museum.

In September 1950, China's armored force was set up as an independent arm. Well-known General Xu Guangda acted as its first commander.

For more than 30 years, China's armored force has become increasingly stronger. Especially since the army's streamlining and restructuring effort, the armored force has entered a new period of development in its buildup. The armored force has accounted for a great proportion in the army. In the mechanized group army, tank battalions and armored infantrymen's battalions have counted for a very great percentage of the total number of combat battalions.

China has jumped to third place in the world as far as the number of tanks is concerned. There has been an overall improvement in the combat technological performance of new-type main attack tanks. Ammunition technology and fire-control systems have reached given levels with a capacity to destroy enemy tanks with compound armor. A new protection structure has equipped China's tanks with the capacity to fight under nuclear conditions. NBC defense equipment with good performance has given the tank crew protection against nuclear, chemical, and biological attacks.

There has been an ever greater improvement in China's variety of tanks. There are amphibious tanks, bridging tanks, mine-sweeping tanks, and so forth. There are also armored personnel carriers, tracked self-propelled guns, anti-tank missile launching vehicles, and so forth. China's armored force has become an army unit with great power as a shock force and with a great capacity to survive in the battlefield.

Talking on the future of the armored force, Director Chen Benting said: There is a history of more than 70 years since tanks arrived on the scene of war. China's armored force has made a relatively late start. But development has been very rapid. China's tank production system has shown ever increasing perfection. Scientific research teams have become increasingly mature. With the development of science and technology and an increase in national financial and material resources, there will be more and better units equipped with tanks and armored cars, enabling China's army to continuously march forward in the direction of being mechanized and armored.

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CSO: 4005/862

DEMANDS OF NEW TECHNOLOGIES ON POLITICAL WORK

HK201554 Beijing JIEFANGJUN BAO in Chinese 7 Jul 87 p 3

[Article by Liu Fengtang (0491 7685 2768): "The Development of Military Technology and Trends of Ideological and Political Work"]

[Text] In the new period in which modernization construction is the central work, and under the present conditions in which military technology and equipment are undergoing rapid historical changes, how should we look at the relationship between the development of military technology and the trend in ideological and political work in the army?

First, the development of military technology has not changed the important position of ideological and political work.

In all wars, whether past or future, men and weaponry, technology, and equipment are always inseparable parts. Of course, modern weapons and technologies can be taken as the "extension" of human organs, and their functions are obviously superior to the functions performed by human bodies. For example, they are more powerful and can work for longer periods; they have much greater storage capacity for information; they can calculate speedily and accurately; and they fear no danger and can work more freely under different conditions. However, all these equipment advantages cannot exclude man's role in military activities. Equipment can only perform non-creative procedures through automatic facilities such as intelligent robots, and man is better able to concentrate on playing a creative and predicting role and acting with a high degree of flexibility and adaptability according to alterations in external conditions.

Some people say that any future war will be a "push-button" war, and man's role in such a conflict would be insignificant. This is just a misunderstanding. War is the continuation of politics, while political activities belong to the scope of human activities. In addition, weapons and technical equipment are all controlled by human beings to serve the purpose of war. Automatic weapons and equipment are also human creations. The more work man does, the higher the level of automation the weapons and equipment will reach, and the greater the probability of military actions, and it will be hard for equipment to bring everything under control by merely relying on ready-made programs. The war will require people involved in military activities to

better use their creative thinking so as to more effectively apply the properties of their weapons and equipment to defeat the enemy. So the future war will not only be a match between new weapons and technologies, but will also be a trial of strength in human intelligence and resourcefulness. At present, when competing with each other in developing high-tech weapons and equipment, the two superpowers have not neglected the cultivation of good morale in their armies. The Soviet military is studying ways to strengthen its party and political work among the troops; and the U.S. military is also studying ways to control the mentality and sentiments of its soldiers to tap the mental potential of the troops. Although the power and properties of weapons and military equipment will continue to develop, combatants in future wars will still be men who use weapons rather than weapons themselves. Therefore, the important position of political work in the army will never be shaken, and it will always be an effective guarantee for military work and all other work.

Second, the development of military technology brings about new changes in the army's ideological and political work.

With the modernization of the army and the development of military technology, the thinking and style of the troops will be more and more heavily influenced by military technology. The modernization of weapons and equipment requires the modernization of the armymen, and members of a modern army must have more ideas, scientific knowledge, military techniques, organization, command, and management ability. Modern weapons are mostly operated by collectives, so they require that soldiers have a higher team spirit and can act more accurately so as to cooperate in a high degree. In battles of modern warfare, victory is often a matter of minutes or even seconds. So the troops must be able to act and react more rapidly and flexibly. The increasing power of modern weapons has set higher demands on the mental, political, and psychological quality of military personnel. Only by understanding this tendency can we adapt our political quality to needs in the development of military technology.

The higher the degree military technology reaches, the more urgently it requires that military personnel attain a higher educational and professional level. Thus army ideological work will be more and more closely combined with military and technical work, and will be more and more complex. For example, the correctness or incorrectness of the guiding principle for technical and professional work, the right or wrong of some academic issues, technical responsibilities, and professional cooperation all reflect the direct combination of ideological work with technical work. Sometimes, even matters concerning people's material interests and treatment in daily life are also entangled with technical and professional work. To adapt the political work to the changes, we must increase the political cadres' scientific and technical knowledge and enable them to combine ideological and political work with military and technical work and closely link the settlement of ideological problems with the settlement of military and technical problems. Only thus can the political work guarantee the correct orientation of the

military, technical, and professional work and guarantee the best mental conditions of all commanders and soldiers in modernization construction.

The development of military technology also raises the degree of synchronization of political work and military and technical work. If an army unit has a higher degree of specification, its personnel will be divided into smaller groups in operation, and it is impossible to assign political cadres to all these small operational groups. Meanwhile, there will be fewer opportunities for concentrating a large number of troops in military actions and for independently carrying out ideological and political work. In these circumstances, the cultivation of a good mental and psychological quality, a good fighting style, a good state of discipline, and mental adaptability among the troops must be closely combined with military and technical training. That is, ideological and political work must be more effectively carried out together with military and technical work. In light of the conditions in modern warfare, the development of military technology requires the troops to have high-speed reaction ability, so political work must be coordinated with a high-speed military reaction ability. That is, political mobilization must be made simultaneously with the organization of military actions. When combat tasks are assigned to the troops, effective political mobilization must also be made. Political guidance and military commands should be given at the same time. When military orders are issued, the political requirements should also be laid down in concise language. This will increase the efficiency of both militia and political work, closely combine political work with military aims and guarantee rapid action from the troops.

Third, political work should be suited to the development trends of military technology.

1. We should establish the concept that military work and political work be integrated. The political work in our army is no longer a "commander" for the army's other work as the previous "leftist" guideline specified; instead, it now plays a role in "guaranteeing" and "serving" the army's other work. This is a great change. However, some comrades still regard the relationship between military work and political work as "mutual support," and they have not yet realized that the two parts should be combined into an integrated entity. According to the concept of integrating military work and political work, our political work should not only serve military and technical work and guarantee their fulfillment, but cadres responsible for military and technical work must also do ideological and political work which is not an additional burden for them but a duty they must perform. Only by replacing the concept of "mutual support" with the concept of "integration" can we effectively combine political work and military work into a joint force and thus ensure the high efficiency of our army building.

2. We should train more qualified commanders who are good at both military and political work. As military work and political work have increasingly close relations, the army will need a large number of cadres who are proficient at technical and professional work and are also good at doing ideological and political work. Therefore, when training all kinds of

military, technical, and professional cadres, we must require them to study and understand Marxist theory and know how to do ideological and political work. Military command work and administrative work also form a science of human management. A qualified military commander or a leader of a professional department should also be an expert in doing ideological and political work, otherwise he should not be regarded as a competent leading cadre.

3. We must pay close attention to the enhancement of the efficiency and results of political work. The development of military technology has these characteristics: The time taken by military activities is shortened, but the scope of military activities is expanded, and all actions require high speed and high efficiency. Political work must be suited to these characteristics and requirements, so it must achieve a higher work efficiency. The organizational forms and methods of political work must be suited to current conditions, and the contents of political work must be promptly adapted to the needs in changing military activities. Political work should become more effective in solving actual problems and preventing possible problems, and must not continue to follow the formalist practice of "big talk and empty talk." Political work not only should achieve higher immediate efficiency, but also must achieve good long-term results. We must lay a solid ideological foundation in the troops and strengthen basic political theoretical education among the troops. Only with the inspiration of the common ideal and a good sense of morality and discipline can we achieve the best immediate results in our political work.

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CSO: 4005/862

## MILITARY TOPOGRAPHERS SCORE ACHIEVEMENTS

HK131501 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0558 GMT 8 Jul 87

[Text] Beijing, 8 Jul (ZHONGGUO XINWEN SHE)--Zhang Guowei, deputy director of the topographic bureau of the PLA General Staff Headquarters, told ZHONGGUO XINWEN SHE reporters that China's topographic troops have already been developed from conventional topographic support for single service arms to the present comprehensive topographic support for combined arms units, and from traditional technological topographic support to modern and high-tech topographic support. The topographic troops are now able to provide precise topographic coordinates for guided missiles and the launching of satellites and are able to make a precise survey of high-speed satellite orbits and the point of a missile's fall on the sea.

The topographic troops are already equipped with automated photoelectric astronomical tracking transits, long- and short-range electromagnetic wave range finders, high precision gravity meters, micro-controlled aviation cameras, high precision and all-purpose mapping cameras, auto-recording stereoscopic coordinate surveying instruments, electrostatic printing vehicles for field operations, and other advanced equipment. At the same time, land surveying and camera surveying instruments for satellites have also basically been completed.

Over the past more than 30 years since the topographic troops were established, they have played an important role of topographic support in China's national defense and economic construction. Deputy Director Zhang Guowei told the reporters about some main achievements of the topographic troops.

-- On China's vast land, they have completed deploying a high precision control net. They have deployed a large geodetic control net composed of more than 200,000 triangular points and smoothly fulfilled the task of adjusting the national astronomical geodetic control net comprising more than 50,000 first-grade and second-grade triangular points.

-- They have put an end to the history of lacking a unified coordinate topographic map of China. On the vast land of more than 9.6 million square km, they have fulfilled the task of drawing and publishing a nationwide topographic map by means of modern aerophotographic technology, except for

Taiwan Province and some islands in the South China Sea, thus satisfying the basic needs of China's national defense and economic construction.

-- They have successfully fulfilled the task of topographic support for the development of China's space technology and provided relevant precision data for launching man-made satellites and missile tests.

-- With the assistance of local topographic personnel, they have accurately measured the height of the world's highest peak, Mount Everest. They have also revealed for the first time the secrets of the source of the Changjiang and proved that the Changjiang is 6,300 km long, the third longest river in the world.

-- They have completed a basic nautical survey on China's off-shore continental shelves and made route markings and published nautical charts for various warships of the Chinese Navy and other ships as well.

-- Their aerial photography planes have flown over all provinces, municipalities, and autonomous regions except Taiwan, and aerial photos have been taken for an area of more than 9 million square km. At the same time, all kinds of charts have been made and published.

-- They have fulfilled some tasks of boundary survey and joint examination with neighboring countries and have provided topographic support for the Army both in wartime and in peacetime for coordinated fighting and quick response training.

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PLA ACADEMY OF MILITARY SCIENCE DESCRIBED

HK150915 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0213 GMT Jul 87

[Article by correspondent Li Wei (2621 0251)]

[Text] Beijing, 14 Jul (ZHONGGUO XINWEN SHE)--"Our academy has made constructive proposals for the major reform of streamlining and reorganizing the Chinese Army. The results of our study of questions such as defensive operations in the Laoshan area, the military cadre system, and military management have attracted the close attention of and won favorable comments from the departments concerned," said Zheng Wenhan, president of the PLA Academy of Military Science, to this reporter.

This third president of the academy, who worked at the side of the late Marshal Peng Dehuai, has great attainments in military dialectics.

As the Army's top military academic research institute under the direct leadership of the Central Military Commission, the Academy of Military Science undertakes the tasks to provide the Military Commission and general departments with strategic proposals and consultation for decisionmaking and to recommend materials of value to the leadership of the Military Commission and the headquarters for reference use. It is the aide of the Central Military Commission and the headquarters in directing the building of the Chinese Army from the perspective of military theory.

This role as an aide appears more important and pronounced in the new current domestic and international situation. For this reason, the academy has strengthened the study of the major current topic of national defense development strategy, sponsored a series of symposiums, including the symposium on China's national defense strategy and systems engineering for the year 2000, and written dozens of research reports and special-topic materials concerning national defense development strategy.

The 3d Plenary Session of the 11th CPC Central Committee has enabled the research work of the Academy of Military Science to enter a new stage of vigorous development. In the last 8 years or so, the academy has made 2,340-odd scientific research achievements, of which some 460 have been published in book form; established 9 simulated models of military operations, basically forming a whole set of models of campaign tactics; created 11

special-topic models for army headquarters and relevant units to make analyses and deliberations; and written over 1,500 research papers of various kinds.

As the saying goes, military orders cannot be disobeyed. The numerous military manuals issued by organs of the supreme command are basically formulated by the Academy of Military Science. The academy has in recent years successively compiled various manuals and regulations indispensable to our efforts to build the Army into a regular one, such as "Combat Action Orders," "Battlefield Service Orders," and "Regulations Concerning the Headquarters' Work," and the new "combat manuals," which are applied in military units below the army level, as well as the theoretical book "Essentials of Operational [zhanyi 2069 1763] Science of Campaigns," a must for military officers.

Wang Chenghan, political commissar of the academy who took part in the 25,000-li Long March, told this reporter that facing modernization, the world, and the future and carrying out outward-oriented research is one of the major reforms introduced in recent years by the academy. In the last few years, the academy's foreign army department, which is specialized in studying international military science, published various scientific treatises totaling over 60 million characters. The new situations and developments of foreign military scientific research and new foreign military views and ideas introduced by the department have enlivened and broadened the thinking and field of vision of the Chinese military scientific researchers. Some consultation provided by the department to the supreme command and departments concerned on the national defense construction of major countries in the world and on the question of world peace and security has been affirmed by senior military leaders.

Under the Academy of Military Science there are strategy, operations, tactics, military establishments, foreign army, and military history research departments as well as the operations analysis research institute, where computers are used to compare optimum battle plans, the Mao Zedong Military Thought Research Institute, the Military Political Work Research Institute, and the office for reading and editing the military encyclopedia.

The academy has some 1,000 researchers who were in general enrolled from among commanding officers with rich combat experience, teachers of military academies, technical personnel of local research units, and graduates or postgraduates from military academies and local universities and colleges. Apart from the research topics assigned by organs of the supreme command, most research topics are decided by the academy itself.

The courtyard of the Academy of Military Science, which is not far from and northwest of Beijing's Yuheyuan, is very tranquil, but in every office researchers are busy either summing up the experiences and lessons and laws of wars, ancient and modern, and in all countries, exploring the ways future wars are to be fought and what defense development strategy China should have, or studying more scientific military establishments and management methods for

the Chinese Army.... Here there is no gunpowder smoke but there is indeed a battlefield, a battlefield without gunpowder smoke.

The Academy of Military Science was established in 1958, with Marshal Ye Jianying as its first president. It was in his residence at this courtyard that the heart of this veteran soldier who devoted all his life to the Chinese revolutionary cause stopped beating.

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CSO: 4005/862

PROGRESS OF CHINESE NAVAL EQUIPMENT

HK141427 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0414 GMT 11 Jul 87

[Article by Li Wei (2621 0251)]

[Text] Beijing, 11 Jul (ZHONGGUO XINWEN SHE)--Various arms of the Chinese Navy have now acquired the ability to attack with missiles, thereby putting an end to the situation in which it used mainly guns, torpedoes, and bombs for attacks and shifting its combat effectiveness from inshore defense 7 or 8 years ago toward offshore defense.

It has been reported that over the last 7 or 8 years, the Chinese Navy has made much progress in equipping itself. This progress is mainly as follows:

- It has gained a number of large naval vessels, including medium-sized and larger submarines and nuclear submarines;
- It has improved its automation, such as the basic automation of the weapon system for searching and tracking targets, of firepower emplacement, and of the control of weapons after firing;
- It has manufactured electronics equipment that is referred to as a "non-lethal weapon" by foreign countries. An indispensable means in modern war, this equipment, the development of which began in the 1970's, is used to obstruct enemy attacks and protect ourselves;
- It has equipped its main naval vessels with missiles. It has equipped these vessels with ship-to-ship missiles and is beginning to equip them with surface-to-air missiles, and its new destroyers and escort vessels will be equipped with an operational command system;
- It has equipped its main submarines with advanced torpedoes. It also possesses remote-control mines to blockade a gulf, strait, or channel for the purpose of dealing blows at large- and medium-sized naval vessels;
- It has manufactured bombers equipped with missiles for long-range attacks on enemy vessels, and it is also equipping itself with seaplanes;

--It has evolved technology for providing various supplies laterally and horizontally for naval vessels far out at sea. This indicates that the navy has proved its ability to make a continuous voyage and defend itself.

All this suggests that the 3d Plenary Session of the 11th CPC Central Committee held in 1978 has injected powerful vitality into China's naval equipment construction. Although the amount of advanced equipment the Chinese Navy now possesses is limited, a new turn for the better has taken place in the use of equipment, technology, and tactics. This shows the equipment of the Chinese Navy will undergo a structural change.

The Chinese Navy has traversed a tortuous path from importing and imitating foreign equipment to designing and manufacturing its own equipment. Now the equipment of the five arms of the Chinese Navy such as the submarine corps, the naval vessel corps, the airborne forces, the coastal defense forces, and the marine corps is designed and made by China. In particular, the new equipment delivered to the Navy in recent years can basically guarantee the needs for sea patrols, for escorting fishing and navigation, and for carrying out combat training. It has also helped fulfill major tasks including experiments to launch rockets from a submarine and launching synchronous communication satellites, conducting patrols at the Nansha Islands, conducting surveys at the South Pole, visiting South Asian nations, and carrying out long-distance navigation training.

The scientific research personnel of the Chinese Navy have in recent years completed some 6,000 scientific innovation projects. In coordination with the state's industrial and scientific research departments, they have helped improve the equipment of the Navy.

Shooting range experiments are an important means for testing and assessing new weapons. The Navy has started the construction of firing ranges, and it can now carry out over a hundred types of experiments instead of one, thereby forming a comprehensive experiment system spanning the land, sea, air, and deep waters.

Zheng Ming, director of the Chinese naval equipment and technology department specially in charge of the construction of naval equipment, told the reporters that the purpose of the improvement of the Chinese Navy's equipment is utterly for defense. Although the Navy has made certain achievements in improving its weapons and equipment, it is still behind advanced world levels. To narrow the distance, the Navy must go a long way.

This director, who is full of spirit and well versed in English, has been engaged in naval equipment construction for over 30 years. He also stressed that under the prerequisite of persisting in self-reliance, efforts should be made to introduce advanced technology from abroad, to train and exchange talented people, and to promote the renewal of naval equipment, with the aim of strengthening the Navy's defense capability in the air, on the sea, under the sea, and along the coasts of islands, thereby defending China's maritime rights and territorial integrity.

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MILITARY, PUBLIC SECURITY

PEOPLE'S ARMED POLICE COMMANDER INTERVIEWED

HK140927 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0823 GMT 10 Jul 87

[Article by Li Chun (2621 2504) and Tian Huiming (3944 1920 2494)]

[Text] Beijing, 10 Jul (ZHONGGUO XINWEN SHE)--The People's Armed Police of China has trained a contingent of officers and soldiers who are good at making attacks and skillful in battle. This contingent is equipped with advanced weapons, modern communications, and monitoring equipment, as well as various types of vehicles to counter violence. It has been playing an increasingly important role in maintaining public security.

Li Lianxiu, commander of the PAP, gave the reporters a special interview in his office today.

A native of Shandong, this 63-year-old commander is straightforward. He became a soldier at the age of 16. He fought many battles, from the northeast battlefields to Zhennanguan near the Sino-Vietnamese border. He was promoted to army commander step by step from squad leader and platoon leader. He was in the first group of cadets to enter the Nanjing Military Academy in 1950--the highest military academy in the country. In 1978, he took up the post of commander of an army in the Beijing Military Region, under the arrangement of the Central Military Commission, this army formed the first mechanized group army in China. In 1985, Li Lianxiu was transferred to his current post.

"In the past, being army commander, it could still be said that I knew much about military exercises and combined military training. Now, some people make fun of me by saying that I have become a policeman in the Pacific--guarding leaders, maintaining the security of foreign guests, carrying out frontier patrols, cracking down on smugglers at sea, making arrests, capturing spies, watching and escorting prisoners, and safeguarding bridges and tunnels.... It can be said that soldiers of the PAP can be seen everywhere and at any moment, on the land, on the sea, in the air, during the day, and at night."

"As army commander, I stressed every day in the past the point of maintaining an army for a thousand days to use it for an hour; but now maintaining an army for a thousand days is to use it for a thousand days. The officers and soldiers of the PAP are engaged in combat at any moment...."

This army commander, who has led a military life for 47 years, likes to make a comparison between the field army and the PAP.

The armed public security force of China began to be formed during the establishment of the Red Army in the 1930's. Its main task at that time was to guard leaders, ferret out traitors, and eliminate spies. The Chinese people's central public security column was set up in 1949, and was subsequently changed to the public security army. The name was changed nine times. In 1982, the People's Armed Police was organized and formally established. As NPC Standing Committee Chairman Peng Zhen said, it is a force performing special duties, so it must have special equipment and undergo special training.

Commander Li said that opening up to the world and reforms necessitated the formation and establishment of the PAP. In the course of introducing advanced technology from abroad, decadent ideas and culture as well as some vicious social phenomena have arisen; some reactionary forces, secret social organizations, international criminal groups, and terrorist forces keep infiltrating from abroad and outside China. As more foreigners and Hong Kong and Macao compatriots have come to China, cases involving them have also increased. Therefore, safeguarding the four modernizations drive and the results of opening up to the world and reforms is the sacred task of the PAP.

The reporters asked: "As an armed force performing special duties, how does it ensure absolute safety for our state leaders, foreign state leaders who visit our country, and foreign embassies and consulates in China?"

Commander Li laughed and said: "This is classified, and I cannot make too many comments. But I can say that on this matter, we have strict organization, meticulous plans, and the ability to handle eventualities of violence and crimes. As in fighting a war, we have a complete battle plan. Every officer and soldier of the PAP responsible for these special tasks is absolutely reliable politically. Every one of them has acquired masterly skills, is good at unarmed combat, and can shoot with great precision. They have quick responses and independent judgment and can fight on their own. The PAP carries out over 10,000 security tasks a year, and no pernicious accidents such as assassinations or explosions have ever occurred. It has done its best in keeping everything safe."

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TAIWAN

FOREIGN EXCHANGE CONTROLS 'GREATLY EASED'

OW160323 Taipei CNA in English 0233 GMT 16 Jul 87

[Text] Taipei, 16 Jul (CNA)--The nation's foreign exchange controls, in effect for more than 30 years, were greatly eased beginning Wednesday.

Under the new forex control policy, each person is allowed to remit U.S. dollar 5 million out of this country every year; any company or individual over 20 years of age is allowed to remit U.S. dollar 50,000 into the country each year. However, people or companies are allowed to remit more into or out of this country after obtaining the approval of the Central Bank of China [CBC] if the remittance is for investment purposes.

A CBC official said that since the nation's forex reserve total has reached U.S. dollar 61 billion, the forex controls are not likely to be tightened again unless the international situation changes drastically.

Yeh Wan-an, vice chairman of the Council for Economic Planning and Development, said that the government will follow the examples of some advanced nations in restricting the inflow of speculative funds from abroad.

Yeh said that to prevent foreign speculative money from endangering local monetary stability, the United States, Japan, Britain, France, Belgium, Italy, Switzerland, and Holland have imposed certain restrictions on the inflow of hot money.

The restrictions taken by those countries include limiting the amount of local banks' foreign debts, limiting bank interest rates paid to non-resident depositor and levying income taxes in advance on such depositors' interest income.

The measures the ROC [Republic of China] will take include limiting local banks or individuals from borrowing money from abroad and limiting the amount of foreign funds that can be deposited in local banks, Yeh said.

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## COMMENTARY LAUDS LIFTING OF EXCHANGE CONTROLS

OW150915 Taipei International Service in English 0200 GMT 15 Jul 87

[Station commentary: "A Freer Foreign Exchange Policy"]

[Text] The year 1987 continues to chalk up red letter dates in the social, economic, and political development of the Republic of China on Taiwan. Indeed, liberalization is occurring in almost every facet of this prosperous island society, moving Free China closer toward its goal of entering the 21st century in the ranks of developed nations.

Tomorrow, the liberalization trend takes a giant leap forward with the end of controls on foreign currency exchange. In place since 1949, the controls have apparently outlived their usefulness in an age of plenty in the ROC on Taiwan.

Although citing the need for the lifting of the exchange controls, ROC economic officials are quick to point out that the controls have played an important role in the economic development of Taiwan. They were intended to help maintain orderly economic growth while encouraging investment at home to fuel that growth. The mainstay of the controls has been the requirement of exporters to turn their foreign currency earnings over to the government in exchange for the local currency.

But the export boom over the years, and the prosperity that has emerged as a result, have created new and different problems. For starters, the ROC on Taiwan is awash in foreign currency reserves, ranking second in the world in this financial category behind Japan. The ROC's reserves now amount to more than U.S. \$62 billion. The huge foreign reserves have not only led to an overflow of new Taiwan dollars at home, but have also served as an alarm to politicians in the United States that the ROC's trade surplus with the United States is getting out of hand. The foreign currency reserves are, after all, in large part a result of the ROC's merchandise trade surplus with the United States.

With pressure to do something about the reserves building both at home and abroad, the ROC Government decided it was time to end the conservative policies of the past and liberalize for the present and future health of the economy.

Starting tomorrow, ROC companies and individual citizens will be able to buy and use the equivalent of up to U.S. \$5 million. The previous allowable amount was only 5,000, which made it very difficult for ROC citizens to invest abroad. Moreover, the government has decided to permit ROC citizens to invest the money abroad in any way they choose. In the past, they could purchase foreign bonds, certificates of deposit and treasury bills, but not stocks. Now they are free to hold stocks as well.

While the outflow of capital is to be drastically liberalized, the inflow of foreign currency will still be tightly controlled on a temporary basis. The government is concerned that speculative money from abroad will pour into the nation as long as the new Taiwan dollar continues to appreciate against the U.S. greenback. To forestall such speculation, the government has decided to permit citizens and companies to receive no more than U.S. \$50,000 per year in remittances from abroad.

The lifting of the foreign currency exchange controls should help to alleviate the growth of the nation's foreign reserves, which are already bursting at the seams. It is a move that is also welcomed by the public, which is anxious to enjoy the monetary freedoms. A new financial era is on the horizon in the Republic of China on Taiwan.

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TAIWAN

FINANCE MINISTRY ANNOUNCES TARIFF REDUCTIONS

OW131007 Taipei CNA in English 0940 GMT 13 Jul 87

[Text] Taipei, 13 Jul (CNA)--The Finance Ministry, in an effort to encourage imports, will reduce tariffs on some 200 agricultural and fishery items in the upcoming revision of tariff rates.

To be included in this reduction are tariffs on candies, biscuits, herb medicine, and other consumer products.

Officials of the ministry said agricultural and fishery products have been treated as sacred cons in past tariff reductions. Tariffs on these items were lowered only at the request of foreign governments.

Starting this year, they said, except for agricultural products that are produced here, tariffs on all imported items will be drastically lowered.

Besides tariffs on some 40 agricultural items that were lowered on a temporary basis early this year, the ministry will reduce tariffs on beverages, baby food, pastries, candies, and agricultural items that are currently levied at 40 percent to 50 percent. The tariff rates will be lowered by at least 10 percent.

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CSO: 4020/245

TAIWAN

STATE CORPORATIONS EARN RECORD PROFITS

OW140331 Taipei CNA in English 0300 GMT 14 Jul 87

[Text] Taipei, 14 Jul (CNA)--The 10 national corporations under the Ministry of Economic Affairs [MOEA] earned a record NT \$93 billion in profits in fiscal 1987 ending on 30 June, according to a preliminary estimate by the ministry. An MOEA official said Monday that the total earnings of the 10 state-run firms are two times more than the anticipated revenues of NT \$45.2 billion for fiscal 1987.

Most of the windfall revenues came from four companies--the Chinese Petroleum Co., the Taiwan Power Co., the China Steel Corp., and the China Petrochemical Development Corp. The other five companies--the Taiwan Fertilizer Co., the Taiwan Sugar Corp., the Taiwan Salt Works, the Taiwan Machinery Manufacturing Corp., the official said. The Chinese Shipbuilding Corp. remained the biggest money loser in fiscal 1987 with a deficit expected to exceed NT \$3 billion. The official attributed the more-than-expected revenues to the booming economy, the improved management of the state-run companies, the appreciation of the new Taiwan dollar and the fall of interest rates.

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TAIWAN

PLANNING OFFICIAL SAYS TRADE SURPLUS TO REVERSE

OW152015 Taipei CNA in English 1543 GMT 15 Jul 87

[Text] Taipei, 15 Jul (CNA)--The Republic of China's foreign trade surplus in the second quarter of 1987 was still up from the first quarter, but the pace of its growth had slowed down, indicating that the anticipated effect of the appreciation of the new Taiwan dollar has started to appear.

Yeh Wan-an, vice chairman of the Council for Economic Planning and Development, Wednesday estimated that the ROC's trade surplus would plummet and even show a negative growth in the second half of this year.

According to the CEPD tally, the nation's trade surplus in the first quarter stood at U.S. dlr 4.2 billion, up 38.2 percent from U.S. dlr 3 billion of the same period of 1986; the surplus in the second quarter increased from U.S. dlr 3.8 billion to U.S. dlr 4.9 billion, an increase of 29.2 percent.

Meanwhile, in its first quarter trade with the U.S., the ROC still maintained a hefty U.S. dlr 3.6 billion surplus, up 30.2 percent from U.S. dlr 2.7 billion a year ago; in its second quarter trade with the U.S., the ROC had a U.S. dlr 4.3 billion surplus, up 27.6 percent from U.S. dlr 3.3 billion a year ago.

Citing the figures, Yeh said that the result of the NT's appreciation against the greenback, which has made ROC-made products more expensive abroad and less competitive, has begun to emerge. The NT dollar has risen 28.5 percent against the U.S. dollar since 20 September 1985, when the five leading industrialized countries started to intervene to cut short the greenback value.

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CSO: 4020/245

TAIWAN

TAIWAN, INDONESIA TO EXPAND FISHERY COOPERATION

OW132124 Taipei CNA in English 1519 GMT 13 Jul 87

[Text] Kaohsiung, southern Taiwan, 13 Jul (CNA)--The fishery industries of the Republic of China [ROC] and Indonesia have agreed to expand their cooperation, as a joint venture between them entered the second year.

Briefing local fishing vessel owners on the matter, Wu Cheng-hsiung, president of the Kaohsiun Fishing Vessels Association, said his association and Indonesia's YMTK Co. had signed an agreement on behalf of both sides last Thursday. The agreement will become effective after receiving government approval.

Under the agreement, ROC fishing vessels will be allowed to operate in larger regions of Indonesia's 200-mile economic zone, including waters in the Celebes Sea, the Kalmantan Straits, and the southern part of the South China Sea.

In addition, Indonesia has agreed to permit ROC fish-catch carriers to operate in its waters and promised to establish supply and maintenance bases to facilitate the joint venture.

Wu said 215 ROC fishing vessels are permitted to catch fish in the Arafura Sea south of Indonesia this year. The Kaohsiung Fishing Vessels Association, he added, will continue its negotiations with the Indonesian side to seek the opening of fishing zones north of Indonesia to ROC fishing boats under 100 tons.

The ROC and Indonesian fishery industries began their cooperative project in May 1986. By the end of June this year, 200 ROC fishing vessels were permitted to operate in the Indonesian fishing zone under the joint venture, bringing in a total catch of 32,800 metric tons.

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