

PRS-CAR-90-008
1 JANUARY 1990



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SPRINGFIELD, VA. 22161

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JPRS-CAR-90-008

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SUB-SAHARAN AFRICA

China Promotes Teaching of Mandarin

90EF0187A Port Louis LE MAURICIEN in French
9 Jan 90 p 4

[Article by Harish Chundunsing: "Sino-Mauritian Agreement—A New Impetus to Teaching of Mandarin"; first two paragraphs are LE MAURICIEN introduction]

[Text] The teaching of Mandarin is destined to expand rapidly in the months to come.

In fact, the Chinese Government has decided to send two more teachers to support the two teachers already at work, currently assigned to the Mahatma Gandhi Institute.

Furthermore, China will place two scholarships at the disposition of the Mauritian Ministry of Education for the training of Mauritian teachers in Mandarin.

The Chinese Government will also make a gift of teaching materials for the promotion of Mandarin.

These decisions were approved in December during a working session that a delegation from the Chinese education commission had with officials of the Mauritian Education Ministry last December. The five-member Chinese delegation was headed by Mr. Li Shunxing, deputy director of the department of international cooperation.

NATIONAL AFFAIRS, POLICY

Problems of Pilot Shareholding Enterprises Discussed

90OH0153A Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 5, 28 Sep 89 pp 43-46

[Report prepared by Sichuan's Seventh 5-Year Plan Key Research Project Shareholding System Study Group, written by Chen Yongzhong (7115 3057 1813), assistant researcher, Institute for Restructuring of Economic System, Sichuan Provincial Academy of Social Sciences]

[Text] *Upon studying some pilot shareholding enterprises, the author has discovered that the "one enterprise, three systems"-form of shareholding system practiced in many localities is seriously flawed, that it tends to be closed and restrictive, and that it does not share the merit of a shareholding system, which invites public participation in investments. The system needs to be overhauled. The key to the overhauling process lies in changing the "one enterprise, three systems"-enterprises' dividend distribution and organization structures, so that enterprises are open to investments, there is free circulation of funds, complete separation of ownership and management rights, and the state only has an indirect role in enterprise management.*

I. Problems Facing the Large- and Medium-sized State-owned Pilot Shareholding Enterprises

In recent years, some provinces and cities in China have selected a handful of large- and medium-sized state-owned enterprises to pilot the shareholding system. This constitutes the first and the most important step toward reform of the ownership system. We must not underestimate its significance. It is necessary for us to experiment with the "one enterprise, three systems"-form of shareholding system at first, and we have had remarkable success. But because the experiments are conducted under unfavorable external conditions, for example, there is inflation, the market is underdeveloped, the state's financial restraints are rigid, and society is psychologically intolerant, the pilot shareholding enterprises are left to fend for themselves and are often in a sorry plight.

Under these adverse conditions, the pilot enterprises are forced to adopt the "one enterprise, three systems" (state shares, enterprise shares, and individual workers' shares)-form of asset structure and a very peculiar dividend distribution method. The state's shares are considered start-up investments and are preferred stocks in nature. Regardless of whether the enterprise is making a profit or not, the state shares' earnings are guaranteed (in an amount equal to 55 percent income tax,) and the state does not shoulder any operating risks. Enterprise shares are created through investing enterprises' own funds and are similar to venture stocks in nature. Whether the enterprise shares receive any or how much dividends

depend entirely on the enterprise's business performance. They bear all the risks. Individual workers' shares are issued by enterprises for purchase by their own workers according to their own rules. They are guaranteed to pay interests plus dividends. The interest rate is basically the same as the bank deposit rate, and dividends vary with enterprise profitability. The intended purposes of trying the shareholding system are, one, to gather funds; two, to promote the growth of markets for essential elements and facilitate the circulation of key factors of production; three, to sever the administrative ties between the state and enterprises by creating more than one owner of properties and to find ways to restructure the state-ownership system and management practices. But in the experimental process, we have gradually discovered that this form of shareholding system and its dividend distribution method and organization structure contradict our intended purposes, exposing the following serious flaws and problems:

First, the state shares are frozen, and state-owned assets not only have not appreciated but have lost value over the years. The so called state's preferred stocks bear no risks and are in fact payment for state assets. Pilot enterprises in Shenyang have specified that state shares are excluded from dividend distribution; only enterprise and individual workers' shares are paid dividends. This is because, according to the second step of "substitution of taxes for profit delivery," after enterprises hand over their 55 percent income tax and other taxes, all remaining profits belong to them, to be used as they see fit; if the state's shares are paid dividends, the state would be taking away enterprises' retained profit. Pilot shareholding enterprises in Sichuan have cut the required 55 percent income tax to 35 percent, and the difference is converted into dividends, which is based on a fixed rate and is payable to the state. For example, Zigong Cast Steel Plant pays a fixed six percent dividends, which equals the differential after reducing its income tax from 55 percent to 35 percent. To the individual enterprises, the state's shares are paid a fixed rate of dividends, which is based on the net value of fixed assets, and so the state shares' dividends are in fact fixed-rate payments for state-owned assets. This is the essential difference between this kind of dividends and true dividends. Shenyang's pilot shareholding enterprises have opted for no tax reduction and no dividend payment while Sichuan has opted for tax reduction with dividends. The two practices may be different in form but are the same in essence. They guarantee the state's 55 percent income tax revenue and do not require the state to bear any business risks, nor do they pay dividends according to the real shareholding system. Under these conditions, state-owned fixed assets are in fact frozen. If the state does not make other investments on its own, the proportion of state-owned shares will drop steadily and state revenues too will also decline and cannot be sustained at the 55 percent rate. State preferred stocks are created to meet the state's inflexible financial needs, but the result has turned out to be just the opposite of what we hope for. The state shares are frozen and state-owned

assets do not appreciate in value. Thus, the state's shares are not preferred stocks in the true sense. This kind of frozen preference is detrimental to the state. Because the state's shares are not stocks in the real sense, as enterprises increase their shareholding each year, state-owned assets will shrink relative to enterprises' total assets.

Second, because enterprise shares bear all the operating risks, they tend to be closed and restrictive and do not attract public money and outside investments, nor do they promote good circulation of funds or sound industrial structure. The purpose of creating enterprise venture stocks is to give recognition to enterprises' independent economic performance and to let enterprises operate independently and take responsibility for their own profits and losses. But because enterprise stocks have to bear all operating risks, they are no longer a form of enterprise investment. According to the general principle of the shareholding system, enterprise shares should receive dividends based on the size of shareholding and in turn should be assigned limited liability for losses. But today, enterprise shares neither receive the amount of dividends equal to the size of their holding nor are they assigned limited liability for losses. Instead, the two ends are guaranteed; that is, after paying out the state's fixed-rate earnings (in essence, payment for assets) and the workers' guaranteed interests and dividends, enterprises retain what is left, and enterprise shares must also take care of losses incurred after those two guaranteed payments are dispersed. Under the circumstances, what enterprise shares receive is not dividends but enterprise retained profit after deducting state and workers' earnings. The size of enterprises' shareholdings no longer matters. Enterprises bear all the operating risks both as owners of enterprise assets and as managers. This is this system's advantage over the old system but is also the drawback which prevents it from becoming a bona fide shareholding system. Because enterprise shares have lost their quality as stocks, they have also lost their openness and ability to attract funds in society. Instead, they have become closed and restrictive. Enterprises have no impulse and lack the mechanisms to attract outside money. Profit-seeking enterprises worry that outside investors will take away their dividends, and so even though funds are in short supply, they would rather borrow money to sustain operation than let outsiders buy their stocks. It is not surprising that there is no provision under the "one enterprise, three systems" format for distributing dividends to outside investors. Clearly, unlike state shares, outside enterprise shares cannot possibly just receive payment for assets, because the payout ratio for assets is far below the bank interest rate, and at that rate, outside investors will be better off putting their money in the bank. Nor can these outside enterprise shares bear full operating risks like regular enterprise shares and give up their identity as stocks in the real sense. Thus, no enterprise will invest in enterprises adopting this "one enterprise, three systems" format. A real shareholding system has a unique mechanism to encourage public participation in investments. It uses the simplest method to gather the most

funds in society and put them to use in business operations. But the shareholding system of "one enterprise, three systems" does not possess this mechanism. Rejecting society's funds, obstructing the proper flow of funds, and locking up the shares within the individual enterprises—these are the biggest drawbacks of the "one enterprise, three systems"-form of shareholding system.

Third, individual workers' shares are guaranteed interests and dividends, but circulation is poor, and they are unattractive. The guaranteed-interest portion of the individual workers' shares pays a rate comparable to bank interest rate, and the dividends depend largely on the enterprises' business performance. The sum of interests and dividends is equal to, or slightly less than, enterprises' profit to investment ratio. Even if those enterprises are poorly managed and there are no dividends to be paid, the guaranteed interest portion, which equals bank interest rate, is calculated as a part of the cost and is guaranteed. As a result, the individual workers in fact do not have to bear any risks. Despite this, these shares are still not attractive. Few workers are willing to purchase them on an individual basis. In Sichuan, the majority of the 10 advance reform enterprises report that personal stocks are not selling. Some, such as the Neijiang Cotton Mill, have decided not to bother with personal stocks. The reasons personal stocks have not found acceptance are: 1) The workers are uninformed about the shareholding system. They do not understand the difference between stocks and bonds. They think that they would lose money unless the stocks are retired and the principal paid back. Thus, most workers would rather buy bonds than stocks. 2) In the absence of a stock market, stocks cannot circulate. If a worker needs money, he cannot cash in his stocks immediately. This is another important reason why workers are unwilling to buy stocks. 3) In the face of inflation and devaluation of the currency, the workers would rather buy goods with their money on hand than buy stocks. 4) After the banks raised their interest rates, especially since they began offering inflation-proof savings, the interests plus dividends paid out by stocks are no more, or may even be less, than the interest the banks pay on inflation-proof savings. Thus the workers would rather put their money in risk-free bank accounts than purchase stocks. For these reasons, when enterprises issue individual workers' shares, they must rely on pep talks and coercive or other persuasive tactics. For example, they may require the plant supervisors, midlevel cadres, staff, and workers to buy their allotted number of shares (responsibility shares); or for every 10 shares purchased, the purchaser receives one bonus share, or can buy an extra share at 80 percent of face value (privileged shares); or they hand out retroactive bonus for stock purchases (cadre shares.) Enterprises worry that if outsiders buy their stocks, they would rob them of their dividends, and so individual workers' shares are not issued to the public. This makes the individual workers' shares closed and restrictive, and they no longer function to gather funds from individuals in society. Even if stocks are issued to the public, under the existing guaranteed interests and dividends method,

they are not attractive to the enterprises' own workers, and so they must be even less attractive to the public who have cash on hand.

Fourth, as long as ownership rights and management rights are not truly separated, the relationship between the state and enterprises will remain tangled. The purpose of promoting the shareholding system is to truly separate ownership rights and management rights. The idea is to let the board of directors represent the shareholders' property rights and let the manager, who is hired by the board, manage and run the business independently and autonomously. The shareholders have stock rights and receive dividends according to the size of their holdings, but they cannot take part in enterprise decisionmaking and management directly. This is what separates ownership and management rights. But the "one enterprise, three systems"-form of shareholding system miscarries this intention and does not really separate ownership and management rights. Under that form of shareholding system, whoever—the enterprise management department, the financial department, or the state-owned asset management department—represents the state's shares on the board of directors will inevitably play the lead role as chairman of the board; whoever—the plant manager, chairman of the labor union, or chairman of the workers' congress—represents the enterprise shares will play the role of vice chairman of the board; the individual workers' shares will be represented by someone elected by the entire staff of workers and will be an ordinary board member and play a subordinate role. This kind of board of directors can be found in a regular state-owned enterprise too. It in fact is little more than a state agency, and the enterprise manager becomes a state appointee. The manager responsibility system under this kind of board of directors is essentially no different from the plant manager responsibility system practiced in the state-owned enterprises. This board of directors does not represent the property rights of the shareholders, and there can be no separation of ownership and management rights under its leadership. The state still controls the enterprise via the board of directors, and the relationship between the state and enterprises is still tangled, and a new relationship based on the principle of separate functions of government and enterprises still cannot be formed.

In short, the large- and medium-sized state-owned enterprises experimenting with the shareholding system in the "one enterprise, three systems" model at the present time are encountering insurmountable problems: The state shares and enterprise shares are stocks in name and not stocks in fact (demonstrating that they are but nominal stocks only); the main purpose of promoting the shareholding system is to gather funds in society and encourage public participation in investments and promote good fund circulation, but the "one enterprise, three systems"-form of shareholding system is characteristically closed and restrictive, which obstructs public participation in investments and the proper flow of funds; the shareholding system should facilitate the true

separation of ownership and management rights, but the "one enterprise, three systems"-form of shareholding system does not. "With this format, the existing amount [of assets] which is disorganized (the original all-people's assets,) plus an incremental amount which is ill-defined (ownership of enterprise shares has not yet been defined; so far, they are listed separately in the accounting book and are in essence state-owned assets), plus a newly added amount, which is clearly defined (individual contributions), form a novel and peculiar structure." With this ill-defined and confusing property rights structure, the state is unable to increase its revenues, enterprises must worry about the risks they have to take, and the staff and workers are unwilling to buy stocks. All parties are dissatisfied, and it not only fails to mobilize the enthusiasm of the state, enterprises, or the workers, but also prevents the shareholding system from functioning to gather funds in society. Because of all these problems, the pilot shareholding enterprises are caught in a dilemma. What can they do to extricate themselves from their predicament? This is one of the toughest questions in the thorough reform of the enterprise system.

In addition, the dividend distribution method of the "one enterprise, three systems"-form of shareholding system is also caught in a dilemma. If we assume that a certain enterprise has 100 units of stock assets, of which, 70 units are state shares, 27 units are enterprise shares, and three units are individual workers' shares. If that enterprise's profit to investment ratio is 20 percent, that is, if 20 units are realized profit, then, under Sichuan's pilot enterprises' "one enterprise, three systems"-form of shareholding system, dividends will be distributed in the following way: 1) 35 percent of the realized profit will be turned over to the higher authorities as income tax; 2) using state-owned assets as base, dividends are paid out to the state based on a payout rate derived from the difference between the 35 and 55 percent income tax rates, and in this example, the dividends payout rate on state-owned assets is approximately six percent; 3) using individual workers' shares as base, dividends are paid out to individuals based on the differential between the profit to investment ratio and the rate of individual guaranteed interest, and if we assume that the guaranteed interest rate equals the bank deposit rate, which is 11 percent, then in this example, the individual dividend payout rate is nine percent; 4) realized profit minus what the state gets minus individual dividend payout equals enterprise share dividends. The specific equations are as follows:

The state's earning = realized profit x income tax rate x state share dividend payout rate = $20 \times 35\% + 70 \times 6\% = 11.2$

Individual workers' share dividends = individual workers' shares x individual workers' share dividend payout rate = $3 \times 9\% = 0.27$

Enterprise share dividends = realized profit - state income - individual workers' share dividends = $20 - 11.2 - 0.27 = 8.53$

The above figures show clearly that the existing dividend distribution method under the so called "one enterprise, three systems" practice is in fact a way to boost enterprise financial power and increase enterprise retained profit in the name of the shareholding system. In other words, it shifts a part of the regulation tax, which should go to the state as specified under the second step of "substitution of taxes for profit delivery," to enterprises. There is in fact no preference in the so called state preferred stocks: 70 percent share of the stocks gets only 55 percent of the dividends. If we stop playing this kind of numbers game and simplify the relationship between the state and enterprises instead, that is, let the state levy 55 percent income tax and give the rest to enterprises as retained profit, the result will be exactly the same as this extremely complicated "one enterprise, three systems" dividends distribution method. This dividend distribution method is very unfavorable to the state: One, it does not guarantee any increase in state revenues (state revenues is kept at the 55 percent rate). Two, the state's shares will decrease steadily proportional to enterprise shares which will increase year after year. This is because the state will not plow back its 55 percent earning to buy new shares, but enterprises can spend more than one-half of their 45 percent share of the earnings to buy new enterprise shares, thus increasing the proportion of enterprise shares year after year. In this way, several years later, enterprises will own more shares than the state, eventually turning it into an enterprise-ownership system. Three, enterprises have no risks at all. All the pilot enterprises are economically efficient and profitable. This dividend distribution method only gives them more retained profits. Low-profit and unprofitable enterprises basically cannot adopt this dividend distribution method. The so-called enterprise venture stocks in fact have no risks. A true shareholding system mandates that stock and profit condition each other. More profit implies more dividends. But the dividend distribution method under the present "one enterprise, three systems"-form of shareholding system separates shares from profits. No matter what the proportion is between state shares and enterprise shares, the state shares, as "preferred" stocks, will only get 55 percent dividends, and the rest goes to enterprises. This is not distributing dividends equally according to the size of shareholding. Thus, the "one enterprise, three systems"-form of shareholding system is not a bona fide shareholding system. It is but another way by which the state devolves power and yields profit and does not possess the merits of a bona fide shareholding system which encourages public investments and promotes the free flow of funds to maximize their utility.

Price Reform of Capital Goods Viewed

90OH0167A Tianjin JIAGE LILUN YU SHIJIAN
[PRICE: THEORY AND PRACTICE] in Chinese
No 9, 20 Sep 89 pp 9-12

[Article by Li Youpeng (2621 3945 7720)]

[Text] I. Capital Goods Price Reform Achievements and Evaluation Criteria

Capital goods price reform in China can be roughly divided into the following two phases: 1) From 1979 to 1984—In this first phase, price reform was focused mainly on the procurement prices of farm produce, the prices of non-staple food, and the prices of some industrial consumer goods. But from the perspectives of either guiding ideology or reform experience, capital goods price reform in this phase was aimed at easing the most conspicuous conflicts, while the job of changing the price formation mechanism had not yet been placed on the agenda. Traditional planning and administrative measures were used mainly in this first phase to raise the prices of products that were in short supply, such as ore, pig iron, coking coal, cement, lumber, and rolled steel, while the prices of transportation, such as railway, highway, and water transport, were also appropriately modified. 2) From 1984 on—This second phase was actually the formative phase for the dual-track pricing system in which state-fixed and market prices coexist, and was also the transitional phase from the old to the new system in which both systems coexist. In 1985, the prices of the part of goods in short supply that enterprises produced in excess of production targets were allowed to be set according to market forces, and market trading and market prices appeared and coexisted along with traditional planned allocation, distribution, and planned prices for almost all manufactured goods, such as rolled steel, nonferrous metal, cement, glass, industrial chemicals, coal, oil, and even electric power. The prices of each class of capital goods were divided into those within and those outside of the state plan, and this second phase of price reform was basically characterized by the "dual-track" pricing system in which prices for goods within the state plan were set by the state, while prices of goods outside of the state plan were set by enterprises. As to price changes per se, the dual-track pricing system reform was characterized by the joint fluctuation of both state-set and market prices, while the deregulated prices of products in short supply generally increased. As to its impact on economic operations, although the dual-track pricing system reform linked the routine management of state-owned industrial enterprises directly to market forces and was a prerequisite for the formation and development of capital goods markets, it had many disadvantages.

The decade of capital goods price reform, that combined modification with deregulation, caused great changes in both the capital goods price structure and the price management system, and also had an important impact on all aspects of the national economy. Thus, although analyses and comparisons of the actual impact of capital goods price reform could be made from various aspects and angles, the two most important evaluation criteria from the general perspective of system reform and economic growth are as follows: 1) Whether the direction of capital goods price reform tallies with the general aim of system reform, i.e., whether the evolution of the capital

goods price structure and the management system are in line with the overall demands of economic reform; 2) Whether capital goods price reform is favorable to balanced and coordinated economic growth, i.e., whether it speeds up the utilization and improves the disposition of economic resources. These are both the basic reasons for carrying out price reform, and also the basic criteria for testing and evaluating the effectiveness of capital goods price reform.

Analyzing and evaluating capital goods price reform from these viewpoints shows that China's capital goods price reform achieved certain positive results, while having obvious shortcomings. Moreover, certain unexpected new issues arose in the reform process, mainly in the following areas:

1) Capital goods price reform began to improve the long-distorted price structure and ease the price imbalance conflicts between different departments and products to a certain extent. The factory prices of China's manufactured capital goods increased 64.5 percent from 1978 to 1988, including a 72-percent rise in the prices of raw materials, almost a 100-percent rise in the prices of industrial excavation equipment, and a 33-percent rise in the prices of manufactured goods. This shows that in the process of modifying previous capital goods prices and changing relative prices, the relative prices of basic manufactured goods increased to varying degrees. Although a direct result of this change in relative prices was a corresponding improvement in the situation of unequal profits being earned by various industrial sectors, the sharp inflation in China in recent years has caused the reappearance of a certain amount of irrational price relations.

2) Although capital goods price reform, that combined modification with deregulation, shook and eliminated the overcentralized and rigid system of capital goods price management, brought about important changes in the price formation mechanism, strikingly raised the extent of market regulation in industrial economic operations, and increased flexibility, it also caused a considerable amount of serious chaos due to factors, such as the lack of necessary market regulations and legal standards, the weakening of the state's capacity to regulate, control, and organize markets, and improper microeconomic enterprise conduct.

3) Since capital goods price reform eased the degree of price distortion to a certain extent, and the various reform measures of streamlining administration, devolving authority to lower administrative levels, and making profit concessions also decentralized financial resources, great changes occurred in accumulated forces and thus, a certain amount of groundwork was laid for bringing the role of price regulation into full play. The changes in the price structure generally helped to optimize the disposition and improve efficiency in the utilization of resources to a certain extent. Although this was fairly obvious in the years between 1985 and 1987 and could be seen mainly in the increased investment

and steady growth of production in industries that produced goods that were in short supply, the overheated economy and the increase in capital construction caused a certain amount of deterioration to occur in the capital goods price structure, which blocked the evolution of the economy toward a more rational structure.

II. The Dual-Track Pricing System for Capital Goods

A major characteristic of the change in China's pricing system was that two different prices were put into effect for similar commodities within and outside of the state plan, which combined planned price regulation and deregulation to motivate capital goods price reform.

Since the dual-track pricing system for capital goods has been in effect for five years, its pros and cons are both quite clear. It is precisely because it has both strengths and weaknesses that people have evaluated it differently and understand it in widely differing ways. One current view is that since it has many disadvantages and few advantages, even to the point of having disadvantages but no advantages, is the breeding ground that has generated official profiteering and corruption, and has caused not only economic chaos, but the general mood of dissatisfaction, it should be done away with as quickly as possible. I think that although it has weaknesses as a transitional form, whether its advantages actually outweigh its disadvantages or not depends on other factors, a major one being its impact on market formation and development. Although price deregulation is certainly a prerequisite for market formation, it is absolutely not market formation itself, because market formation and development is a process that is subject to a series of both objective and subjective factors. As to its objective factors, China's primary manufactured goods have long been in very short supply, while our infrastructure in markets, such as communications and transportation, are also rather weak. As to its subjective factors, since we inherited a weak personal economic consciousness from the vestiges of feudalism and a sense of official domination from the product economy, our concepts of market exchange and fair competition are unavoidably conflicting. In addition, up-to-standard markets require a rational market structure, a set of strict and impartial market regulations, and effective government market-involvement. Not considering this carefully and dealing with it properly in advance, but relying purely on price deregulation instead, has made it hard for us to achieve the hoped-for up-to-standard capital goods markets. It seems now that although deregulating some capital goods prices was a major step in increasing market regulation and using market forces, a full evaluation is still lacking as to what impact this process has actually had on overall economic operations, and complete plans are still lacking as to which corresponding steps and essential organizational regulation measures should be taken. Consequently, a certain variation of market regulation has appeared under the present dual-track pricing system. Since it is not standard market regulation, but has basically become a mixture of administrative assignment, interpersonal relations, and market

coordination instead, it has caused market chaos and speculation. In addition, whether the advantages of the dual-track pricing system outweigh the disadvantages depends directly on the size of the price differences between goods within and outside of the state plan. If the differences are not very great, the advantages may outweigh the disadvantages but, if they are great, the reverse would be true. Moreover, the size of the price differences between goods within and outside of the state plan also depends to a very great extent on macroeconomic conditions. The present loss of macroeconomic control, and the price differences between goods within and outside of the state plan being more than 100 percent and some even 200-300 percent, have demonstrated fully the weaknesses of the dual-track pricing system.

III. The Reasons Why Capital Goods Price Reform Has Become Bugged Down

There are many reasons why capital goods price reform has become temporarily bogged down in recent years. The following unfavorable macroeconomic factors have severely restricted capital goods price reform: 1) China has been constantly confronted in recent years with the situation of too much investment in fixed assets, too fast growth of consumer funds, overdistribution of national income, and runaway demand directly resulting in inflation. Trying to carry out price reform in an inflationary economic climate was sure to cause great tie-ups. 2) Successive years of fiscal deficits have conspicuously exposed the predicament of our financial capability. Capital goods price reform requires a certain amount of financial support. When inflation occurs, in particular, different kinds of proper subsidies to production and circulation links are necessary to effectively keep price increases for primary manufactured goods from pushing up consumer goods market prices. But it was precisely in 1986 that enterprise economic efficiency began to drop and directly jeopardize the sources of public revenue. Although our industrial economic growth rate reached 11.1 percent in the 1986 fiscal year, the realized profits and tax revenues paid by budgeted state-owned industrial enterprises dropped 0.2 percent instead. This also explains to a certain extent why a series of reform plans focused on capital goods price reform finally had to be substituted for popularization of the enterprise contract management system. 3) New changes occurred in the agricultural sector, which is the basis of our national economy. After successive years of rapid progress, China's agricultural sector began to experience a temporary slowdown in 1987, when the output of staple farm produce dropped to various degrees. This was certainly of major significance for the feeding and clothing of China's population of 1.1 billion people. But after the contract and contract order systems went into effect in rural areas, exchange at equal value was the only principle that peasants would accept, and the government could stimulate agricultural production initiative only by raising the prices of farm produce. Since price reform was originally carried out in a rather tightly controlled

environment, the result of the weighing of various interests was that capital goods price reform could only adopt a policy of marking time.

There were also many microeconomic factors that were detrimental to capital goods price reform. Since one of the major aims of manufactured capital goods price reform was to resolve the problem of the prices of primary manufactured goods being too low, it was hard to prevent certain increases in capital goods prices in the reform process from driving up costs and putting pressure on enterprises. The very clear guiding ideology at that time was that most of the impact and pressure of increased costs was to be borne by enterprises, while only a small amount of it was to be settled by the government policy of tax reduction and profit concession. Thus, although enterprise management conditions and capacity to absorb cost increases directly affected the progress of capital goods price reform, it became clear at that time that enterprises had a very limited capacity to absorb relative price increases and were shifting most of them off in the following ways: 1) By raising prices to consumers; 2) By shifting the impact to public revenue. Although this problem arose in enterprises, it was deeply rooted in the whole system itself, as well as in the enterprise management forces that depended on the system. Since it was very hard to hope for a big increase in the capacity of enterprises to absorb and accept price increases until enterprise management forces were changed and the protective screen of the system of enterprise soft budgetary limitations was removed, a microeconomic basis favorable to vigorously pushing forward capital goods price reform was lacking.

In addition to the above-mentioned factors, a certain amount of limitations to capital goods price reform also exists in the guiding ideology of reform, research and design of plans. One of these limitations is the view that housing price modification should be included in price reform and that the thinking and planning for capital goods price reform should be gradually rationalized through deregulating price management jurisdiction and changing the price formation mechanism. Although this had a certain amount of positive significance towards changing the policy of relying purely on planning and administrative measures to revise the irrational price structure, this kind of thinking and planning also had obvious defects, the major one being that it neglected to a certain extent to take into account the relationship between price deregulation and market formation and did not deal very well with the relationship in price reform between "eliminating" and "establishing." As the economic repercussions of the dual-track pricing system that had been put into effect became increasingly evident and no effective way could be found to resolve the variation of market regulation, in the end it was difficult for policymakers to adopt expanded market regulation because of its indefinite risks, even though there were loud demands to do so. I think that reform thinking should be changed to include housing price reform in market formation and development. Specifically, the

factors, including timing, stages of capital goods market formation, and development should be studied. Positive conditions should be created to speed up the formation and development of capital goods markets, so as to adapt price reform to market formation and development.

IV. Continuing To Deepen Capital Goods Price Reform While Improving the Economic Environment and Rectifying the Economic Order

Many problems have accumulated in recent years because the pace of capital goods price reform has been so slow. If these problems are not resolved promptly, they will certainly severely limit economic growth and reform advances. Moreover, we are also faced in the immediate future with the huge jobs of improving the economic environment by fighting inflation and rectifying the economic order by reorganizing market circulation. This means that we must do a good job of coordinating improvement of the economic environment and rectification of the economic order with deepening of price reform. On one hand, capital goods price reform in the immediate future must first be focused on, be subordinated to, and serve the needs of the key tasks of improving the economic environment and rectifying the economic order. On the other hand, the opportunity must not be missed to take certain price reform steps according to the following principles:

1) Since carrying out price reform in an inflationary economic environment is very difficult, a prerequisite for putting price reform measures into effect is that they must not clash too much with market price formation. Thus, price reform should not hit out in all directions, but should be focused in the field of capital goods prices and adhere to the principles of overall planning, step-by-step application, and small, steady advances;

2) The current prevalent wording and method of "stabilizing the prices of the most important products" is too general. Its actual impact is detrimental to both truly controlling market prices and also to rationalizing the capital goods price structure. Steps should be taken to stabilize the market prices and appropriately modify the planned prices of the most important products, while controlling the prices of ordinary products such as manufactured goods. The focus in modifying the planned prices of the most important products should be placed on alleviating the most conspicuous conflicts by making small, steady, and planned modifications in railway transport, centrally-allocated coal, crude oil, and electric power prices to reverse the present trend of a return to irrational price relations. Since the prices of many manufactured goods were deregulated and price increases have been especially obvious in recent years, effective steps should be taken to control their prices;

3) In addition to the increase in overall demand, another major cause of skyrocketing market prices has been the chaos in capital goods market circulation. Thus, the formulation and implementation of standard market

regulations and laws and the organization and establishment of markets should be made a major part of capital goods market price reform. Moreover, much work must be done to clear up circulation links in coordination with the present task of rectifying the economic order;

4) Although the negative impact of the dual-track pricing system for capital goods is becoming increasingly evident, the conditions are not ripe for completely eliminating it in a short period of time. Rather, the dual-track pricing system should be gradually modified, standardized, and merged, the conditions should be created in future developments and reforms to change the dual-track pricing system into a single-track one, and the prices of various products should be resolved one by one as the specific conditions and timing ripen. The following two major tasks should now be accomplished well: a) Practical and vigorous steps should be taken to control prices of goods within the state plan, keep them from "slipping out" of state control, and ensure that the state plan is strictly enforced for them in the areas of variety, quantity, standards, and prices; b) The chaos in the field of capital goods circulation should be strictly rectified, and standard capital goods markets should be formed.

5) The favorable opportunity of the present macroeconomic retrenchment should be taken advantage of so as to improve the enterprise structure that had been for a long time very irregular and to firmly dismantle the protective screens of those backward enterprises that have high consumption and poor efficiency.

Development Stages of Private Economy

HK2112032489 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 9, 20 Sep 89 pp 73-78

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[Text] The private economy, which began to develop in the early 1980's in China, has attracted worldwide attention. However, the questions of the emergence, frequency, development, and future prospects for the private economy in China and other questions still must be analyzed. This article attempts to make an exposition of the above-mentioned questions through analyzing the stages of development of the private economy. In my opinion, the initial socialist stage of private economy has experienced and will experience the following three development stages: The stage of emergence, the development stage, and the transitional stage, during which private economy will develop into mixed economy and socialist economy.

I. The Emergence Stage

In the mid 1950's, when the socialist transformation of private commerce and industry in China was basically completed, the private economy, which was characterized by a certain number of workers being employed by individual units, disappeared. However, in the early

1980's, this type of private economy reemerged. Its emergence was determined by the following three factors:

First, the return of individual economy and its development. The foundation of private economy, which has reemerged, is the return of individual economy and its development. The individual economy at that time mainly covered individual commercial and industrial households in rural areas, which were specialized households that emerged in large number after the implementation of the system of contracted household responsibility, and the individual commercial households in urban areas, who were unemployed personnel and personnel whose jobs had been suspended. These two types of individual industrial and commercial households were in a commodity economy. When this type of commodity economy achieved a certain degree of development, more funds were accumulated by these individual households. At this time, in order to earn more money, they further expanded their scale of business. However, such expansion was constrained naturally by the insufficient supply of labor force in the individual economy. Therefore, they had to employ surplus labor in urban or rural areas as their workers. With further increase in the accumulation of funds in the individual economy, and when the number of workers employed by individual households increased to a certain large number (for instance, eight people), individual economy was naturally transformed into private economy.

Second, the party has implemented the policy of reform and opening up to the outside world, and policies have been relaxed. Since the 3d Plenary Session of the 11th CPC Central Committee held in December 1978, the party has decisively stopped using the slogan of "taking class struggle as the key link," which is not applicable in a socialist society, has corrected the wrong policy whereby individual economy was regarded as the tail of capitalism and was to be abolished, has reaffirmed the status and the role of the individual economy, and has formulated a series of policies for recovering and developing individual economy. The return and development of individual economy is the foundation of private economy. When the party changed the policy from negating individual economy into a policy affirming individual economy, a good environment essential to the emergence of private economy was created. Moreover, the emergence of Sino-foreign joint ventures and wholly foreign-owned enterprises also provided a better environment for the emergence of private economy. As a result, private economy has been able to emerge from individual economy.

Third, the level of the productive forces in Chinese society is very backward, and there still exists a low level of productive forces. The influence of China's socialist industries and commerce is not strong in both urban and rural areas. Over the whole country, in particular in broad rural areas, socialist industries and commerce are not developed and economic development gaps have thus been formed. In eliminating such gaps, the problem

involved is whether to develop commerce and industries or not. Therefore, in developing industries and commerce, there have been no particular requirements on the quality of the funds, technology, and labor force, which are required for the emergence of industries and commerce, and a low level of productive forces still exists. This type of productive force will commonly exist in China, in particular in broad rural areas, for a long period of time. Therefore, when relaxed policies are implemented, individual economy, which is established on the material foundation of these types of productive forces, and private economy, which is established on the economic foundation of this type of individual economy, will emerge rapidly.

From this we can see that, after the basic completion of the socialist transformation of private industries and commerce in China, the newly emerged private economy began to enter the stage of emergence in the early 1980's. The emergence of this type of private economy was caused by objective political and economic factors in China. This point has illustrated that the emergence of this type of private economy was not an accidental phenomenon and was not caused by wanton actions.

At the emergence stage, private economy had the following five characteristics:

First, spontaneity. That means, in the emergence stage, the state and the party had a plan only for recovering and developing individual economy and had no plan for recovering and developing private economy; and private economy has emerged spontaneously in the course of development of individual economy. The development and failure of private economy has been determined solely by private economy itself. The attitude of the state and the party toward the emergence and development of private economy has been one that private economy is allowed to develop naturally by itself, provided it does not violate the Constitution and laws.

Second, legality. That means, at the emergence stage, although private economy emerged spontaneously, its legal status was not publicly confirmed by the party's programmatic documents or the Constitution. Its status was recognized only temporarily by internal documents of the party and the state on the basis of specific policies. At this time, the economic attitude of the state and the party toward the emergence of private economy was one that the emergence of private economy would not be encouraged nor publicized, it would not be banned, and private economy was allowed to develop naturally by itself. This is because the question of how to handle private economy, which emerged from individual economy after the completion of the socialist transformation of private industries and commerce, has been a new, great, and very sensitive issue appearing soon after the implementation of the reform and the policy of opening up to the outside world. Here, the question of adhering to socialist political directions and the question of how to fulfill basic socialist tasks, that is, the great issue of developing productive forces in society, have

arisen. However, these issues were not discussed in Marxist classical works. Therefore, the party and the state have to proceed from the practical situation of China to watch and analyze the development of private economy at its emergence stage. Only when clear and accurate information is obtained can a policy on private economy be implemented and can appropriate arrangements be made.

Third, smallness. At the stage of emergence, private economy was being developed. Although the speed of development of private economy at this stage was not slow, the proportion of the output achieved by private economy in the aggregate total output achieved by all types of economy in the whole country was extremely small. According to statistics obtained by the Chinese administration departments for industry and commerce at the end of 1987, the total industrial output value achieved by private economy was less than one percent of the gross value of industrial output achieved by the whole country. Although there were 115,000 privately run enterprises employing more than 8 workers, only 1,847,000 people were employed, and on the average 16 people were employed by a privately run enterprise.

Fourth, short-term nature. The emergence stage of private economy, which started in the early 1980's, is short. Practice has shown us, after several years' analysis of the private economy and after watching the development of private economy for several years, that the party and the state have made clear the problems related to private economy, and have clearly implemented macroeconomic policies in favor of private economy. As a result, the stage of emergence of private economy ended. The period of emergence has lasted for only several years. The short-term characteristic of the emergence stage of private economy is relatively apparent, as the development stage of private economy will last for a longer period of time.

Fifth, the corrupt nature. In the stage where private economy is emerging, there were a large number of people who used corrupt means to obtain more profits, such as offering bribes to state and party personnel. At this stage, a number of tasks have to be handled. For instance, business addresses of enterprises have to be identified; business licenses have to be obtained by enterprises; raw materials or commodities have to be purchased; advanced technology has to be imported; the sale of products or commodities has to be handled; loans have to be obtained; tax has to be paid; economic information has to be obtained; and so on. In handling these tasks well, party and state personnel of related departments have been involved, and in particular the support of basic-level personnel of these departments in urban and rural areas is needed. Due to the fact that the legal status of private economy was not fully recognized at this stage, and due to the fact that the influences of ultraleftism have not been eliminated, there were great difficulties in handling these tasks. However, the exploiting, selfish, and profitmaking oriented nature of private economy has certainly induced many people not

to overcome such difficulties through democratic and legal means, and has induced them to bribe state and party personnel so as to achieve the emergence and development of private economy and to make more profits. This has illustrated that, at the emergence stage of private economy, private economy itself had a corrupt nature, which will induce party and state personnel, in particular basic-level personnel in urban and rural areas, to become corrupt.

II. The Development Stage

In the winter of 1987, the 13th CPC National Congress for the first time clearly and publicly put forward the party's basic policy on private economy, which had reemerged: To encourage, protect, guide, supervise, and control its development. That means to encourage synchronous development of private economy, socialist economy, and individual economy; to protect the legal rights of private economy; to guide private economy to develop in the direction and in the scope guided and determined by the party and the state; to supervise the development direction and business activities of private economy and to make sure that they do not violate laws; and to bring the activities of private economy under the control of related party and state departments. The 13th CPC National Congress also clearly decided to formulate as soon as possible specific policies and laws that could reflect the above-mentioned basic policy spirit. Hence, the First Session of the 7th NPC [National People's Congress], convened in 1988, passed the bill amending the Constitution and confirmed the legal status of private economy. This indicated the end of the emergence stage of private economy and the beginning of the development stage of private economy in China. From this we can see that the late 1980's is the end of the emergence stage of private economy and is the beginning of the development stage.

China has to redevelop private economy at the present stage. This is because experience in the emergence stage of private economy proved that although private economy represents only low-level productive forces in China, it covers a wide scope, and has played a substantial role in the industry, handicraft industry, building industry, transportation industry, commerce, and other industries of rural and urban areas. Therefore, the development of private economy is, to a certain extent and under certain conditions, essential and beneficial to production development, invigorating rural and urban markets, expanding the scope of employment, and satisfying the daily needs of people in a better way. Moreover, private economy can supplement the insufficiency of socialist economy in these aspects.

At the development stage, private economy has and will have the following six characteristics:

First, full legal status. Due to the fact that the programmatic documents passed through the 13th CPC National Congress publicly recognized the rational nature of private economy, which began to develop in the early

1980's in China, and that the First Session of the 7th NPC passed the bill amending the Constitution to confirm the legal status of private economy, private economy has thus obtained legal status in China's diversified ownership system, where the socialist public ownership system is the main body. Therefore, we can say that, at the development stage, private economy already obtained legal status.

This change gave private economy legal status and illustrated that the CPC had made a breakthrough in understanding the nature of private economy. If private economy had emerged in China in the 1970's, such emergence would have been regarded as a return to capitalism. This is because, at that time, capitalist economy and socialist economy were considered antagonistic to each other. From today's viewpoint, this is an ultraleftist viewpoint. In facing the emergence of private economy in the 1980's, our party has already given up this type of ultraleftist viewpoint and adopted the viewpoint that economic issues should be analyzed through evaluating the standard of productive forces. That means that the fundamental task of socialism is to develop the productive forces in society. In the initial stage of socialism, the existence of any type of economy, including private economy, is determined by these factors: Whether this type of economy has a corresponding material foundation or not, that is, whether the productive forces standard in the whole society can match such an economy, and whether there are corresponding levels of productive forces, whether this type of economy can ensure substantial development of productive forces, and whether this type of economy is advantageous to consolidating and developing the productive forces of the main economy, that is, the socialist economy. As discussed above and as proved by the practice of China's private economy at its emergence stage, the existence of such an economy in China at the present stage is supported by the material foundation where the productive forces in the whole society are underdeveloped and the level of the productive forces is very low. Moreover, the existence of private economy has enabled China to develop its productive forces, and private economy has become an essential and useful supplement to socialist economy. Therefore, private economy should be given legal status.

Second, private economy is, to a certain extent, affected by indirect plans. Since private economy has become a legal member of China's diversified economic system, the party and the state will pay attention to its development. Moreover, the party and the state will enhance their guidance, supervision, and control over private economy so as to develop its good points and to eliminate its bad points. In order to achieve these targets, private economy should be covered indirectly by national economic plans and social development plans. That means that on the questions of what private economy should develop, what it should not develop, and to what extent it should develop, the state can use economic, administrative, legal, educational, and other

means to enable it to accept the state's planning guidance, under the condition that private economy can enjoy full decisionmaking rights. Otherwise, private economy cannot really become an essential and beneficial supplement to socialist economy, but will affect the existence or development of itself. Therefore, the development of private economy at this stage is, to a certain extent, affected by indirect plans.

Third, acceleration of development speed. Since the party and the state have decided to protect the legal rights of private economy and to guide it to develop toward the direction beneficial to people's interests and the socialist economy, they will formulate a series of specific policies and laws. This will certainly and effectively eliminate all factors (mainly the influence of ultraleftism) that are disadvantageous to the development of private economy. Therefore, at the development stage, a more comfortable political and economic environment, which is essential for normal development, will be provided for private economy. Moreover, since private economy is also a commodity economy, its development will be affected by inherent forces (profit-making) and external pressures (competition). Therefore, over the whole country and in particular in areas where private economy has not emerged and has not achieved great development, the development speed of private economy at this stage will accelerate. It will obtain faster development at this stage than at the emergence stage.

At present, the average scale of the individual units in private economy is small and their technological level is low. Most (more than 70 percent) of these units are located in rural areas and are in the form of township and town enterprises. It is predicted that with the accelerated development of private economy, the average scale of the individual units in private economy will further expand, and their technological level will improve to an advanced level.

Fourth, limitations of development. Since China is a socialist country, its socialist economy occupies an absolutely strong position in the national economy, and the national economy is under its control. Therefore, if the party and the state can persistently uphold the four cardinal principles, can at the same time accelerate the pace of reform and opening up to the outside world, can enable socialist economy to develop its superiority while it is competing with private economy, can enable socialist economy to achieve better results than private economy in some important areas, and can give correct guidance and essential supervision on the aspects of investment direction, business scope, operation scale, income distribution, and so on, the party and the state will be able to control the development of private economy. That means that private economy will only be allowed to develop within limits where it is an essential and beneficial supplement to the socialist economy, which is the main body. If the party and the state can achieve these targets, private economy will not be able, and it will be unnecessary for private economy, to

replace the mainbody position of socialist economy. At the same time, the phenomenon of unfair distribution of income can also be controlled at a level acceptable to the masses of people. Therefore, if the relationship between private economy and socialist economy can be handled in an appropriate way by the party and the state, the development of private economy can be constrained. It is not necessary and is also impossible for private economy to surpass the development of socialist economy. Moreover, it is also impossible and not necessary for the units in private economy to develop into very large units since most of these units can only become small-size enterprises.

Fifth, long period of development. As discussed above, the emergence of private economy and the need for it to have a substantial degree of development are caused fundamentally by the facts that the level of productive forces in society are still backward and there is a correspondingly low level of productive forces. Therefore, when the level of productive forces in China is not backward, in particular when the level of productive forces in the socialist economy is not backward, and when the existing so-called low level of productive forces no longer exists, private economy will lose its material foundation. It will take a long time to reach this point. Therefore, the period in which private economy will exist, and the development period of private economy will certainly be very long.

Sixth, corruption will be tightly checked. At the emergence stage and the initial development stage of private economy, the broad masses of people will certainly be dissatisfied with the corrupt activities undertaken by party and state personnel that are caused by the nature of private economy or other reasons. When this type of dissatisfaction accumulates to a substantial level, the party and the state will pay great attention to this phenomenon and will adopt a series of measures to eliminate and ban corruption. For instance, measures to enhance political education and various types of supervision on party and state personnel and the personnel of privately run enterprises and to strictly punish personnel who have committed corruption mistakes or crimes, according to party regulations and state laws will be adopted. With the development of private economy, this type of struggle between anticorruption and corruption will go on continuously. However, the corrupt nature determined by the nature of private economy can only be continuously and effectively checked if the basic lines of the party can be thoroughly carried out in the initial stage of socialism and if the anticorruption struggle can be continued.

III. The Stage at Which Private Economy Is Being Transformed Into Mixed Economy and Socialist Economy

Although the emergence and development stages of private economy in China will last for a long time, these stages will finally come to an end. This is because the productive forces in society, in particular the productive

forces in a socialist economy, will eventually develop to a very high level. How high will such a level be? This will be a level at which the productive forces in the whole society can enable socialist economy to become strong enough to cover all areas of the country, in particular the broad rural areas, and to gradually eliminate the opportunity for private economy to develop in rural and areas. At this time, socialist economy will be able to independently carry out the tasks such as developing production in society, invigorating rural and urban markets, guaranteeing people's employment, and satisfying people's daily needs in a good way. Therefore, private economy will no longer have to play the role of being a supplement to socialist economy. This explains that at this time the superiority of socialist economy will be gradually developed, and the existence of private economy will gradually become unnecessary. At the same time, the inherent contradiction (the contradiction between employers and employees) and external contradiction (the contradiction between private economy and socialist economy, and so on) of private economy will certainly become acute, and it will become an obstacle to the development of productive forces in society. Only at this time will private economy be certainly transformed into mixed economy or socialist economy. Thus, a stage where private economy will be transformed into mixed economy will emerge.

Up till now, none of the socialist countries in the world were established on the basis where their productive forces were well developed, that is, these countries originally were not capitalist countries with developed economies. On the contrary, they were countries with undeveloped or very undeveloped productive forces and they were established through social revolutions. This is an international phenomenon which resulted from historical development. Such historical conditions have determined that for a considerable time the level of productive forces of socialist countries will be lower than that of developed capitalist countries. Moreover, the international pattern of the level of this type of productive forces has decided that the economy of developed capitalist countries is monopolistic capitalist economy while that of socialist countries is socialist economy. Apart from this, due to the difference in the mainstay of the economy between these two type of countries, the influence of the same level of productive forces on the private economy of different countries will be different. Moreover, the level of productive forces required by capitalist countries for transforming their private economy into private-public economy or socialist economy will, of course, be different from that required by socialist countries; and the level of productive forces required by socialist countries will be lower than that of capitalist countries. Hence, the level of productive forces in China that will enable private economy to be transformed into private-public economy and socialist economy, will not achieve the same results as what will be achieved in the United States.

This type of transformation whereby private economy will be transformed into private-public economy and socialist economy will have the following three characteristics:

First, the starting time and the finishing time of this type of transformation will be different among different areas and different industries in China. China has broad territories, and the current development level of productive forces in society is not balanced. Generally speaking, the level of productive forces in coastal areas is higher than that in the interior, that in urban areas is higher than that in rural areas, and that in rural areas surrounding large cities is higher than that in rural areas surrounding small towns. Moreover, the development level of productive forces of different industries and sectors in a region will also be unbalanced. Therefore, the time required by different sectors and industries in China to achieve a very high level of productive forces will be different. When the socialist economy of areas or industries that can achieve a very high level of productive forces in society within a short time has been developed to a level where the existence of a supplementary private economy is no longer essential, the existence of private economy will become an obstacle to the development of the productive forces in society. Moreover, the objective request will be put forward that private economy should be transformed into mixed economy or socialist economy, and this type of transformation will be started earlier. On the contrary, in areas or industries that cannot achieve a very high level of productive forces for a very long time, such a request will not be put forward when private economy is still an essential and helpful supplement to socialist economy, and the transformation of private economy into mixed economy or socialist economy will not and should not be started. In this way, the starting time and the finishing time of the transformation period will vary among areas and industries in the whole country. Hence, the process where private economy will develop from the second development stage into the third development stage will involve a long period of time, and the second development stage and the third development stage will overlap each other.

Second, in general, this type of transformation will be a peaceful and nonviolent process. In the initial stage of socialism, adherence to the four cardinal principles is one of the party's basic points, and the state will always have strong political, economic, and military power. Therefore, when the conditions of the productive forces in society, which are required for achieving this type of transformation, are mature, when appropriate policies are adopted, and when the economic and political interests of private economy are appropriately protected, private economy will be transformed into mixed economy and socialist economy in a peaceful and smooth way. In the process of such transformation, contradictions and conflicts may emerge. However, since private economy has been serving as an essential and helpful supplement to socialist economy for a long

time and it has been making contributions in various aspects to the people, it is natural that the economic and political interests of private economy should be protected.

Third, the specific path of such transformation is one in which socialist economy will merge with private economy. As discussed above, when the productive forces of a socialist economy have developed to a level where private economy no longer has to serve as a beneficial supplement, private economy will become unnecessary and it will become an obstacle to the development of the productive forces in society. This has illustrated that, in the competition between private economy and socialist economy at this stage, socialist economy has the economic power that can enable it to completely replace private economy. Moreover, in aspects such as funds, technology, and the quantity of products, socialist economy is stronger than private economy, and in aspects such as quality of products, economic returns, the average salary, and welfare to be obtained by staff and workers, management standard, and others, socialist economy is or will continue to be stronger than private economy. At this time, the competition between private economy and socialist economy will be governed by the law of survival of the fittest, and it is certain that private economy, which is a weaker party in such competition, will be eliminated. Therefore, at this stage, private economy will face a very difficult situation. In order to enable continual development of the productive forces in society, it is essential and possible that private economy should be transformed into private-public economy or socialist economy through the process of merging. Since the assets of bankrupt privately run enterprises will not be sufficient to repay their debts, i.e., these enterprises have no property, it will be natural that the assets and remaining staff and workers of these enterprises, which will be used to pay debts, should be taken over by suitable enterprises in socialist economy in accordance with laws, and these bankrupt enterprises will be transformed into enterprises in socialist economy. Privately run enterprises that will have great difficulty in continuing operations or that will even go into bankruptcy, and those that can continue their normal operations but their economic returns, wage, and welfare will be obviously lower than that of privately run enterprises in a socialist economy can be merged into private-public or socialist enterprises according to the principle of developing the productive forces in society, the request of merging put forward unanimously by the employer and the employees of these privately run enterprises after consultation with each other, and the political and economic situation of that time. Such merging should be decided upon by related departments of the people's government and the parties taking over others and those to be taken over after mutual consultation in a legal and democratic way, at a suitable time, and under appropriate conditions. The remaining capital of the privately run enterprises, which will be taken over by others, should be assessed and the actual amount of their capital obtained after assessment

should be handled in the following ways: For privately enterprises that have decided to be transformed into private-public enterprises through merging, the nature of their original capital will remain and can be changed into private shares of these enterprises. For private enterprises that have decided to be transformed into socialist enterprises through merging, the original private capital of these enterprises can be paid in one time or several installments by the units that will take over these enterprises to the original owners of such private capital. On the basis of the situation of the whole country, the question of transforming private capital into state-owned capital will emerge in a later period. It is now too early to discuss this question. In a later stage where such private capital has certainly to be transformed into state-owned capital, mild means may be adopted. For instance, to levy a low rate of inheritance tax on such capital, to donate such capital to public welfare undertakings, and so on. Of course, these means should be adopted under the preconditions that owners of private capital are willing to accept these means, and will not resist to accept such means.

From the points discussed above we can know that out of the three development stages of private economy, the second stage, that is, the development stage, is the golden stage for the people who own and operate units in a private economy. This stage will last for a long time, for several decades or even a longer period. Even in the third stage, if the people who own and operate private units can observe laws and can help achieve socialist modernization, their economic and political interests will be protected. Hence, private economy will, in general, have bright development prospects for a long time, and the economic end-results achieved by private economy may be better than that achieved by wage laborers.

Editorial Urges Macroeconomic Control

90OH0203A Beijing JINGJI CANKAO in Chinese
14 Nov 89 p 1

[Editorial: "Improvement and Rectification and Intensification of Reform Are a Dialectical Unity"]

[Text] "Without reform, the economy has no way out." This has now become the common understanding of most people, both in and out of the party.

"Without improvement of the economic climate and rectification of the economic order, it will be very hard to intensify reform." This is now becoming the common understanding of most people, both in and out of the party.

The former common understanding has become an enormous material force giving impetus to economic structural reform, the success of which has attracted worldwide attention.

The latter common understanding, once it takes shape, will also provide an enormous material force giving

impetus to China's economy taking the path of sustained, stable, and harmonious development.

Some comrades set improvement and rectification against intensification of reform and worry about how improvement and rectification will affect intensification of reform. The reason for this is a lack of understanding for the economy as a whole. Theirs is a misunderstanding.

If we are to intensify reform, we have to have certain objective conditions and a relaxed economic climate. If society's total demand far exceeds total supply and we rashly implement price reform at a time when there are shortages of goods and inflation, then we will generate panic buying and skyrocketing prices. Therefore, if we are to carry out price reform, we must cut back on demand, increase supply, and eliminate inflation—work that is, in fact, the purpose of improvement and rectification. Improvement and rectification must be successful before we can have the conditions for price reform. We cannot have financial reform, monetary reform, or wage reform without certain economic conditions and a certain economic climate. If the proper conditions do not prevail and there is a harsh economic climate, it will be impossible to carry out the wanted reforms. If we push ahead with reform without regard for conditions and without regard for the climate, we could create disorder. Achieving improvement and rectification, basically having the proper conditions, and having a relaxed economic climate will ensure that reform will proceed under conditions of stability. Considered from this aspect, improvement and rectification are, in effect, reform. They do not contradict each other.

One of the difficulties that has plagued structural reform is the inability to break out of the bewildering circle of "inflation—retrenchment—more inflation—more retrenchment." This "bewildering circle" has gone on for a long time. It is as if China's economy were infected with the alternating chills and fever of malaria. This "bewildering circle" has frustrated reform and relegated it to a cycle of "decentralization of authority—centralization of authority—more decentralization of authority—more centralization of authority," during which it has been difficult to advance. The root cause of China's economic "malaria" is that we have still not established an effective mechanism for combining regulation by state planning with regulation through the market. However, there is another cause we cannot overlook, namely, during economic development, we did not have a firm grasp of the economic laws that pertain to the balance in supply and demand and to the balances in finance, in credit, and in industrial structure. Then, during construction and reform, when we were too impatient for quick results, we created imbalances in the national economy over and over again and were then forced to carry out readjustment over and over again. Improvement and rectification is an attempt to bring economic relations into better balance, thereby putting the national economy on a path of sustained, stable, and

harmonious development. Unlike all the previous readjustments, readjustment this time is thoroughly permeated with the concept of reform. To establish an economy with sustained, stable, and harmonious development is both the purpose of improvement and rectification as well as reform. Once the economy steps out of the "bewildering circle" of alternating chills and fever, reform can break out of the decentralization-centralization cycle and be developed at a more profound level.

During improvement and rectification, we must suitably centralize certain authorities so as to strengthen central macroeconomic control. Uninformed comrades mistakenly understand this as the reversal of reform. It is true that one of the faults of the old structure was overcentralization of authority, and reform has been an attempt to let the localities and enterprises have certain decision-making power and flexibility. Nevertheless, however much decentralization there is, the speed of the process must be coordinated and synchronized with the newly established process of macroeconomic regulation and control. If we disregard our capability for macroeconomic regulation and control and overly decentralize authority too hurriedly, we are likely to bring uncontrolled chaos to the economy. Reform is a revolution. If we are to carry out this complex and deep-going revolution smoothly, we have to have a highly authoritative headquarters. In the complicated process of transforming an old structure into a new one, various new and unexpected situations can arise. If we are to adapt ourselves to these situations properly, make fewer mistakes, and prevent setbacks, decentralization must be open, centralization must be firm, orders must be effective, and prohibitions must be strict. If the various localities, in the name of "flexibility and accommodation," take advantage of the central policies for their own selfish purposes and if they go so far as to set up separatist markets and economic embargoes, then reform measures are likely to become distorted and deformed when implemented, and good intentions are likely to bring bad results. Thus, suitably strengthening the capability for central regulation and control during improvement and rectification and strengthening and improving macroeconomic control not only does not represent a reversal, but is rather a necessary guarantee that reform will be implemented smoothly. Naturally, the present emphasis on strengthening macroeconomic control is not simply resorting to the old method of centralized planning that was used in the past. It is a new system of macroeconomic regulation and control that is to be gradually established in accordance with the combined principle of regulation by state planning and regulation through the market. Obviously, this also is a major purpose of economic structural reform. In this respect, improvement and rectification have been brought together with intensification of reform. They are mutually complementary.

The 5th Plenary Session of the 13th CPC Central Committee pointed out, "Improvement and rectification not

only create the necessary conditions for carrying out reform in an in-depth and sound manner, but they themselves must be coordinated with reform." Whether it is eliminating the budget deficit or increasing effective supply, in the final analysis, it comes down to the need to improve the economic efficiency of the enterprises. Only if there is continual intensification of enterprise reform, improvement of the various reform measures already implemented concerning the enterprise contract responsibility system, and the full mobilization of the enthusiasm of enterprise workers and staff personnel can the potential of enterprises be realized, can investment in them be lessened, and can greater output be created. In addition, intensifying and perfecting the reform of the financial contract structure, the monetary structure, the foreign trade contracting system will more effectively develop an exchange of foreign trade and economic skills, which is also necessary for coordinating the work of improvement and rectification.

Do you want to intensify reform? Then you have to do a sound job of improvement and rectification, and if you are not positive about them, you are not positive about reform. Do you want improvement and rectification to achieve results as soon as possible? Then you have to use the spirit of reform and reform measures to cure the national economy's malaria to continually improve the reforms that have already been instituted. If you are not positive toward improvement and rectification, then you are not positive toward reform.

The conclusion can be summed up in one sentence: Improvement and rectification and intensification of reform are a dialectical unity.

Integrating Planned Economy With Market Regulation

*90OH0188A Beijing JINRONG SHIBAO in Chinese
14 Nov 89 p 3*

[Article by Zhang Zhuoyuan (1728 0587 0337)]

[Text] In an important speech on the 40th anniversary of the founding of the PRC, General Secretary Jiang Zemin [3068 3419 3046] said, "We must explore continuously through practice and work hard to create socialist commodity economic operating mechanisms suited to China's conditions that organically integrate the planned economy with market regulation." To obtain a better understanding of this thesis, this newspaper has invited Zhang Zhuoyuan, a well-known economist and director of the Finance and Trade Institute of the Chinese Academy of Social Sciences, to discuss his thoughts on "integrating the planned economy with market regulation."

To me, the "integration of the planned economy and market regulation" should mean at least these few things:

First, the integration of a planned economy and market regulation is certainly not a revival of the traditional

overly-centralized system of unified planned management, not a return to the old system. Our task now is to correct our muddled thinking and rebuild the socialist planned economy; that is, the socialist planned commodity economy. And the essence of a socialist planned commodity economy is the integration of planning and commodity, of planning and the market. On the one hand, market mechanisms should be put to work under the guidance of planning. On the other hand, the planned economy must rest on a commodity economy based on public ownership and conscientiously apply and reflect the law of value. Only thus can we maintain a general balance in macroeconomic proportions and avoid the stagnation and monotony of socioeconomic activities.

Second, while we take care to put market mechanisms to work to regulate the economy, we should not allow the market alone to regulate the socialist commodity economy spontaneously. People who advocate a market economy for China, a market economy in which there is no macroeconomic control and no planned regulation, ignore both China's circumstances and the weaknesses inherent in market mechanisms. Even many Western nations are unwilling to follow a market economy with total *laissez faire*. China at this moment is still in the initial stage of socialism with an underdeveloped commodity economy and an immature market. The market has little capacity for self-organization and equally little capacity for the effective circulation of resources. It is therefore impractical to try to rely completely on market mechanisms to regulate production, circulation, and consumption in a sound manner. In the future we should continue to adhere to and actively pursue market-oriented reform and make full use of market mechanisms primarily on the macroeconomic level within the framework of macroeconomic regulation and control and planned guidance.

Third, it is vital that we take pains to "constantly adjust and improve the extent, methods, and scope of the integration of the planned economy and market regulation depending on the actual conditions." That being the case, it is only natural and logical that we put more stress on the guiding effects of planning at a time when we are rectifying the economic environment and restoring economic order in the nation. We should realize clearly that while some of the measures taken in the course of economic rectification reduce the freedom of market behavior and affect the maturing of the market and market formation mechanisms, these measures are indispensable and would help stabilize the overall economy. Needless to say, some of the administrative measures taken in the period of rectification are effective only for so long. All they can do is to give us breathing room to stabilize the economy and should not be considered a permanent solution. It should be emphasized that in order to rectify the economic environment and restore economic order successfully, we should in fact intensify reform, including enterprise reform, banking

reform, reforms in commerce and the goods and materials system, and price reform, and use reform to expedite economic rectification.

Finally, Comrade Jiang Zemin has also said that we should "further rectify and improve market order." This is something we must do to create a planned commodity economy. Moreover, it is a precondition for making full use of market mechanisms. In my opinion, what we must do at present in this area includes the following: First, shake up and rectify companies in the circulation arena, including enterprises which wholesale essential capital goods, and establish a normal circulation system for capital goods; second, straighten out the capital goods dual-track pricing system and replace it with a one-track system as soon as possible. For most products, we should let the market set the prices. For a small number of vital commodities, their prices should be set by the plan. Third, we should continue to resolve steadily some of the worst irrationalities in price relations, which would help expedite the adjustment and improvement of the economic structure. Fourth, we should promptly work out a code of conduct for the market, doing our best to make all business transactions open, documented, monetarized, and regularized.

Contract Management Must Be Backed By Sound Legal System

90OH0188B Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 19 Nov 89 p 4

[Article by Ma Jie (7456 2638)]

[Text] In the course of developing the contract management responsibility system, enterprises have set up small internal accounting units, breaking up for internal contracting their responsibilities to the state and their own business objectives. As a new contract period is about to begin, it is essential that the problems of enterprise internal contracting be identified and appropriate measures taken to correct them.

Organizational Format and Existing Problems

At present, internal enterprise contracting can take one of these two organizational formats. In one format, technical personnel or managerial personnel experienced in operations act as contractors and sign a contract with the enterprise. Most of these people have a business license and have formed collectively owned economic entities that practice independent accounting and are responsible for their own profits and losses. The characteristic of this form of internal contracting is as follows: Since the contractors are independent legal persons and may sign economic contracts outside the enterprise, they have greater decision-making authority. In the second format, the workshop or section within an enterprise signs a contract with the enterprise. Instead of opening an account with a bank outside, it opens an account with the bank inside the enterprise. It practices independent accounting and is responsible for its profits and losses. The characteristic of this format is that the contracting

unit is not qualified to be an independent legal person. The enterprise handles all external accounting and transactions.

It should be said that the above two organizational formats of internal enterprise contracting embody the principle of integrating responsibilities, rights, and interests; represent a departure from the traditional mode of enterprise production, operations, and management; successfully solve the problem of units and sections within an enterprise eating from the big rice pot of the enterprise, and have mobilized the initiative of all levels. However, practice over the past few years proves that there is a number of problems in internal enterprise contracting that must be resolved promptly.

1. With internal contracting level upon level, enterprise leaders often become only concerned about and interested in the earnings submitted by the contractor to the enterprise and ignore and even give up management at the grassroots level. Contracting in place of management is a widespread problem.

2. Enterprises have slackened off on the management of contractors with the status of legal persons. Some contractors who are making good profits are anxious to shake off the leadership of their original enterprises.

3. The contract is not strictly enforced. There are two aspects to this. On the one hand, when some enterprise leaders see the high profits contractors are making, they raise contract targets at random and change the contract as they please. On the other hand, some contractors are not willing to assume risks, taking responsibility for profits but not for losses. These two phenomena have reduced internal enterprise contracting to formalism. Under these circumstances, it is difficult to establish internal enterprise operating mechanisms that perpetuate positively.

Reasons and Strategies

The following reasons explain why such problems exist in internal enterprise contracting:

1. Uncoordinated reform. There are no laws, rules, or regulations to regulate internal enterprise contracting relations. According to Article 41 of the "Provisional Regulations for Contract Responsibility System in Industrial Enterprises Owned by the Whole People," "enterprises that practice contracting shall establish and perfect their internal contract management responsibility system and do a good job in internal enterprise contracting in accordance with the principle of integrating responsibilities, rights, and interests." The state has only established the legality of contract relations inside an enterprise but has not formulated corresponding laws, rules, and, regulations to adjust internal enterprise contract relations. According to pertinent regulations, when an economic dispute occurs over an internal enterprise contract, people's courts usually refuse to hear the case. In other words, internal enterprise contracting disputes cannot be settled through

regular civil action. We must realize that the lack of appropriate laws to govern contract relations within an enterprise has severely dampened the enthusiasm of managers and producers, affecting the smooth progress of coordinated reform within enterprises.

2. Direct enterprise contracting with the government has affected local government revenues. Therefore, whether in theory or practice, and whether at the grassroots or in departments in charge, people most often talk about enterprise contracting with government and seldom concern themselves with how to improve internal enterprise contracting.

3. As enterprises are given more decision-making authority, the management of enterprises by departments in charge has gradually changed from direct microeconomic to indirect macroeconomic management. Meanwhile, departments in charge have come to regard the management of internal enterprise contracting as micro-management, over which they have relaxed the necessary guidance and supervision. In addition, the quality of some contractors is rather poor. Hence the various kinds of myopic behavior in internal contracting.

As we consider and explore ways to develop and perfect the contract management responsibility system, we should also think of ways to overcome and eliminate the above-mentioned obstacles, which is critical to successful internal enterprise contracting. I think right now we should work hard to achieve the following:

First, the management of internal enterprise contracting must be put on a legal footing.

Law-making bodies must make the formulation of laws and regulations to readjust internal enterprise contracting relations a priority. First, they must define the nature of internal enterprise contracting, stressing the fact that it is not a civil contract in traditional civil legal theory, but a new kind of special contract that falls within the scope of administrative economic contracts. This is because the two parties to the contract are the factory director (manager) who issues the contract and a unit within the enterprise, which acts as the contractor.

The contract gives the contractor considerable decision-making authority in operations. The relationship between the factory director and the contractor is one of rights and obligations between two equal partners. But since the relationship between the factory director and contractor is also one between the leader and the led, the contract also means that the contractor must submit to the supervision and management of the one who issues the contract. In this sense there is a relationship of administrative subordination between the factory director and the contractor. Law-making bodies must clarify property relations in internal contracting to ensure that assets owned by the whole people or collectively owned are not infringed upon. This should be the starting point in any effort to establish the rights and obligations of the two parties.

Second, improve enterprise restraining mechanisms and strengthen internal enterprise banking.

The implementation of the contract management responsibility system defines the economic responsibilities and economic benefits of the various economic units inside an enterprise, creating operating mechanisms with diversified interests. Some enterprises have introduced intra-enterprise banking; that is, bringing into the enterprise the supervisory, control, credit, and account-settlement mechanisms of national banks. Because of intra-enterprise banking, the management of enterprise funds has been tightened and the loss of such funds has been prevented. When the enterprise itself assumes responsibility for all external business accounting, the production and business activities of the contractor can be more effectively controlled and supervised. Also, any liabilities for the enterprise that may arise when a deal goes sour because a contractor signs contracts with outside units blindly can be reduced.

Third, overcome "the replacement of management by contracting" and intensify scientific management in earnest.

In internal enterprise contracting, the contractor is only required to turn over to the enterprise a specified amount of earnings at regular intervals. Meanwhile, the management of other aspects of the contractor's operations has been relaxed. Actually all aspects of a contractor's operations, including production direction, scope of business, personnel, organizational set-up, and distribution of interests, should be managed. Rules and regulations should be established as necessary to create within the enterprise a restraining system in order to ensure the healthy development of internal enterprise contract.

Noted Economists On Current Economic Problems, Solutions

90OH0217A Hong Kong WEN WEI PO in Chinese
17, 18, 19, 20, 21, 22, 23 Nov 89

[By Correspondent Zhang Jianhua (1202 2946 0202):
Newspaper Holds Seminar in Beijing For Free Discussion
of China's Current Economic Course]

[17 Nov 89 p 2]

[Text] Some of the economic policy research officers who drafted the "Decisions For Further Improving the Economic Environment and Restructuring the Economic Order" that the Chinese Communist 5th Plenary Session recently passed, as well as noted economic experts and scholars, attended a forum that this newspaper convened in Beijing yesterday for an exchange of views about China's current economic situation and economic remedies.

They unanimously agreed that the economic situation that China currently faces is extremely grim. Blind optimism on this issue will be extremely harmful. They

pointed out that the 5th Plenary Session of the 13th Party Central Committee noted that it is necessary to overcome impatience to achieve success in improving the economic environment and restructuring the economic order, in reform and opening to the outside world, and in economic development. It also noted that a summarization of experiences since founding of the people's republic is being conducted as a basis for finding the root cause of the problems that have long plagued China's guiding economic policies. Thus, they emphasized that both reforms and opening to the outside world, as well as improving the economic environment and restructuring the economic order are simply means; the key is to attain the following goal: to make China's economy follow a path of "sustained, stable, and coordinated development." They maintained that achieving this will require that even during the current process of improving the economic environment and restructuring the economic order, timely attendant system reforms and price reforms will have to be made once the time is ripe. In this regard, no imperative exists for carrying out reforms only after success has been achieved in improving the economic environment and restructuring the economic order.

The seminar was held at the Beijing "Window on the World" restaurant. The newspaper's deputy director, Chen Bojian [7115 0130 1017] chaired the seminar.

Seminar attendees stated that the central government's work in improving the economic environment and restructuring the economic order has scored definite accomplishments; overall, the economic situation is developing in a good direction. Nevertheless, the various problems resulting from stringent retrenchment positively cannot be treated lightly. Some experts reiterated that the current negative growth of industrial production has occurred simultaneous with a decline in economic returns. The central authorities must pay a high degree of attention to this. They said that the central authorities' decision to issue a certain amount of credit funds during the fourth quarter was entirely necessary. The problem is that the scale of issuance must be proper, and issuance must be done in conjunction with readjustment of the industrial structure. The issuance of these funds positively does not mean any wavering in the policy of improving the economic environment and restructuring the economic order.

Seminar attendees also disclosed that thanks to the strict control over credit during 1989, the country's financial situation has shown marked improvement; the issuance of credit funds will certainly pose no hardship.

The seminar attendees noted that the adherence of the central authorities in the 5th Plenary Session to a retrenchment policy despite the intense demands from all quarters truly required very great courage. However, when issues are looked at from a long-term and overall standpoint, continued adherence to a retrenchment policy is completely necessary. A price has to be paid for improving the economic environment and restructuring

the economic order. The problem is that this price can achieve ideal results only insofar as national circumstances and the citizenry are able to bear it, and achieving this is exactly where the difficulty lies for the central authorities in providing direction. This problem requires more investigation and study, and more listening to different views in order to insure that decisions will be democratic and scientific. [box, p 2]

The Key in Seeking Economic Development Lies in Returns. Experts Urge That Speed of Development Be Handled Scientifically

Some of the experts reiterated that for China's economy to get out of its predicament and take a path of "sustained, stable, and coordinated development," ultimately efforts will have to be made to solve problems through system reform and price reform. Moreover, some of the measures currently adopted such as price freezes and the closing of some markets can only gain temporary breathing space.

In addition, some experts used large amounts of figures to show that the development of China's economy must focus on improving returns. To regard speed of development solely and one-sidedly as an expression of the superiority of the socialist system is not a scientific attitude.

(The statements at the seminar of the economic experts concerned will be published each day beginning tomorrow. It is respectfully hoped that you will take note of them).

[18 Nov 89 p 2]

[Text] Statement by Professor Luo Yuanzheng [5012 0337 6927], a Member of the CPPCC Economics Committee, and Professor at the Beijing Economics Institute About a Common Illness of Socialist Economies—First of a Series of Excerpts from This Newspaper's Seminar on the Course of China's Economy.

When the Central Work Conference held a meeting to study economic problems, I personally felt one important thing it did was to summarize the past to provide guidance for the future. Consequently, in the presently proposed building of the economy, whether conducting reform or improving the economic environment and restructuring the economic order, there is to be sustained, stable, and coordinated development over a long period of time. Furthermore, this is also to be a very important topic for discussion at the Central Work Conference. At the same time, a common and frequently occurring illness that has always been easy to contract in the past, namely impatience to succeed, was pointed out. This gave me an especially profound impression.

The Subjective and Objective Reasons For Impatience To Succeed

I am a member of the CPPCC Economic Commission, which, in the past, many people have held responsible positions in economic departments. When I discuss matters with them, they share the feeling that to make

stable, coordinated, and sustained development over a long period of time the guiding policy for future economic work, and to write it into Central Committee documents will be no simple matter.

One common and recurring illness of socialist countries is the one-sided pursuit of speed in development and impatience for success, which causes very great harm. The poor showing of socialist country's economies is very much related to this. There are both subjective and objective reasons for this. On the objective side, socialist countries begin at a relatively low level, and they also possess a lot of revolutionary zeal as well. All of a sudden, the people become the masters in their own house. They want to catch up, and take full advantage of the superiority of socialism. It is as though this superiority is focused solely on speed. In 1958, this speed became a sharp political issue, as though the superiority of socialism could not be expressed without speed. Objectively there are reasons too, namely that the capitalist countries surround us. Their post-war development proceeded extremely fast, and their level of economic development is higher than ours. Consequently, everybody is anxious to rise. The western countries also place restrictions on us, so we try to compete with them to see just who is the best. Subjectively speaking, this is a fine desire. Actually, socialism emancipates the workers and the intellectuals, and everyone is anxious to make the country good. It is just such subjective factors that make the leaders of our party, and workers who sustain the economy prone to impatience to succeed.

For a long time, the guiding thought of impatience to succeed has been expressed in economic construction. Even in the current improvement of the economic environment and restructuring of the economic order, people want to get on with it as quickly as possible and see results. However, objective conditions do not permit so doing. The building of the economy operates according to its own objective laws. There are numerous restricting factors; one cannot subjectively do just whatever one wants to do. Consequently, thoughts and actions based on impatience to succeed come up against a wall. However, after hitting the wall, it has never been possible to turn back, or to genuinely summarize the lessons of experience. This has been a frequently seen problem in our economic construction. Once we have come up against a wall, after things get a tiny bit better, we try again. Thus, one can say that this is a common and recurring illness.

Reform Cannot Encompass the Whole Situation

At a CPPCC meeting in 1989, I made a speech in which I pointed out that the guiding thought for reform also showed impatience for success. This was manifested in several regards, one of which was suggesting that "reform encompass the whole situation," as though reform could solve every problem. I have some ideas about this. I maintain there are some problems that reform cannot solve. Of course, my view at that time was different than it is today; today is even deeper.

Not long ago at a meeting of the CPPCC Economic Committee, I also proposed an idea. This time it was not about problems in the guiding thought for reform. Instead, I said that one could not be impatient for success in improving the economic environment and restructuring the economic order. At that time, I heard people say that initial success should be visible within two years, etc. Improving the economic environment and restructuring the economic order is indispensable to reform. In particular, after 10 years of reform when very great achievements have been made, it is necessary to take a sober look and to summarize experiences. However, to suggest that improving the economic environment and restructuring the economic order can be completed in two or three years is, I am afraid, not that simple. This is because some problems have been brought to light, but some actions to be taken are either somewhat mistaken or imponderable. It is like a train that has started to speed up. Although you know very well that this is a mistake that will end up in disaster if it continues; nevertheless, if the brakes are suddenly applied, the cars will certainly tip over. Furthermore, many new problems may emerge in the course of improving the economic environment and restructuring the economic order. These problems may not be just economic problems, but may involve socioeconomic problems, and socioeconomic problems can turn into political problems.

Too Drastic Improvement of the Economic Environment and Restructuring of the Economic Order Can Easily Overturn the Train

Take, for example, the settled environment that is very much needed today if a good job of reform is to be done. Improving the economic environment and restructuring the economic order even more require the maintenance of a settled and stable environment. However, after very many capital construction projects are suddenly discontinued, a large number of construction workers will have to return to rural villages where they will become an element for instability. Those who remain in cities will also become an element for instability in cities. This may become a social problem that, if not handled well, may turn into a social order problem, which is also a political problem. Township and town enterprises confront a similar problem. Formerly everyone looked at Guangzhou with a feeling that all was very well there. Now, however, with improvement of the economic environment and restructuring of the economic order, when everything is being discontinued, it is places like Guangzhou that are first to be affected very quickly. Therefore, it is necessary to lengthen somewhat the time period for improving the economic environment and restructuring the economic order, which is a matter of systems engineering of the entire society in which individual segments are mutually restrictive, mutually dependent, mutually affecting, and mutually promoting. Should any segment be suddenly cut down or suddenly develop problems, unless full consideration is given to the overall situation, economic problems may occur. Therefore, I feel that improving the economic environment and

restructuring the economic order will take time. The current Central Committee document particularly emphasized this problem, thoroughly discussing the mutual relationship between improving the economic environment and restructuring the economic order and reform. Though very many worrisome economic problems have occurred now; nevertheless, the Central Work Committee's summarization of the lessons of past experience in terms of changing the guiding thought makes me, as well as some people around me, feel more confident. At least, the lingering root cause of the illness has been found, and prescribing medicine to treat the illness can be managed fairly well. Furthermore, the actions that the Central Committee has adopted are also well-founded. By well-founded is meant that present experiences have been considered, and how the former situation came to pass has been summarized. The friends I have contacted in every field of work, whether in banking, credit, or foreign trade, are all trying to find out how the illness began, where the problems occurred, what is to be done now, and what is to be done in the future. Such mutual coordination and mutual study by everyone will be able to surmount the difficulties to do a good job of reform and opening to the outside world, improving the economic environment and restructuring the economic order, and building the economy.

(Seminar excerpts are published according to the precedence in which participants made statements.)

[19 Nov 89 pp 1, 2]

[Text] Statement by Zhao Haiguan [6392 3189 1401], Director, Finance Research Institute, Chinese People's Bank Main Office; and Chinese Financial Society Deputy Director, Secretary, Research Fellow, and Professor: "China's Currency Issuance and the Inflation Problem—Excerpts from Statements Made at the Newspaper's Seminar on The Course of China's Economy.

I am a banker concerned mostly with currency problems. During the past 10 years, very great accomplishment have been made in reform and the building of the economy; nevertheless, some problems do indeed exist today. In my view, inflation is still the most serious of these problems. Inflation is a manifestation, in a concentrated way, of numerous economic problems.

During the last half of 1989, price inflation declined. However, since inflation was very great during the first part of the year, the extent of inflation during 1989 may be not much different from 1988. This is the overall trend. This explains the continued existence of inflation up to the present time. Of course, for the last half of 1989, the amount of inflation was much lower. This was a development in the right direction.

Situation in 1989 Better Than in 1988

The inflation problem has been building since 1984. If we look at 1989 alone, the current currency situation was not bad at all. By the end of October, we had taken some currency out of circulation, but we began to put it back in

during November. By the end of October 1988, we had put a large amount of money into circulation. By that time, to use round numbers, we had put in 10 billion yuan. By comparison with 1988, the situation in 1989 as it relates to putting currency into circulation is pretty good. It now appears that by the end of 1989, which is only a couple of months away, more currency will certainly be put into circulation. The fourth quarter has always been a time for the investment of funds; however, you may be certain that the amount put into circulation will be much, much less than in 1988, and much less than we had planned as well. The problem is that since 1984 tremendous amounts have been put into circulation each year, and always more than what was economically justified. Consequently, cumulatively quite a bit of money was put into circulation. We now have a clear understanding of the currency situation, and improving the economic environment and restructuring the economic order is truly showing results, so the situation is developing in the right direction. Consequently, I feel prospects remain good. At the same time, however, we cannot lower our guard and become careless, because our situation is that the funds invested during 1989 and 1988 add up to a large amount, and there are still a very large amount of banknotes in the market. In addition, we have reduced the amount of money put into circulation while effecting control. If we do not take the lessons of the past to heart, we'll end up taking the old disastrous road. Formerly, when we saw that the withdrawal of currency from circulation was going along pretty well, we would suddenly issue more. Issuing currency was very easy.

During the four year period from 1984 through 1988, we issued 1.69 times as much currency than prior to 1984, which is to say more than the total cumulative amount issued from the founding of the People's Republic in 1949 until 1984. So, the current currency inflation and rise in prices may be said to have built up over the years.

Overly Large Scale of Capital Construction Was Main Reason

How could we issue so much currency? Looking back now, the reasons become increasingly clear, and of all the reasons, the main one was the overly large scale of capital construction. From 1984 onward, capital construction accounted for more than 30 percent of national income each year. Formerly, the basic guideline was that the cumulative rate could not exceed 30 percent of national income, yet it exceeded that amount during those several years, and the amount by which it exceeded it was not small. In addition, consumption funds also increased very rapidly during those years, with the result that accumulation funds and consumption funds together exceeded national income. So a situation of overspending of national income occurred, did it not? With so many things available; if it had been materials rather than currency that was overspent, it would have made no difference. So-called overspending of national income actually amounts to currency inflation. It means that the amount of spending expressed in terms of currency used is larger than national income itself. With so many

materials available, how did you overspend? Put in terms of money, even though so many materials were available, it was impossible to buy them because of inflation and because of the rise in prices. Finally, by the end of the year, it was not overspending of national income, but inflation. You had so much money, but you could not buy things. Therefore, overspending in the national economy was, in the final analysis, an inflation problem. Another reason was the consecutive year fiscal deficits, which also caused a problem in outlook. It was as though fiscal deficits had become normal. Of course, in the issuance of currency, we were also influenced by the theory that there is no harm in inflation. Never mind who was to blame; this was the problem that showed up.

Double Tightening Policy To Deal With Overspending

During the early years, the issuance of currency did not restrict or limit overspending in the national economy, but rather actually provided conditions for it. If so much currency had not been issued, how could there have been overspending. I just said that overspending was a monetary phenomenon; it was an expression in monetary terms of the amount of spending exceeding the actual amount of national income. Unless you provide that much money, how can the amount of money spent exceed actual income? Formerly, when we figured the amount of currency issued, in addition to the dramatic growth in national spending, another factor was listed, namely planned price rises. For example, if the economy grew by 12 percent, and prices rose eight percent, the issuance of currency could be increased 20 percent. When you think about this carefully, it very much deserves study. Why should currency issuance take into account the percentage of rise in prices. To begin with, the reality of the amount of currency in circulation should be used to figure the amount of rise in prices, but we did just the opposite. Since your prices increased that much, we will provide you that much more currency. This cycle fueled price rises.

In view of the present currency situation and the problems that currency occasions, I heartily approve, and I have also suggested the further adoption of a double tightening policy, meaning a tightening of fiscal expenditures, and a tightening of bank credit. Once instituted, results from a tightening policy will be more readily perceptible in this socialist society than in a capitalist society. The problem is the crucial period of time; frequently such policies cannot be sustained for a sufficient amount of time. In the past, as soon as results become apparent, because of the influence of old ways of thinking, impatience for success, and a desire for speed, it is felt that putting a little money into circulation will be all right, and so inflation rises again. When things turn sour, more currency is issued. Therefore, during the present key period, when the situation regarding investment of capital has shown some change for the better, it is particularly necessary to stress the need to continue to carry out a double tightening policy. In no case should there be a large-scale release of money at this time. Naturally, when we speak of a double tightening, we do

not mean strangulation. Right now, some enterprises really do need some funds. I just came from an enterprise, so I know that there is really a fund shortage in some enterprises, and the amount needed is truly large. They really should be loaned some money. The problem is the need to differentiate among areas in providing credit, and the priority areas that need the credit. There can be no letting go, issuing large amounts at once as was done in the past. Although only two months of the year remain, in the past it has been during the fourth quarter that most investment was made, so a very large amount of credit can be issued within a month or two.

I approve of the interpretation that improving the economic environment, restructuring the economic order, and reform are not only complementary and mutually regulating, but I fear that during the period of improving the economic environment and restructuring the economic order, reform will have to be conducted along with improving the economic environment and restructuring the economic order. To a certain extent, reform will have to serve improvement of the economic environment and restructuring of the economic order. This is not to say, however, that reform will be passive during this time. In fact, improving the economic environment and restructuring the economic order will have to help implementation and enforcement of the double tightening policy, and reform will also have to be continued. If you do not have reform, anticipated goals will be difficult to attain. Take capital construction, for example, which you control every year, but which is always uncontrolled. You will have to make some reforms. Since China is economically backward, and everyone wants to move ahead, we should now establish a system for decision making about capital construction in which responsibility is taken for results from capital construction projects that are undertaken. I think such a reform is necessary. We should set up such a system now. Those who make the decisions about capital construction will have to bear responsibility, particularly economic responsibility, for whether or not the construction project reaches anticipated goals. If matters are allowed to continue as always when a project does not pan out, or when returns are low, capital construction will still be uncontrolled. Therefore, making some system reforms so that there is a mechanism for limiting capital construction problems is one point. Another point is that some reforms have to be made if, for example, the trend toward increase in consumption funds is to be controlled. Government policies spell out what consumption funds are to be increased in the control of consumption funds, so why can't consumption funds be controlled? The superiority of the country's state-owned enterprises lies in the interests of the plant manager and staff members and workers being identical, both major and minor interests. However, it is precisely because their interests are too identical that staff members and workers want consumption funds to grow a little faster, and for wage increases and bonuses to come a little faster. Plant managers and directors are not opposed to this either so long as there is no violation of policies.

Within these limits, the interests of staff members and workers coincide with those of plant managers and directors. If your bonus increases, my bonus increase too. Therefore, we must make some reforms, and we are conducting some studies to see whether it is possible to come up with some truly workable ideas to limit the headlong increase in consumption funds. The way I see things is that if the state strictly controls the growth of consumption funds in every enterprise, what autonomy will the plant manager have? Even if you decide autonomy for consumption within a certain consumption figure, what kind of consumption? However, the plant manager cannot decide the total consumption figure, otherwise, that may lead to a loss of control. Therefore, can some reform methods be used to solve the foregoing problem?

Use of Bond Issuances To Deal With Deficits

In addition, most fiscal deficits are incurred with banks for investment and loans, which is very convenient for the treasury. Ours is a socialist country in which it does not make a great deal of difference whether bank loans for investment are repaid. Therefore, there is no pressure on the investor. Can this be improved and reformed somewhat? The annual deficits that occur each year should not again be allowed to become customary as was formerly the case. The former balance between government financial receipts and expenditures should be restored, with no entries for a slight accumulated balance; you should not always run a deficit. Should a deficit occur by chance, what is to be done. Issue bonds, and sell them in the market to make up the deficit. However, banks should not be asked to buy these bonds. To have banks buy them in a socialist country ultimately leads to more issuance of currency, which amounts to going around in a circle, the fiscal deficit being made up, after much ado, by the central bank issuing more currency. Therefore, dispersed sales in the market hold very great advantages. They have a far-removed, roundabout effect on bank issuance of currency. The central bank retains the initiative as to whether to issue more currency. In addition, pressures on the treasury with regard to deficits are increased. This is because you always have to make an effort to sell bonds in the market; it is not as easy as borrowing from banks for investment. Furthermore, when the bonds you issue fall due, you have to redeem them out of revenues. This impels the treasury to do all possible to incur the least deficit and strive to achieve a balance between receipts and expenditures.

Currency Issuance Should Match Economic Growth

As far as our banks issuance of currency is concerned, increased issuance of currency on the basis of the needs of economic growth should be strictly enforced. The issuance of banknotes on the basis of the amount of economic growth is a very important principle. The banks used to say they had to overcome this or that problem, but what occurred in the past is not important. The rule to be applied is that I'll increase the issuance of banknotes on the basis of the amount of economic

growth. If this is done, all will be well. In the past year's means of payment and medium of circulation needed for the circulation of national income, so long as there was never any change in currency circulation the original amount of money in circulation was sufficient. The amount by which the amount of currency will have to be increased in 1989 will be the amount of increase in national income, or in national gross output value divided by the normal speed of currency turnover, banks increasing the issuance of currency according to this figure. After the supply of currency is increased, corresponding credit increases will have to be within this rate. This will surely mean a certain amount of discomfort, but so long as people understand that sole reliance on the banks to issue more currency is no principle to be followed in construction, the discomfort will be nothing more than discomfort. Construction depends ultimately on national income, on national gross output value, on real value, and on actual goods. The issuance of too much currency can only create a great deal of chaos, and cause inflation. I feel that if we do these things, the inflation problem can be solved. I believe that we had a stable currency for many years, and that inflation did not have to occur in a socialist system; however, that inflation may occur in the course of reform is a fact. Therefore, special vigilance should be exercised against inflation during the course of reform; in no case can there be any lowering of the guard and becoming careless. Because of the weakening of the former limiting mechanism, and the new limiting mechanism not yet being well established, inflation positively cannot be taken lightly during the course of reform, because inflation is harmful. During the process of changing limiting systems, carelessness cannot be countenanced by any means. Therefore, I feel that the double tightening policy must be continued, and the continuation of the double tightening policy must be done in conjunction with readjustment of the structure. This premise does not mean that the less investment of funds the better, but rather that investment has to be planned and made in key areas.

[20 Nov 89 p 1]

[Text] Statement by Rong Wenzuo [2051 2429 0146], Research Fellow at the Light Industry Development Strategy Research Center: "The Double Tightening Policy Has to Be Tightened Properly - Third of a Series of Excerpts from the Newspaper's Seminar on the Course of China's Economy"

I agree with the supplementary part at the end of Comrade Zhao Haikuan's talk. This means that I also approve of the tightening policy, but with one condition, and that is that the tightening has to be to a proper degree. You cannot do enterprises to death, and the tightening has to be in proportion to the speed of development of production, the speed of supply of materials, and the speed of currency increase.

Banks Have To Ease Up

Therefore, I would like to make a statement about one situation and that is: "The time has come for banks to ease up." Why? Large state-owned enterprises now have a little freedom from restraint, albeit a limited amount, that is as yet unable to fundamentally solve their problems. However, more than 80 percent of the more than 70,000 enterprises that make up the country's light industry are small enterprises, and more than 80 percent of them are collectively owned enterprises who have now reached the point where it is difficult to carry on. Furthermore, production is not something for which you can provide a loan today and be able to see quick results tomorrow. It has to run normally and steadily. So, I agree with old Comrade Zhao's final remarks, but if you had only delivered the first half of your remarks, I would have added a few things. (Laughter).

Second, I want to identify myself further here. I was formerly the editor-in-chief of the JINGJIYE ZHOUBAO [ECONOMIC WORK WEEKLY]. Consequently, I would like to elaborate a little on the topic under discussion. Hong Kong is one of our windows. Comrade Xiaoping mentioned Hong Kong in three of his important speeches, stressing the need to continue to make use of the role of Hong Kong as a window. As far as our Ministry of Light Industry is concerned, this point is especially well taken. In fact, approximately 40 percent of all of China's light industrial exports go through the Hong Kong entrepot. This relationship is really important.

Need To Develop Light and Textile Industries

Comrade Zhao Ziyang had a strategy for developing the coastal region. This was approved by the Central Politburo, and it was not just Zhao Ziyang's strategy. Some parts of this strategy, such as emphasis on the development of labor-intensive industries, I consider suited to China's national circumstances. Statistics from 1988 show light and textile industry exports as accounting for approximately 50 percent of the whole country's total exports. This means that agricultural and heavy industrial products together accounted for one-half, and light and textile industry products accounted for the other half. Furthermore, by international classification standards, light and textile industries are labor-intensive industries; thus, failure to pay attention to the light and textile industries that account for half of the country's total exports would be inconsistent with the nation's circumstances.

Second, when we talk about achieving a balance between foreign exchange receipts and expenditures, we should not think just in terms of export balance; we also have to develop other forms of foreign exchange income. For example, the "three forms of import processing and compensation trade" that Guangdong and Fujian have developed with Hong Kong is just such a form. Comrade Zhao Ziyang made a statement about this with which I agree, because this is an export of labor in the form of

products. As I understand matters, in Guangdong Province's statistics on the "three forms of import processing and compensation trade," 90 percent of the products are from the light and textile industries, and 10 percent are electronics products. In other words, China's light and textile industry products not only account for 50 percent of the country's total traditional exports, but also account for between 80 and 90 percent of its exports of labor in the form of products.

Third is income from tourism and souvenirs. A Hong Kong analysis divides revenue from these sources into three categories. One is tourist shop earnings; the second is earnings from transportation; and the third is income derived from the sale of tourist souvenirs and other merchandise. The percentage of the third category is still very small for mainland China, probably amounting to only approximately 20 percent. Potential and prospects are very great. This method consists of "earning foreign exchange from internal sales to foreign guests" in which the country earns foreign exchange at once. According to Ministry of Light Industry statistics, if China's tourist industry returns to normal, \$100 million can be earned annually from this source.

Not Just Attention to Large Enterprises

In a speech, Jiang Zemin referred to the current need to devote serious attention to large- and medium-sized enterprises. I support this view in terms of the overall situation. However, as it relates to realities in the Ministry of Light Industry, there are problems of a departmental nature. Moreover, in terms of the whole economy, there is also a problem of how to show concurrent concern for the different characteristics of light and heavy industry, and of the communications and transportation industries. Therefore, I hope that when economic levers are applied, they will be applied to large-, medium-, and small-sized enterprises in common. To apply them to only large enterprises would, I feel, not be in keeping with China's national circumstances.

As regards ownership systems, state-owned enterprises should be the focus, and should play a leading role. However, the other system of ownership economy should also be looked after. Emphasis is given nowadays to the lack of invigoration of state-owned enterprises, and I agree. They have not been invigorated, and they should be reformed. However, enterprises in the collective ownership system have not been invigorated either; and some other forms of the collectively-owned economy are also facing rather concrete difficulties. For example, the labor employment about which Comrade Luo Yuanzheng spoke today, is a major problem. Beijing Municipality has begun to take a firm grip on this problem; it has to get hold of it. If firm hold is not taken on the development of private enterprises, and if firm hold is not taken on collectively owned enterprises, labor employment will be transformed from a social problem into a political problem. In this respect, a good job of developing a economy having diversified forms of ownership is also in keeping with the national circumstances.

[21 Nov 89 pp 1, 2]

[Text] Statement by Zhang Zhuoyuan [1728 0587 0337], Director, Institute of Finance, Trade, and Economics, Chinese Academy of Social Sciences, and Professor at the Graduate Student Academy, Chinese Academy of Social Sciences: "Reforms Should Continue to Appear at the Right Times—Fourth of a Series of Excerpts from the Newspaper's Seminar on the Course of China's Economy"]

Formulation That Reform Should Encompass the Entire Situation Faulty

The decision of the 5th Plenary Session on further improving the economic environment and restructuring the economic order, and deepening reform stems from the decision made at the 3d Plenary Session in December 1988. This decision has just been issued. It consists of several documents that take two and a half days to read in entirety. I have heard only a part of them, and I have not yet read the documents carefully. My overall impression is that further changes have been made in several regards in comparison with the decisions of the 3d Plenary Session of 1988. The 1988 3d Plenary Session decisions were correct overall. Faced with the difficulties at that time, improving the economic environment and restructuring the economic order was decided upon. However, when the decisions of 1988 are looked at in 1989, I feel that not only the formulation that Old Luo (Luo Yuanzheng) just mentioned, namely that reform should encompass the entire situation, is faulty, but also that two other parts are not too suitable either. The first of these is another "guarantee that the rate of price increases in 1989 will be markedly lower than in 1988." At the National Economic System Reform Theory Discussion Symposium in September 1988, I said that on the basis of the present circumstances, it would be impossible to achieve prices in 1989 that were markedly lower than in 1988. This was because it was already very clear that more than 40 or 50 billion yuan of banknotes (currency) would have to be issued. Actually, it ended up being more than 60 billion. Nevertheless, the Third Plenary Decision at the end of September 1988 decided to include this statement. This statement cannot, in fact, be realized in 1989, because the present situation shows an estimated approximately 20 percent rate of increase in prices during 1989. Some time ago, the Price Bureau estimated it would be 20 to 21 percent; therefore, an actual rise of 18.5 percent cannot be maintained. This is one point.

Marked Success in Holding Down Inflation

Another point is that in the climate of improving the economic environment and restructuring the economic order, and during the period of rectifying the economic order, a full deepening of reform is impossible. Therefore, the current improvement of the economic environment and restructuring of the economic order, and the deepening of reform has not been applied across the board. Very clearly, given the situation in 1988, how

could advances be made in a matter such as price reform? Actually, on this point, there was some of the impatience to succeed in reform that Old Luo just spoke about, or a feeling that so long as one was reforming, one was always right. This was a little one-sided. In the decisions of this 5th Plenary Session, all of the above shortcomings were removed.

Of course, I just said that the decision of the 3d Plenary Session in 1988 to concentrate on improving the economic environment and restructuring the economic order was correct, and the successes scored in the year since the decision of the 3d Plenary Session, one would have to say, have been very remarkable. Take prices, for example. In January, prices rose 27 percent, and for the first half of the year, price rises averaged 25.5 percent. By August, they dropped to 15 percent, and by September to 12 percent. These were the general figures. If prices rise 20 to 21 percent in 1989, the part attributable to new increase will be less than 10 percent, and odds and ends will exceed 10 percent. If only the portion for which prices increased in 1989 are compared with the level of December 1988, the rate of increase is less than 10 percent. This price increase rate is lower than the interest rate, inasmuch as the fixed deposit rate for two or three months has been increased three percentage points, which is rather high. I feel that the results obtained during the past year in improving the economic environment and restructuring the economic order have been remarkable. Most important are the rather remarkable achievements made in controlling the trend toward price increases and inflation.

Too Much Deceleration of Industry Holds Dangers

Where is the problem today? The problem is that with implementation of the double tightening policy, industry grew by only 0.9 percent during September, and in October, I heard, there was negative growth. (Research fellow Rong Wenzuo interjected: Let me add that there was negative growth in October. This was not just a decline in the speed of growth, and negative growth never occurred in the past 11 years. However, even worse was that taxes and profits, meaning economic returns, showed a speed of decline greater than the decline in industrial production. Consequently, this was negative growth during a decline in economic returns, which is dangerous. If our economic returns increased, even with negative growth there would be no danger. But this was a double decline; the number of profit making enterprises were few.) According to research data from Zhou Shulian [0719 0647 6647], and the people at the Industrial Research Institute (Note: Zhou is the director of the institute), if the speed of development of our industrial production shows an annual growth rate nationwide of less than five percent, the country will be unable to maintain its financial revenue, i.e., it will be unable to maintain the former level of financial revenue. Only when it is greater than five percent will the government's financial revenues increase. If it is not greater than five percent, or if it is lower than five percent,

financial revenues may show negative growth. Therefore, today one has to look at the very great achievements made in improving the economic environment and restructuring the economic order, while at the same time noting a slowing of industrial production, and what's more, a fairly severe slowing. Accompanying it may be a decrease in government revenues, as well as the increase in unemployment and waiting for employment about which Old Rong (meaning Rong Wenzuo) spoke (Rong Wenzuo interjected: There are already 160,000 such people in Beijing); therefore one should realize that the difficulties being faced are great indeed.

So what is the next step? I feel that the Central Committee is very determined this time, meaning that it will persevere in improving the economic environment and restructuring the economic order, will do more in the way of improving the economic environment and restructuring the economic order, and will not relent on the double tightening policy. I think it takes a very great amount of courage to do this. This is because the screams from below are truly terrible; and the screams from enterprises are very terrible. Everybody wants repeal of the double tightening at the very least, and particularly a repeal of the policy of tightening credit. How is this problem to be solved? I believe the present difficulty lies in continuing to carry out the double tightening policy on the one hand, while trying to solve the excessive decline in industrial production, the fairly great effect of this on government financial revenues, and the unemployment problem on the other hand. After all, a price has to be paid to cure inflation. Curing inflation requires a decline in the speed of industrial production, and an increase in the unemployment rate. I am afraid that every country in the world has to pay this price to cure inflation. The problem is whether a country such as ours can now bear to pay this price. Furthermore, it means holding out for not just a month or two, or a quarter or two. Possibly it will take a little longer. Only after this fairly long period of time, if we are able to hold out we will be able to put the economy into a benign cycle. The resolve of the Central Committee is very great right now. The problem to me met is how to get through the present difficulties. In addition to political mobilization and ideological mobilization to get everyone to tighten his or her belt, various other measures will surely have to be adopted. For example, in the near future, a certain amount of money, called start up funds, will have to be allocated to increase credit during the fourth quarter to provide some loans to businesses, foreign trade units, and materials units for their use in purchasing some readily marketable goods, thereby stimulating enterprises to maintain regular production. This is necessary, of course. At the same time, however, it is necessary to guard against loosening credit on this account, expanding it again. This is a very tricky device to master. A case in point is if, for example, you obligate 100 billion yuan in start-up funds, just how is this 100 billion to be used? This is a big problem. If we are prone to divide it up among local jurisdictions suddenly, since some local jurisdictions proceed from

local government financial benefit, they will not necessarily use these funds as our industrial policy requires. Everyone is aware that credit is tight for the departments or products supported, and that it will continue to be tight; however, when there is a loosening up to a certain extent, and this money is made available, how to use it truly requires a lot of knowledge. How to use it in keeping with the national industrial policy, and how really to increase goods in short supply or in limited supply are extraordinarily difficult problems. If these problems are solved well, I believe some of our present difficulties will be solved.

I have also thought of another problem, which is that we are losing too much money each year through middlemen in the circulation of commodities. Some statistical data show that as a result of profiteering, speculation, and the reselling of goods for profit by middlemen, tens of billions of yuan is being siphoned into private pockets each year. Some say it is between 40 and 60 billion, and others say it is even more than that. This time the Central Committee is determined to straighten out the middlemen in commodity circulation, particularly companies. If we can recoup even half of this several billion yuan as revenue for the treasury, I think we will be able to offset a part of the fiscal losses incurred in curing inflation. The decision of the 5th Plenary Session was rather unequivocal. The last time I went to a meeting at the Ministry of Materials, they discussed the privately run wholesale coal business. They said that three peasants who operated a wholesale coal business in Fushun made several million in a several months to say nothing of what very many small collectives made. Some wholesale coal and processed steel companies run by Party and government organs raked in a very large amount of money, very much of which ended up in private pockets. If a substantial portion of this money—the tens of billions lost to private pockets each year—could be recovered for the national treasury, we could make up part of the losses caused by the decline in revenues resulting from the fall in the speed of industrial production.

Administrative Methods Cannot Cure the Root Causes

What I would like to say finally is that after preliminary results are achieved in curing inflation, I will agree with what comrade Rong Wenzuo just said about some of our suitable reforms. Although I just said that full deepening of reform will not work, some reform measures should still be applied. I am talking about problems with regard to prices. In 1989 we raised passenger ticket prices for railroad, air, and water transportation. It now appears that this decision was a correct one. This readjustment of ticket prices was fierce, bringing in 8.8 billion yuan in a year, which was more than the total from the 1979 increase in prices of eight major nonstaple foods, (the amount at that time was 6 billion yuan), and more than from the complete price readjustment for textile products in 1983, which was only 2 billion. The present tremendous price readjustment did not produce much social turmoil, and the chain reaction was not large.

Prices were readjusted in September, but very little decline in railroad passengers occurred in October. The decline was less than 10 percent, and it did not set off a chain reaction. What does this show? It shows that when achievements are made in curing inflation, some readjustments may be made in glaringly unfair prices. Therefore, I support the application of some reform measures even while persevering in improving the economic environment and restructuring the economic order, and while persevering in the double tightening policy.

Such reforms methods are the only way to really cure the root causes; they are not merely palliatives. At the outset, we instituted very many administrative measures, such as the freezing of prices, and setting maximum limits on prices of the means of production outside of plan previously freed from restrictions. These were really administrative actions. We also closed some markets, and in very many cases, these were measures taken against the growth of markets. However, such measures could only gain a breathing period for a short time. Genuine and gradual straightening out of relationships has to be done along with reform.

Price Reforms Are Imperative

For example, some of the glaringly inequitable price problems that I just mentioned have to be solved gradually. Lets talk about crude oil, for example. Following price readjustment, it was only a little more than 110 yuan per ton. This is still an inadequate price to meet our present prospecting costs. Each year we spend more than 130 yuan per ton on prospecting for crude oil, so a price of just a little more than 110 yuan certainly will not do. The price of crude oil has to be raised. Then there is coal. The price of coal was actually raised at the beginning of the year. Since coal production had slipped at that time, if you did not raise the price of coal, you would be completely out of luck. After the rise, the coal situation was better. Then there is the price of grain, cotton, and oil-bearing crops. They will have to be raised in 1990. All these are products that have been in short supply all along, and for which the prices are too low. Their prices should be readjusted during the period of improving the economic environment and restructuring the economic order once the conditions exist, and once it is possible to do so. This price structure has to be improved. So doing will help improve our entire industrial structure and economic structure. This is, in itself a reform measure, and this reform measure cannot change. Of course, major price reform measures are still impossible. For example, large scale removal of restrictions on prices is still impossible. However, firm grip should be taken on doing whatever can be done, including the reforms in many regards such as reform of the government fiscal and financial system about which Comrade Zhao Haikuan spoke, which can be done in conjunction. These reforms center around improving the economic environment and restructuring the economic order to better improve the economic environment and restructure the economic order. By so doing, we can combine the two aspects, and also find the root causes of trouble in the

guiding thought that Comrade Luo Yuanzhen talked about, namely our many years of impatience for success in construction, impatience for success in reform, and impatience for success in improving the economic environment and restructuring the economic order. Then we will be able to put the economy on the path of sustained, stable, and coordinated development. I believe that the key word among these three words (sustained, stable, and coordinated) is stable. We must seek development from a stable foundation. In the past, we have always had two factions: either stability was subordinate to growth, or growth was subordinate to stability. Now, it seems, growth should be subordinate to stability. Seeking to develop from stability seems best, and it is also more effective. In addition, economic stability remains the foundation for political stability. When this point is added, it is easier to see clearly the importance of stable development. I feel that the present summarization of experiences has truly found the root causes of the trouble. Under guidance of this thinking, we have better linked improving the economic environment and restructuring the economic order to the deepening of reform. To a certain extent improving the economic environment and restructuring the economic order, and the double tightening policy can also be more flexibly applied rather than tightening everything to the same extent with no loosening at any time, or at any point. If we can combine these aspects rather well, I believe our present economic difficulties can still be overcome.

In paragraph 3 of excerpt number 3, which was published yesterday, JINGJIYE ZHOUBAO [ECONOMIC WORK WEEKLY] should have read JINGJIXUE ZHOUBAO [ECONOMICS WEEKLY].

[22 Nov 89 pp 2, 3]

[Text] Statement by Zhou Shulian [0719 0647 5571], Director, Research Fellow, and Professor at the Industrial Economics Research Center, Chinese Academy of Social Sciences: "Why Do People Say that the Outlook is Optimistic for Improving the Economic Environment and Restructuring the Economic Order—Excerpt 5 From Statement's Made at the Newspapers Seminar on the Course of China's Economy."

Rough Estimate of the Speed of the Three Year Period of Improving the Economic Environment and Restructuring the Economic Order

The Central Committee Plenary Session communique emphasizing the need to put improvement of economic returns in first place in economic work was highly proper. What progress is being made on the 12th National Party Congress Proposal for quadrupling gross national product by the year 2000? What kind of speed will be required for such a quadrupling? And what are the determinants? There are some comrades in our institute who did some figuring, coming to the conclusion that speed is not the main issue; the key is returns. Let me give you a brief rundown on these calculations. By 1988 the task of quadrupling had been completed to

the following extent: Gross national product tripled, i.e. it increased 2.49-fold; and national income hit the 2.12-fold mark, meaning it more than doubled.

We made some forecasts on the basis of the three years of improving the economic environment and restructuring the economic order, which showed that this year, 1989, the gross output value of industry may increase seven percent; gross national product may increase 5.1 percent; and national income may increase five percent. Our figures are fairly low for industrial output value during the last two years of improving the economic environment and restructuring the economic order. For example, growth will be 5.9 percent, or about six percent in other words. GNP will probably be 4.2 percent, and national income 4.1 percent. These are basic calculations for the three years of improving the economic environment and restructuring the economic order. So what kind of speed will be required in order to achieve the quadrupling between 1992 and 2000. A lot of problems with things going on at different levels exist in quadrupling, which I will not go into in detail here. Just take quadrupling the gross output value of industry and agriculture, which will require only an annual 3.39 percent growth from 1992 to 2000. If agricultural production increases by four percent, then industrial production will have to increase by only 3.1 percent. If such speed can be maintained, the task of quadrupling the gross output value of industry and agriculture can be completed. There will be no question about this.

The Speed of Development Required for a Quadrupling

Of course, a speed of 3.1 percent is out of the question. Such a speed will be unable to satisfy the needs of economic development in many regards. The speed needed to complete a quadrupling of GNP is a 5.5 percent annual increase in the GNP. Well, what demands will an annual 5.5 percent increase in GNP place on the growth rate for the gross output value of industry and agriculture. There are several scenarios. One scenario is that if we increase returns to make a 1 to 0.92 ratio between the speed of increase in the gross output value of industry and agriculture and the speed of growth of GNP, meaning a one percent increase in the gross output value of industry and agriculture and a 0.92 percent increase in GNP, such a ratio is attainable during the first two years. Thus, the gross output value of industry and agriculture would have to grow six percent each year. If agriculture grew by four percent, industry would have to grow by 6.4 percent. If agriculture grew by three percent, industry would have to grow by 6.5 percent. Such a speed is also not difficult to attain, but if returns are not high, the ratio between the gross output value of industry and agriculture and GNP growth becomes one to 0.72. This is probably the situation that exists today. In this case, the speed of growth required of industry will be 7.6 percent per year. If agriculture grows by four percent, industry will have to grow by 8.2 percent. This is the speed problem that quadrupling the GNP poses. Next is the problem of quadrupling national income. In the eight years remaining after 1992, national

income will have to grow 5.8 percent each year. What such a speed will do to the speed of increase in the gross output value of industry and agriculture will also be determined by economic returns. If the ratio of the gross output value of industry and agriculture to national income can reach one to 0.9 percent, meaning a one percent growth in the gross output value of industrial and agricultural production, and a 0.9 percent growth in national income, the gross output value of industry and agriculture will have to increase by only 6.4 percent for a quadrupling of national income. This means that if agriculture grows by 4 percent and industry grows by 6.9 percent, national income will quadruple. However, the following kind of situation may be encountered: A one to 0.7 percent ratio between the gross output value of industry and agriculture and national income, which would mean that the gross output value of industry and agriculture would have to increase eight percent annually for a quadrupling. If agriculture grew four percent, industry would have to grow eight percent.

The Problem of Improving Benefits Will Brook No Delay

So, upon reflection, will a quadrupling be possible to achieve? As far as speed is concerned, speed in the development of industry and agriculture, particularly speed of development of industry is not the most important issue; most important is still economic returns. If fairly high returns can be maintained, the goal can be easily reached; however, if returns are not good, attaining the goal will be dangerous. So, the key does indeed lie in improving returns.

In view of the present situation of losses in industrial enterprises, increasing returns is also an extremely urgent matter. The fall off in returns of industrial enterprises is extremely serious today. In 1984, 10.7 percent of industrial enterprises showed losses; in 1985, 10.8 percent; in 1986, 13.1 percent; in 1987, 17.4 percent; and in 1988 somewhat less at 13 percent. In 1989, the number increased greatly once again. In addition, in 1984, the amount of losses was 3.92 percent; in 1985, 4.1 percent; in 1986, 7.62 percent; in 1987, 7.8 percent; and in 1988, 8.8 percent, another percentage point increase over 1987. Losses in 1988 were more than 38 percent higher than in 1987. Analysis of the foregoing figures shows clearly that increasing returns is already an extremely important matter. The Central Committee plenary session really hit the nail on the head when it stressed this point.

I would like to say something else. We are in very great difficulty today, and much serious attention will be required. As the "Decisions" said, for the most part, cadres at all levels do not take sufficient account of the difficulties. I believe this accords with the facts. On the other hand, however, we must also have confidence in being able to solve the difficulties, and such confidence does not derive purely from faith; it has a basis. Why can we maintain an optimistic attitude about solving the present difficulties? I think there are several reasons.

First of all, improving the economic environment and restructuring the economic order helps overcome difficulties. One difficulty it helps overcome is proportional imbalance. Our main problem is proportional imbalance. It also helps normalize the economic order. I believe that the former serious proportional imbalance in the national economy, and the serious disarray in the economic order made normal reproduction impossible. Under these circumstances, from an overall standpoint, emphasis on reform was only an empty phrase. Naturally, this is not to say that no reforms could be carried out. However, with the proportional imbalance, plus such disarray in the order, what reform methods could be used for comprehensive reform? This situation can be changed by improving the economic environment and restructuring the economic order. Furthermore, improving the economic environment and restructuring the economic order makes improvement of enterprise management possible, and macroeconomic control can also be improved. All these things help development of the economy, and they particularly help increase economic returns. Both the readjustment of the 1960's, and the readjustment of the early 1980's produced results.

China Has By No Means Halted Reform

Another thing is that by comparison with the readjustment of the 1960's, the present readjustment is not just a readjustment but also a reform. We have been reforming for several years, and we are continuing. There are more favorable conditions for this readjustment than for the 1960's one. Naturally, there are also some unfavorable conditions. Thanks to the reforms of the past 10 years, enterprises are much more vigorous than previously. We are continuing enterprise reform, but some people seem to think we are not reforming anymore. Today, I read a foreign news dispatch in which some people supposed that our reforms had completely stopped. Actually, this is not the case at all. Our enterprises are reforming contracting. Contracting began to be practiced in 1987. This is an evidence of the deepening of enterprise reform. We are now continuing to contract, and to perfect contracting, which shows that enterprise reform is still being carried out.

In addition, the role of the market mechanism is also more marked and greater than previously. Therefore, one has to say that not only are we readjusting as we did in the 1960's, but this is also a reform in conditions that did not obtain earlier. We have conducted 10 years of reform, and we are still further deepening reform. This is the second point.

The third point is that once our improving the economic environment and restructuring the economic order is successful, I believe that our reform will certainly deepen further. For example, price reform has to be done on a larger scale, with greater strides being taken. This is a very advantageous condition for economic development. One other point is the one that Comrade Yuanzheng just made in emphasizing the need to persevere in a policy of long-term, sustained, stable, and coordinated economic

development. Not only should this be stressed during the improvement of the economic environment and the restructuring of the economic order, but also afterward. This is the only way to avoid the former situation of a good economy followed by a fevered brain and the appearance of problems again. Therefore, so long as we resolutely carry out the plans and policies decided by the 5th Plenary Session, the economic system will be optimistic.

We should realize the many advantageous conditions for our development of the economy. We are now emphasizing that we should not seek too great speed, and this is very important; however, this is not the same thing as saying that the speed of development cannot be done at a fairly high speed. I believe that our economy is entirely able to move ahead at a fairly high speed in a sustained, stable, coordinated way. For what reason? The reason is that our accumulations are fairly high; consequently, if they are invested, returns will be good. Such an accumulation rate enables economic development at a fairly high speed. In addition, our labor force is fairly ample. The labor force in combination with capital enables the spurring of economic development. Another thing is that our natural resources are, in an overall sense, fairly copious, and we have also built a fairly complete industrial system and national economic system. Now that we have also instituted reform and opening to the outside world, the use of foreign capital, and the introduction of advanced foreign technology are advantageous to the development of the economy. So long as we draw up correct plans and policies, and stick to these plans and policies, the economic situation will certainly be optimistic. Naturally, we also must face difficulties squarely, but there is no need for pessimism.

[23 Nov 89 p 20]

[Text] Statement by Chen Jiyuan [7115 0337 0679], Director, Research Fellow, and Professor at the Rural Development Research Institute, Chinese Academy of Social Sciences: "Faltering in the Rural Economy After 1985—Excerpt 6 from Statements Made at the Newspaper's Seminar on the Course of China's Economy."

Mistaken Assessment of the Agricultural Situation

The 5th Plenary Session meeting raised agriculture to a rather important position, and put forward many very important, constructive ideas. It should be said that the whole country, from top to bottom, is concerned about agricultural problems, and that the situation is grim. How should the agricultural situation during the past 20 years be assessed? I believe that tremendous accomplishments have been made, but that problems are also exceedingly serious.

The impetus provided by reform prior to 1984, particularly following institution of rural output-linked contracting of responsibility and the tremendous increase in

prices of agricultural products, stirred peasant enthusiasm to an extremely great degree. As a result, agricultural production in 1984, including the production of grain, cotton, and oil-bearing crops, reached an all time high. After 1985, however, problems mounted. Grain, edible oil, and cotton output faltered for five years running. What caused this turn around? Today, some attribute it to rural reform, saying that the contract responsibility system created the faltering of agriculture. I believe the problem began with the too optimistic 1984 assessment of the agricultural situation, when certain formulations were advanced. It was supposed that China's grain production problems had been solved, and that a benign cycle could be formed in China's agriculture. It was supposed that henceforth China would not only not have to import grain, but that it could become a large grain exporting country. It was supposed that China had so much grain it had no place to put it, and that everyone was being asked to eat more meat, with actions being taken rapidly to transform grain. Looked at now, such formulations were too high and too optimistic an assessment of the situation. Thus, ruled by such feelings, some of the agricultural actions we took after 1985 were mistaken.

In a nutshell, the mistakes were of the following two kinds: (1) A policy of restricted production and restricted procurement was adopted for agricultural products, particularly with regard to grain and cotton, with an improper lowering of procurement prices of grain and cotton. At the same time, however, prices of the agricultural means of production rose enormously; therefore, the peasants' comparative benefits hit bottom once again after 1985. Now, the price scissors for agricultural products was not only greater than in 1979, but according to expert calculations, it was even greater than in the 1950's. Naturally, there was no way to arouse the peasants' enthusiasm, particularly their enthusiasm for growing grain. (2) Tremendous reduction in investment in agriculture. In this regard, not only did the central government reduce investment in agriculture, but local governments also reduced investment in agriculture, and the peasants themselves likewise reduced investment in agriculture. Central government reduced investment in agriculture as a percentage of investment in the capital construction of agriculture fell from approximately 11 percent to three percent. Not only did it decline in a relative sense, but also in an absolute sense as well. In addition, investment in the means of agricultural production also declined from approximately four percent to one percent. Local government investment in agriculture also declined enormously in every province. Because of the relative decline in benefits, even when individual peasants had the money, they did not put it into agricultural production for the most part. Instead, they spent it on consumption. Because of the problems in these two regards, the overall result was a faltering of agriculture. This is my personal view.

Urgent Need For the Deepening of Rural Reform

The 5th Plenary Session raised the agricultural problems. The Central Committee was very concerned about these problems. Ever since Comrade Jiang Zemin and the other new Central Committee leaders have taken charge, a series of seminars on agriculture have been held to study how to get out of the predicament in agriculture. In view of the current spirit of the Central Committee, I personally realize that for agriculture to get out of its predicament, two things will have to be done as follows: (1) stabilize rural policies, and (2) deepen rural reform. These two requirements are necessary for agriculture to get out of its predicament. In order to put such a spirit into effect, I would like to talk about five different problems.

1. The output-linked contract responsibility system has to be continued and perfected. The output-linked contract responsibility system has been criticized in recent years. It is said that the faltering of agriculture for several years in a row was created by the output-related contract responsibility system, by contracting production to individual households, and by making families the basic operating units for agricultural production. Some theoreticians also declare that the vitality of families as the basic operating units in agricultural production has been exhausted. At the theoretical symposium on 10 years of reform held in Shenzhen in 1988, Professor Tsou Chichuang [6760 5267 8369] of Princeton University said unequivocally that the vitality of peasant families as production units in China has been exhausted. Such a view has also been expressed within the country. If this view is valid, the output-linked contract responsibility system should be abolished at once. If such a change has really occurred, it will be bound to cause very great new fluctuations in China's agriculture. The peasants are also greatly concerned today as to whether changes will be made in the output-related contracted responsibility system. I personally feel that the output-related contract responsibility system still has vitality, and that it has to go on for a relatively long period of time. For a fairly long time to come, there will be no change in the basic pattern whereby families act as the basic operating units in agricultural production. Some places are now beginning to practice large scale operations, bringing land under centralized control once again. For example, this is being done in the suburbs of Beijing. However, conditions in the country as a whole are not ready for the practice of large scale operations. Conditions have to be right to practice large scale operations, and the most important condition is that you have to provide nonagricultural employment opportunities for the surplus workforce. If you cannot offer the surplus workforce employment opportunities after the change, in my view, it is pointless to talk about any change in families being basic operating units.

The Output-Related Contract Responsibility System Cannot Be Changed

The situation today is as follows: 1) The agricultural workforce should be allowed to return to rural villages once again instead of allowing large numbers of them to go elsewhere. 2) A material foundation for agriculture is needed. Without a definite material foundation, the practice of the large scale operations is unworkable. 3) The quality of agriculture must be very greatly improved. Unless the level of management is improved, it will be impossible to control large scale agricultural operations. 4) Leaving the land must be entirely voluntary. The Chinese peasants' have an extraordinarily deep attachment to the soil. To use compulsion to get the peasants to leave the land will not work.

In view of the situation in the above several regards, conditions are not yet ready for the full practice of farming on a large scale in China, but this is not to say that large scale farming should not be practiced in the future. Large scale farming should be the long-range orientation, but at the present time, it can only be done in suburban areas, or in economically developed areas, as well as in vast but sparsely populated areas. Nowadays, some people elevate the practice of large-scale farming to the status of a test of adherence to a socialist orientation as though large scale farming and adherence to socialism were the same thing, failure to do it meaning no adherence to socialism. I feel such a formulation may create new perplexities. I still feel that the family contract responsibility system should be stabilized, and certainly perfected. How can it be perfected? By improving collective services. This is a very important link. Insufficient attention has been given in recent years to the collective operations stratum. Future strengthening of the collective stratum should take the form of services before, during, and after production. This holds an extremely important position in the perfection of the output-related contract responsibility system. The second thing to be perfected is overcoming the peasants' short-term attitude. Land use rights should be gradually commercialized, which is to say that a system of transfer for compensation should be instituted for land use rights.

Some people ask whether it is necessary to have a private land ownership system before it will be possible to overcome the peasants' short-term attitude, and before it will be possible to arouse their initiative to invest in the land? I feel that a private land ownership system is unworkable in China. However, the commercialization of land use rights can overcome the peasants' short-term attitude, and stir their initiative in use of the land. The way things are now is that when the contractor's agreement comes to an end, that is that. No sooner has he invested a little capital, and no sooner has soil fertility begun to improve than the agreement expires. This is no way to get the peasants to make a bigger investment in agriculture without worrying. Improving the output-related contract responsibility system requires better

administration of contract agreements, regulating agriculture according to the law, and using the law to insure the honoring of contract agreements. Today, contract agreements lack solemnity, and worse yet they have no legal force. As an example, when a fish pond is contracted out and the contractor brings in a bumper fish harvest, envy set in, and people descend like a swarm of bees to loot the fish. When an orchard is contracted and bears a bumper crop, the fruit is looted. So people's concept of the legal system has to be improved; laws have to be used to insure protection. The output-related contract responsibility system has to be both continued and perfected. This is one problem in the stabilization of rural policies and the deepening of rural reform.

Private Economy Subjected to Political Attacks

The second problem is that agricultural produce price reforms and agricultural product circulation system reforms have to be continued and deepened. It is clear from the discussions of the 5th Plenary Session that the orientation for agricultural product prices is to be toward continued increase. I very much approve the views that Comrade Zhang Zhuoyuan just expressed. Without an increase in the procurement prices of grain, cotton, and oil-bearing crops, and an increase in peasants' comparative benefits, arousal of the peasants initiative will be, I believe, impossible. Therefore, agricultural product price reforms must continue. Another thing is that reform of the agricultural products unified assessments and procurement system must also continue. In 1985, the Central Committee defined the breakthrough to be made in the second step of reform, which was continuing to reform the agricultural products centralized assigned procurement and monopoly procurement system. However, after 1985, actually no changes were made in the centralized assigned procurement system; furthermore, because of the shortage of agricultural products, assigned procurement was re-instituted for some agricultural products on which it had been removed. A very large number of markets were re-closed, and for a time, even grain markets were re-closed. Therefore, if the problem is to be fundamentally solved, reform of the agricultural products centralized assigned procurement system will have to be continued.

The third problem relates to continuation of the coexistence of diverse rural economic components. This has also aroused some ideological worries lately as to whether the private economy and the individual economy will again not be permitted to continue to exist. The following situation has occurred in China in recent years: The political situation is tightened a little, and the private economy and the individual economy feel the effects at once. Therefore, during the opposition to bourgeois liberalization at the end of 1986 and during 1987, it was announced in Wenzhou, where the private economy had developed greatly in rural areas, that 80 percent of our economy is to be a collective economy; therefore the effect of the political situation on the private and individual economies was considerable. This

problem has arisen again under the present circumstances. I believe that as far as the ownership system in rural villages is concerned, naturally we will have to continue the socialist system of ownership primarily; however, plans and policies for continuing the privately owned and individually owned economies will also have to be spelled out.

In China, the policy that permits coexistence of different economic components is not an expedient one. Rather, one should say that it is a policy to be adhered to for a relatively long period of time. Here are at least some of the reasons why: (1) China's productivity is extremely unevenly developed. This is the case both between one region and another, and between one trade or industry and another. This unevenness in the development of productivity determines that the coexistence of different economies cannot be a temporary phenomenon. (2) The immensely different needs of the country's hundreds of millions of people cannot be satisfied without diverse economic components. (3) Solving the problem of employment for the country's large workforce also requires that diverse economic components coexist. Therefore, this policy should be continued.

Role of Township and Town Enterprises Not To Be Underestimated

The fourth problem is the problem of township and town enterprises. It is necessary both to continue to develop township and town enterprises, and to readjust some of the irrational makeup of township and town enterprises in order to solve some of the problems in their development. Township and town enterprises also go through ups and downs. Some people maintain that economic returns from township and town enterprises are lower than from enterprises under ownership of the whole people; therefore, whenever retrenchment and restructuring occur, the first target is township and town enterprises. Township and town enterprises have some problems requiring restructuring; however, when the development of township and town enterprises over the past several years is looked at, I believe their advantages outweigh their disadvantages. The active role of township and town enterprises in our national economy must be fully appreciated. This is not just a matter of economic benefits, but also a matter of social benefits. For example, township and town enterprises now provide more than 9 million jobs for the agricultural workforce, and nationally their output value already exceeds that of agriculture. The industrial output value of township and town enterprises accounts for nearly one-fourth of industrial output value for the country as a whole. This means that it has become a major integral part of the national economy; therefore, I maintain that rash policies should not be adopted with regard to township and town enterprises. Some people suppose, on the basis of a simple comparison of economic returns, that township and town enterprises should be wiped out. Actually, there is no substitute for the present role of township and

town enterprises in using industry to augment agriculture, and using industry to support agriculture. Township and town enterprise investment in agriculture is greater than state investment in agriculture. Such a role, I feel, should be fully considered. By just looking at their problems without looking at their role, it is easy to come to a skewed conclusion.

The documents of the 5th Plenary Session fully endorsed the positive role of township and town enterprises. Of course, they also noted that township and town enterprises also have problems requiring solution. I believe the main problems that township and town enterprises have are an irrational industrial structure, and competition with large industries for energy and raw and processed materials. In addition, the quality of some products is not high, and economic returns are not sufficiently good. The direction for future solution to their irrational industrial structure is already clear: (1) Industries that are integrated with large urban industries have to be developed; (2) materials should be obtained locally, the main orientation of such industries being toward the processing of agricultural products; (3) and turning out some traditional handicrafts. The structure of township and town enterprises can be made more rational through the above three means. Township and town enterprises are also an important player in the stabilization of rural policies and the deepening of rural reform.

Peasant Entry Into Cities Is a Historical Inevitability

A final problem is the problem of shifting the agricultural workforce and increased urbanization. This is also a fairly large problem that rural villages face. During the period of improving the economic environment and restructuring the economic order, some of the agricultural workforce has returned to rural villages. Statistics show approximately 8 to 9 million people as having left villages to return to rural villages, or as engaging in agriculture anew in 1989 as a result of the closing of township and town enterprises. Under present circumstances, it has naturally been very necessary for some of the workforce to return to rural villages because of the numerous difficulties encountered in improving the economic environment and restructuring the economic order. Nevertheless, there can be no wavering in the movement of the agricultural workforce elsewhere; one has to take a scientific attitude about this. We have some theoretical workers who have written articles saying that there is no surplus of agricultural labors in China, and these articles have openly appears in the press. I do not feel that one should arrive at an unscientific conclusion simply because some of the agricultural workforce had to return to rural villages when improving the economic environment and restructuring the economic order ran into difficulties. Much less should one publicize such an unscientific theory. Whether there is a surface agricultural workforce in China is, I feel, a very clear-cut issue. During the period immediately following liberation, one member of the agricultural workforce was responsible for farming approximately eight mu of land; today it is

approximately four mu. The land for which he is responsible has decreased by half, and during the past 40 years, agricultural techniques have also seen very great improvement. The level of agricultural mechanization has risen very greatly, and the use of chemical fertilizer and agricultural pesticides has spread steadily. These very simple facts show that there is a genuine surplus of agricultural labor in China. Therefore, the agricultural workforce has to go elsewhere, and China has to become more urbanized. This is an inexorable trend in socio-economic development. China wants to modernize, but if 80 percent of the population is an agricultural population, I do not think China's modernization can be realized. Therefore, we cannot waver in our realization that the agricultural workforce has to go elsewhere just because of problems with improving the economic environment and restructuring the economic order. Instead, we should say that China has too low a level, rather than too high a level, of urbanization. The movement elsewhere of the agricultural workforce is not too great, but too little. This is in long-range terms. Naturally, there are difficulties in doing this today; however, the present situation is only temporary.

I have explained China's need for stable rural policies and for continuation of rural reform in terms of the output-related contract responsibility system, reform of the agricultural produce price and circulation system, the coexistence of diverse economic components with public ownership being the main one, the development of township and town enterprises and the movement of workforces, and the level of China's urbanization. These policies can also be used to solve the problems existing in these five regards, so China's agriculture can certainly get out of its predicament.

Measures To Deal With Economic Imbalances

90OH0207A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 27 Nov 89 p 4

[By Liu Rixin (0491 2480 2450)]

[Excerpt] [Passage omitted] I think the causes of the imbalances in the economy are many-sided. Both the guiding ideology on economic development and economic structural reform constitute causes. Various factors in the actual workings of the economy interlock and crisscross with each other to create an ever more serious situation.

During the period of economic development, impatience for quick results was the paramount reason for the serious imbalances. It was not so much a lack of experience as a flaw in the economic policies of Comrade Zhao Ziyang during his long period of economic leadership. In the spirit of the CPC Central Committee's "Resolution on Certain Historical Questions Since the Founding of the People's Republic," the Sixth 5-Year Plan rather thoroughly exposed the reasons for the errors in the previous 30 years of economic work. In production and construction the main reasons were exceeding realistic

possibilities, impatience for quick results, lopsided pursuit of excessively high speed, ill-considered expansion of capital construction, slighting the development of science and technology and education, and slighting production and construction, the economic efficiency of economic management and administration, and various economic plans, various economic policies, and the overall balance and scientific proof of various economic measures¹ In accordance with the strategic plan of the 12th National Party Congress, the Sixth 5-Year Plan set forth the need to carry out readjustment, restructuring, consolidation, and improvement. The plan clearly stipulated that the average annual growth rate of industry and agriculture would be a guaranteed four percent but with five percent being strived for (that is, the plan called for four percent, but during its implementation, everyone would strive for five percent). In light of the principles of unified planning and taking all factors into consideration for people's livelihood and production and construction, the plan sought to lower the rate of accumulation to about 29 percent by 1985 and raise the consumption rate to about 71 percent. However, because the leadership impatiently cut the time for completion in half and because readjustment policies were not persistently carried out, the actual results of what was implemented were such that by 1983 industry was beginning to heat up with a growth rate of 11.2 percent. By 1984 it reached 16.3 percent and by 1985 it went to an even higher 21.4 percent, thus, year after year continuing to exceed the four percent average annual rate that was called for. The 360 billion yuan planned for investment over five years in the fixed assets of units owned by the whole people actually came to 533 billion yuan, 48 percent above what was planned. In 1985 the rate of accumulation actually reached a high of 35 percent, six percentage points higher than what the plan called for. Thus, when analyzing the Sixth 5-Year Plan, we cannot help but see that, with excessively rapid growth in industrial production, with excessively abrupt growth in fixed assets investment and in the consumption base, with some commodity prices having increased by too much, and with the state's foreign exchange reserves in decline, certain new elements of instability had appeared in economic life.

Confronted with this type of situation, the Seventh 5-Year Plan made economic stability its central focus. To avoid stretching the economy too tightly, it stipulated that every effort should be made to keep the economic growth rate and the amount of construction within appropriate limits. The plan specified for agriculture an average annual growth of four percent, for industry "a guaranteed seven percent but striving for eight percent" (that is, an average annual growth of 7.5 percent), and a three to seven ratio between accumulation and consumption (that is, a five-year average annual accumulation rate of 30 percent and consumption rate of 70 percent). To stabilize the economy, the Seventh 5-Year Plan was arranged in two periods of the first two years and the latter three years. The first two years was to focus on resolving the problems of excessive investment in fixed

assets and the too sudden growth in consumption funds. This required hard work to achieve a fundamental balance between society's total demand and total supply. Structural reform likewise had to be in conformity with economic stability. In the latter three years, reform and construction were to be carried forward in accordance with the situation. In 1987, during the second year of the Seventh 5-Year Plan, the 13th National Party Congress repeatedly made clear that the economy had to undergo stable development. The congress set forth the strategy of "emphasizing efficiency, improving quality, coordinating development, and stabilizing growth," and it demanded that the amount invested in fixed assets conform to national capabilities, that the growth in personal consumption conform to production development, and that the overall balance of the national economy be earnestly strengthened so that "frequent minor readjustments could be made to avoid being forced to implement major readjustments under conditions of serious imbalances.

Could the documents have been written more clearly? What was the actual situation? During the first 3 years of the Seventh 5-Year Plan, the average annual growth for industry was 16.7 percent, exceeding the rate stipulated in the plan by more than double. With the 1986 minor readjustments, it fell to 11.7 percent. In 1987 it climbed to 17.7 percent. Then, in 1988, it climbed even higher to 20.8 percent. During 1986, the first year of the Seventh 5-Year Plan, total investments in fixed assets for society as a whole came to 302 billion yuan, thereby surpassing the 1985 level of more than 254 billion yuan that the plan had stipulated be more or less maintained as the amount of fixed assets investment during its first two years. In 1987, fixed assets investment climbed further to 364.1 billion yuan, the two years 1986 and 1987 thus exceeding 1985 by 48 and 110 billion yuan, respectively. In 1988, the 330 billion yuan that was planned at the beginning of the year to be invested in fixed assets for society as a whole actually came to 449.7 billion yuan, exceeding the plan by more than 110 billion yuan. The 30 percent rate of accumulation that the Seventh 5-Year Plan called for during its first three years came to be roughly 35 percent. Severe inflation and price rises have occurred because of the serious imbalances in the national economy. Thus, the retail price index for 1988 rose 18.5 percent compared to 1987, and the cost of living price index for workers and staff employees rose 20.7 percent compared to 1987. As a result, the 3d Plenary Session of the 13th CPC Central Committee could not help but decide to implement improvement and rectification of the national economy—which was actually what the 13th National Party Congress said should be avoided, that is, "the forced implementation of major readjustment under conditions of serious imbalances."

Errors made in economic structural reform were a major cause in the creation of the serious imbalances. At the beginning of reform, some comrades not only proposed that there be a whole strategy and long-range program to

be implemented a step at a time for economic development but that there should also be an overall program and a coordinated and combined plan for economic structural reform. The former was adopted by the 12th National Party Congress, and despite being limited to the work standards of the time, the long-range program was still not sufficiently developed. Later on, it was not further supplemented nor was it made more specific. The latter was overruled by Comrade Zhao Ziyang, who felt that a reform program could not be achieved. This strangled this sensible proposal and thus opened the way for random reform. Theories and plans for reform then sprouted like bamboo shoots after a spring rain, popping up all over the place. As for models, first it was the Romanian model, then the Hungarian model, after that the Yugoslav model, and later the market economy model. As for the methods of reform, there were the "reflex to strike back" method and the "vertical and horizontal bounce" method which people proposed and which received attention. These were actually refurbished versions of Bruce's "trial and error" method—versions which had proven to be failures as reform practices in East European countries. The breakthrough point for reform in the beginning was to be enterprise reform, then it was to be price reform, following that it was to be ownership reform. After several years of back and forth changes, people were at loss as to what to do.

Of the reform measures currently in effect, the local financial responsibility system must take first place as having directly affected the imbalances in the national economy. Even though the local financial responsibility system has had a positive role, it definitely is not a newly developed reform measure. It is a method which has been in continuous use since it was worked out by the program for the Fourth 5-Year Plan during the cultural revolution. This financial structure amounted to an economy based on "policies from above, countermeasures from below." Despite being formulated on a macroscopic level to conform to actual developmental strategies, planned targets, financial policies, and monetary policies, it was difficult to put into effect. To increase local financial income, rapid industrial development was necessary. In this way, it was possible for industry to break away from an agricultural base. To speed up local industrial development, capital construction was vigorously pushed ahead, projects were transformed and renovated, and the amount invested in fixed assets was expanded. Because the price system was irrational and the prices of goods from the light and textile industry, the machinebuilding industry, the chemical industry, and other manufacturing industries were exceptionally high, large amounts of funds from the localities flowed into these departments. The emphasis was put on projects that "had short deadlines, adequate advanced technology, and that could have fast profit returns." In this way, internal imbalances within industry were created that caused the development of basic industries such as energy, raw and processed materials, and transportation and communications and basic facilities to lag behind that of the manufacturing industries. The foreign trade

guarantee system that was promoted in 1988 caused each locality to contend for a source of export goods, which forced up prices domestically through panic buying. This led to all kinds of big, drawn out fights for cotton, ramie, and natural silk. In the scramble for markets abroad, no expense was spared to cut prices in competition for sales, thus causing the loss of whatever advantage there might have been. In this way, exports surpassed the plan's large expansion. Subsidies for foreign trade losses were increased. This led to an expansion in the deficit. The money supply suddenly increased. There was inflation. Price increases were exacerbated. Thus, this type of "excessive foreign trade" aggravated market instability and intensified the crisis between supply and demand.

As a reform measure, the enterprise contract system has played a role in whipping up enterprise enthusiasm. However it has also been a major cause exacerbating the imbalances. In evaluating the advantages of the contract system, analysts frequently only consider it from the microeconomic angle of having enlivened the enterprises. They do not see its disadvantages caused by the resulting macroeconomic loss of control. Based on an analysis of the final accounts from the Ministry of Finance's budget data concerning state-operated industrial enterprises, contract state-operated industrial enterprises throughout the country in 1987 realized profits 19.8 percent higher than in 1986. As for remitting profits to the state (including income taxes and regulatory taxes), which is the purpose of enterprise financial contracts, there was only a 1.4 percent increase compared to 1986. In 1988 there was a 18.1 percent increase in profits. This was in contrast to a 13.5 percent drop in profits remitted to the state. As a result, in 1988 state revenues as a percentage of national income fell to the lowest level on record and the financial deficit was the highest on record. The effect of the enterprise contract system has been to greatly increase profits retained by the enterprises. Statistics show that the greatest portion of the profits retained by the enterprises is used to increase bonuses and material benefits. This, coupled with reform measures to coordinate total enterprise wages and enterprise economic efficiency (that is, using profits as the index. Actually, because of price distortions, the profit index does not truly reflect the state of enterprise economic efficiency.), fostered expansion of consumption and widened the breach between supply and demand; that is, between society's purchasing power and the supply of goods, thereby leading to market instability and price rises.

To overcome the present serious imbalances in the national economy, we first must solve the problem in our economic leadership of a guiding ideology which is too impatient for quick results. Many years of practice have shown that, if we want to solve this problem, we must gradually perfect our political system, strengthen and improve the collective leadership of the party with respect to economic work, and bring into play the function of the National People's Congress as the state's

highest organ of authority, thus genuinely democratizing the policy-making process and putting it on a scientific basis.

Secondly, we must solve the problem of the two layers, reform and development, not having been well coordinated in the present economic structural reform. During the period of the economic readjustment, all the work of reform and construction must be subordinate to and serve the central task of controlling inflation. As for structural reform, we must, in coordinating our reforms, make the curbing of inflation our central focus, and we must study and formulate an overall plan for closely combining development and reform during the period of readjustment.

In conclusion, with a 40-year history of economic construction, China has accumulated abundant experience in readjusting proportionate relationships to ensure the development of economic reconstruction. As for the readjustment at this time, as long as the entire party and the people throughout the country truly reach a common understanding in the spirit of the 5th Plenary Session of the 13th CPC Central Committee, realistically formulate feasible measures, and resolutely and thoroughly implement them, we definitely will be able to restore sensible proportionate relationships within three years or a slightly longer period of time to put the entire economy back on the track of sustained, stable, and harmonious development.

Footnotes

1. "Sixth 5-Year Plan for the National Economic and Social Development of the People's Republic of China" p 12.
2. "Collected Documents of the 13th National Party Congress" pp 16, 18, and 19).

'Appropriate' Economic Centralization

90OH0204A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 28 Nov 89 p 1

[By the JINGJI CANKAO Commentator]

[Text] The 5th Plenary Session of the 13th CPC Central Committee has proposed using three years or a somewhat longer period of time to complete the task of improving the economic environment and rectifying the economic order to gradually put the national economy on a path of long-term, stable, and harmonious development. We can only complete this formidable task if we have an appropriate amount of centralization.

The achievements of 10 years of reform have attracted worldwide attention. However, in the process of reforming an economic structure that has been too closely interconnected and too tightly controlled, we have lost sight of centralization. While emphasizing microeconomic invigoration, we have neglected the overall balance and strengthening of macroeconomic

control. As a result, the authority for the distribution of funds, foreign exchange, and goods and materials has been too dispersed and the state's ability to regulate and control them macroeconomically has been seriously weakened so that the distribution of national income is now inclined too much toward enterprises and individuals. The consequence of all this has been the dual expansion of funds for consumption and of investments in fixed assets. Society's total demand now far exceeds total supply. If we are to prevent the continued expansion of society's overall demand, we must decisively recover those topmost authorities that we relinquished. For these reasons, a proper centralization of authority is of essential significance to improvement and rectification.

Improvement and rectification need to have available relatively strong means of macroeconomic regulation and control. Under conditions where authority over finances and materials are too dispersed and the ability of the central authorities to regulate and control is weakened, then what should be reduced cannot be reduced, what should be guaranteed cannot be guaranteed, and what should be readjusted cannot be readjusted. For example, if we are to cut back on overall demand, we first have to cut back on capital construction. The State Council called for a 21 percent reduction in the overall investment in capital construction this year. However, the investment called for in the state budget only accounts for 13 percent of the overall investment in capital construction. The remaining funds are extrabudgetary and difficult for the state to control directly. Even if the entire item was cut from the budget, we still could not achieve the 21 percent reduction that has been called for. Moreover, most of the budget item is for basic industries and infrastructural facilities which we have to guarantee. Furthermore, if we are to readjust industrial structure, we must vigorously aid basic industries and make the appropriate cutbacks in the processing and manufacturing industries. However, because of the dispersal of financial resources, the state does not have the power to put more investment into basic industries and the processing and manufacturing industries are mostly outside the scope of the central authorities direct control. Therefore, if we are to complete the tasks of improvement and rectification, we have to have a suitable centralization of authority. Without it, improvement and rectification could come to nothing but empty talk.

Given the present situation, we should, during the period of improvement and rectification, at least strengthen the following aspects of centralized control:

- Adopt suitable policies and measures for gradually bringing a considerable portion of the extrabudgetary funds into the budget;
- Gradually and suitably increase the proportion of state revenue relative to national revenue and gradually and suitably increase the proportion of centrally controlled revenue in proportion to entire revenue;
- Suitably increase the scope and proportion of mandatory plans and make them more rigorous;

- Suitably raise the authority for examination and approval of construction projects to a more centralized level;
- Suitably increase the proportion of important goods and materials under unified state distribution;
- Suitably centralize the jurisdiction of price management and strengthen price management of goods important to the people's livelihood;
- Strengthen the macroeconomic regulatory and control function of the Central Bank and strictly control the issuance of currency and the total amount credit; and
- Gradually transform the excessive dispersal of the foreign trade and the foreign exchange functions and suitably centralize them.

As soon as you mention centralization, some comrades are seized by misgivings: "Several years ago reform meant decentralization of authority at every level. Now they're trying to centralize authority again. Aren't we backtracking?" These kind of doubts come from a superficial understanding of reform.

In the past, certain comrades thought the defects in the old structure came only from overcentralization of authority. As a result, reform decentralized authority. After going through several cycles of authority being "decentralized and centralized," it became clear to us that overcentralized authority was a drawback. However, it was not the only drawback in the old structure. That structure also neglected objective economic laws, including the positive function of price laws and the market as well as the simple use of administrative means, mainly mandatory resource allocation plans. If we do not institute a new method of allocating resources—a combined planned and market method—and decentralize within the framework of the old structure, there will be disorder. Once there is disorder, we will centralize again. Once we centralize, there will be stagnation. Of course, reform intends to allow the localities and enterprises to have appropriate decision-making power in management and operations and to decentralize overcentralized authority. However, decentralizing authority must be synchronized with instituting a new method of allocating resources and with the establishment of a new macroeconomic system of regulation and control. As long as these actions are synchronized, then decentralizing authority constitutes reform, as does recentralizing the topmost authorities.

When we speak of centralization, we mean overcentralization. Centralization and dispersal are a unity of opposites. If the degree of centralization is not appropriate, then it will have a reverse effect. Here "degree" means dispersal to the point where macroeconomic control does not suffer and centralization to the point where the enthusiasm and flexibility of the local authorities and the enterprises are not hindered. The two must be in tandem for things to work right. If we are to do things right, we must ask that leaders at the various levels

imbue their minds with a little more of the dialectic and with a little less metaphysics and that they better understand the practical aspects of the readjustment process and do less sitting around discussing theory. The centralized integration of the economy must depend on the realization of the centralized integration of politics, ideology, and organization. Each party member and party cadre must maintain political and ideological unanimity with the Central Committee, integrate the party line, principles, and policies in their words and action, and strengthen organizational discipline to avoid selfish departmentalism and overdecentralization.

FINANCE, BANKING

Bank 'Overload' Causes Concern

Operations, Countermeasures

90OH0126A Beijing JINRONG SHIBAO in Chinese
1 Nov 89 p 3

[Article by Zhao Zhiyong (6392 2535 0516) and He Feng (0149 1496)]

[Text] *Editor's Note: Banks retaining short-term capital for long-term use, incurring liabilities beyond the state of their assets, and similar overload operations, are presently an increasingly serious trend. This phenomenon has had serious effects on normal economic developments and has therefore aroused widespread concern in all quarters of society. The two articles that we are publishing today are valuable explorations of the causes for bank overloads and of methods to resolve the problem. They are worth the attention of our readers.*

I. Special Characteristics and Causes

Bank overload operation refers to the business activities of a bank as major monetary institution creating long-term assets, mainly in the form of unsecured loans, by means of incurring short-term debts, to the extent of exceeding its own ability to repay its debts.

As actually seen in the present overload operations of the specialized banks, the special characteristics of these operations are:

1) Imbalance between total liabilities and total assets. Specialized banks will make temporary loans from the People's Bank, take in short-term funds from the market, use funds of affiliated banks, defer settlement of inter-bank payment obligations, or even retain tax funds that should have been turned over to the state, to close the gaps they have created by issuing loans to an excessive extent.

2) Imbalances in the internal structure of assets (here mainly loans), obstructing liquidity of asset. Mainly turning short-term liabilities into long-term assets, turning current fund loans into long-term working fund loans of a basic start-up character. An incongruity in the

amounts and due dates of liabilities incurred in the face of available assets. Conflicts arising between "soft debts" and "hard debts."

3) Very long periods of cumulative delays. The present overload operations of banks has not come about overnight, but is the result of cumulative practices over many years. Up to now, no improvement has ever been achieved in this situation, but, on the contrary, the situation has been and is continuously deteriorating.

4) Broad scope and large sums involved. As to the scope of these overload business operations, we see that they are being practiced by banks and regional offices, be their funds well-managed or poorly managed, and by banks and regional offices in economically well-developed regions or in rather backward regions. As to the amounts involved, these operations have in recent years been spurred on by an overheated economy and by skyrocketing commodity prices, so that for a considerable number of banks and regional offices the larger the gap widened, by "loaning funds out before taking adequate amounts of deposits in," the larger grew the amount of their excessive liabilities.

There are many reasons that would induce banks to engage in overload business operations, the major ones being:

1) Internal motivation of all banks to make a profit and the external pressure of competition among specialized banks. In recent years, propaganda had predominantly emphasized that banks should operate like proper business enterprises and to regard profit-making as the purpose of their operations. This has driven specialized banks to the intensified pursuit of their own selfish interests and to efforts to increase profits by expanding the scope of their loan operations. At the same time, while still having to do with a less than perfect business mechanism, they lopsidedly advocated and engaged in a "free-for-all in the selection of their bank or enterprise connections." To expand their power and raise their standing, some banks relaxed credit terms, and some even disregarded every policy and principle of lending, some even went so far as to grant loans to enterprises without having a solid source of capital funds.

2) The overheated economy and the commodity price inflation stimulated demand for capital funds throughout society. In recent years, many places in a lopsided manner went in particularly for more high-speed projects, new constructions, expansions, and technological transformations. After the projects had been completed and put into operation, there was nowhere to provide basic start-up funds, so that the same bank was still relied upon to provide all these funds by means of using current funds as a sinking fund with a start-up fund character. At the same time, inflation of commodity prices accelerated steeply, but enterprises would, on the one hand, seldom use the increased value of their materials and goods in stock to replenish their own capital funds, but allowed most of it to be turned over to public

finance or to be eaten up by general consumption. On the other hand, enterprises had to buy raw materials and accessories at high prices, which increased their demand for funds and prolonged the use of funds already in their hands.

3) The wide array of funds floating about outside of the banking system weakened the financial power of the specialized banks. In recent years, various investment companies, financial service companies, trust associations, finance corporations, and similar organizations have sprung up in large numbers. Credit operations in a variety of forms, such as borrowing and lending from or to the general public and raising funds from the general public, have increased, and the issue of various kinds of shares and bonds has also increased. Due to the fact that these organizations, credit patterns, and credit tools enjoy a much more favorable business environment than the specialized banks of the state, that they also rely on improper methods to wage unfair competition with the specialized banks, they are the cause for much capital circulating outside the banking system. This increased pressure on the specialized banks to supply more capital, and thus added fuel to the fire as far as the overload operations of the specialized banks were concerned.

4) Public finance is shifting much of its burden on to the banks, increasing pressure on the banks to supply more capital funds. In the last few years, public finance has shifted a large proportion of its task to supply funds for capital constructions on to the banks, without, at the same time, increasing the current funds of the enterprises, so that the whole burden of providing all current funds is placed on the shoulders of the banks. On the other hand, the banks were compelled to buy huge amounts of government bonds, which reduced the capital resources of the banks.

II. Consequences, Dangers

Overload business operations not only reduce the state's ability to exercise macroeconomic control, they not only upset the balance in credit funds, but may also lead to business crises of utmost danger.

1) They impede the state's macroeconomic regulation and control. Overload business operations of the specialized banks is bound to disrupt the established credit pattern of determining the amount that can be lent according to the amount of deposits taken in. It is also bound to render ineffective the People's Bank's main means of regulating and controlling the specialized banks—the discount rate cannot function normally and are not conducive to strengthen the mechanism of regulation and control.

2) They prevent repayment of short-term loans and impede settlements among affiliated banks and trade associates. Sources of capital funds for overload business operations are all short-term (generally not longer than three months), and the special feature of their repayment on due date is that terms are even shorter for the difference in funds from affiliated banks and from

current accounts with trade associates. A large part of these liabilities is used on investments in fixed assets and tied up for long periods of time; some portions are loaned out and difficult to recall within a short time, and may even have become risks and bad debts.

3) They are detrimental to the rational fund management of the bank in overall control. Inability to repay the difference in funds and short-term loan funds drawn from affiliated banks, and used up in overload business operations, increases the difficulties for the bank in overall control to manage all capital funds and weakens its ability for systematic regulation and control. Inability to recover the difference in funds from the debtors and the inability to pay such funds would engender the "triangular liabilities" in the banking system.

4) They are detrimental to ensuring effective supplies and to the readjustment of the credit structure. Overload business operations turn short-term liabilities into long-term liabilities. They disrupt the capital fund balance and the normal turnover of capital, and upset the regular business patterns of the banks.

III. Measures and Countermeasures

In our opinion it is necessary to quickly adopt measures to stop the increasingly serious spread of overload business operations among banks.

1) Reinforcing the concept of "striving to achieve a balance through one's own efforts." Resolving the critical situation of insufficient funds by reliance on efforts to increase deposits and on tapping of available potential. This requires that we firmly instill the idea that "amounts to be loaned must be determined by the amounts of deposits received, and that a balance between the two must be achieved through one's own efforts." There must be no gap left in any business plan; we must put a stop to such things as having fictitious deposits supporting actual loans, or of granting loans against insufficient deposits.

2) Absorbing by every possible means whatever excessive liabilities have been incurred. What has led to overload business operations is not only the problematic guiding ideology of the banks in question but also certain objective economic factors. When gradually absorbing the various liabilities, it is therefore necessary to differentiate between the serious and less serious, and between the pressing and less pressing. As to excessive liabilities generated in the normal conduct of business operations or by the inflation of commodity prices, these must be absorbed by striving to increase long-term capital funds within the plan. As to excessive liabilities due to such abnormal factors as mismanagement or pressures from various quarters, these must be absorbed by firmly settling cases of loans to be received and overdue, by increasing deposits, and by concentrating all capital funds.

3) Urging all enterprises to promptly replenish their own circulating funds. On the one hand, local finance authorities must increase to the utmost their expenditure of extra-budgetary funds and government bond capital for the benefit of large- and medium-sized key enterprises, in accordance with the state's industrial policy, in order to replenish the circulating capital of the said enterprises. On the other hand, the enterprises themselves must replenish their own circulating capital out of after-tax profits, according to the provisions of the law. To replenish their own circulating funds, they must in particular utilize the value of their materials and commodities resulting from price adjustments. Banks should effect a linkage between their loans and interest rates on the one hand and the replenishment by enterprises of their own capital funds on the other. Through replenishment of their funds by the enterprises themselves, demand for capital funds from banks will be reduced, and capital will be released for the repayment of debts.

4) Raising efficiency in the use of capital funds, alleviating the problem of insufficient capital supply to meet demand. In recent years, efficiency in the use of bank loans has declined annually. Loans have increased faster than the value of industrial output and faster than sales have increased. Even with banks issuing loans in overload operations, it was not possible to satisfy the vigorous demand of enterprises for additional capital. Reducing the demand for loans by the enterprises will therefore not result in a landslide in production. What is necessary is to raise the efficiency in the use of capital funds and to speed up turnover of capital.

5) Enhancing management of newly added soft debts. As overload business operations are already being practiced, it is necessary to reduce soft liabilities as far as possible. Even where such have unavoidably come into being, it is necessary to: a) see to it that they are appropriately limited, and that they can be appropriately handled; b) see to it that short-term debts, as long as such have been incurred, are suited to actual needs. If borrowed for a short time, they must only be used for a short time, and must be repaid on time. There has to be an organic connection between assets and debts, in respect of their amounts as well as with regard to the time periods involved.

Bank Overload Operations in Perspective

90OH0126A Beijing JINRONG SHIBAO in Chinese
1 Nov 89 p 3

[Article by Zhao Zhiyong (6392 2535 0516) and He Feng (0149 1496)]

[Text] I. Causes of Financial Asset Overload Operations

The problem of financial asset overload operations does not only relate to the structure of China's monetary system; the forward drive in the monetary reform has given many basic-level banks the idea to expand to the utmost the scope of their business operations, and there are even other, deeper economic causes.

1) Dependence of enterprises on banks for their capital funds. During a fairly long period of time, the needs of production and operational funds of China's enterprises were uniformly taken care of by the state, namely to 70 percent by the state and to 30 percent by bank loans. In recent years, some reforms have occurred in the capital management system, however, since China's markets are still in the initial stage of development, the mechanism has not yet matured to perfection. It has not yet been possible to promote shares and bonds, and enterprises are regarding banks as the only channel for the supply of capital funds. The extensive reliance of enterprises on banks for their capital needs has compelled the financial departments to increase the issue of credit funds.

2) Intervention of local authorities in bank operations. In order to achieve a high economic growth rate for its district, every local government must ensure the most abundant supply of capital needed for economic development. The current economic and administrative system determines that local governments will intervene in financial activities. The present form of intervention has changed from the former predominantly direct intervention to one of predominantly indirect methods, in that they now submit their demands to the financial departments, and that they will be notified of the plan for annual and seasonal loan issues and of capital funds available for borrowing. With the intervention of the local governments, every financial organization will always try in every possible way to expand the total amount of capital funds it demands, in order to be able to satisfy the developmental demands of the government.

3) Assumption by banks of responsibility for many credit undertakings of a policy nature. All large Chinese specialized banks are state banks. For a long time, when operating simultaneously under the plan but also with their own autonomy, they undertook the supply and management of loans of a policy nature that had been of considerable importance. Such are, for instance, procurement of agricultural and sideline products, purchases for the foreign trade, some science and technology projects of a developmental nature, and poverty relief loans. Among all these items, the completion of which had to be ensured for reasons of policy, there were some which the banks were very willing to actively support. Some other items, however, had lengthy construction periods, showed little profitability, uncertainty as to repayment of funds, and were thus not up to the standards that would qualify them for loans and did not conform to credit principles. Their increase naturally led to a weakening of the liquidity of credit capital and to structural imbalances.

4) Neglect of proper management of financial asset capacities. At present, most of the working capital of enterprises is provided by banks, and in fact, a considerable portion of the credit capital for long periods of time owned by enterprises were bogged down there forever, having lost the true function of credit capital.

2. Methods To Resolve the Problem of Overloaded Operation of Financial Assets

Overloaded operation of assets by specialized banks has become a serious problem in today's financial developments and in the deepening of the reform, as it is the cause of a whole series of adverse effects on the entire economic life. We believe that it is necessary to adopt measures in the following four directions:

First, establish a credit asset ratio management system. The present control of the total loan is only a temporary measure, its long-term application would be detrimental to the autonomous business operations of the specialized banks, and would also dampen the enthusiasm of the basic-level banks. It would therefore be necessary to institute a management system of credit ratio. That would mean that according to what deposits had been accumulated, 75 percent of the total capital may be issued on loan, which would then make complete autonomy of business operations possible on the principle of "more deposits, more loans." It would at the same time help control the irresponsible amassing of liabilities by the various banks, their indiscriminate scrambling for capital funds, and their expansionist approach of issuing loans.

Second, we must energetically promote the changing of the business operations of specialized banks to those of proper enterprises. Our policy must be one that will no longer let the central bank take care of all operations of the specialized banks, and the specialized banks no longer completely take care of the capital supplies for the enterprises. The specialized banks must be enabled to freely decide on the volume and the direction of their investments according to their own capital capacities and in accordance with the state's industrial policies. To achieve this purpose, it is necessary to develop at a steady pace money market operations and to gradually establish and perfect such credit forms as commercial credits, guided by bank credits, borrowing and lending credits, etc. In addition, secondary securities markets in well qualified large- and medium-sized cities should be established, thereby providing enterprises and banks with broader channels for raising capital.

Third, enhancing measures for credit capacity management. Among the problems in the credit structure, some are related to the banks themselves, some are elements of a policy nature, and some are influences from the external environment. It is therefore necessary to achieve a comprehensive regulation. The banks as creditors must use such levers as credit, interest rates, and settlements, and must adopt economic, administrative, and legal means, in energetic efforts to keep capital circulating. At present it is necessary to effect a comprehensive one-time credit clean-up operation, and after thoroughly clearing up the direction and liquidity of credit capital and eliminate impediments, it is furthermore necessary to adopt appropriate countermeasures. At the same time, we must start out from establishing a mechanism of restraints on capital management within

enterprises, and in order to improve the internal structure of the available credit capacity, we must raise the proportion at which the enterprises themselves contribute to the replenishment of capital, and must strictly enforce this arrangement.

Fourth, we must continue to rectify the financial order and gradually set up norms to regulate business activities. In their business operations, all specialized banks must strictly adhere to the fundamental division of labor between them; they must clear up all cases where multiple accounts have been opened under different names, and must energetically control the senseless competition, as they all vie with each other for more loan business. Short-term loans between trade associates must only be used to resolve temporary emergencies of fund shortages, and must not be used in large proportions, or for long-term use. The People's Bank must intensify its control of the balance within the credit structure. It must seriously strengthen its measures of supervision and auditing, and in case of specialized banks operating at an overload or being ineptly managed, it must energetically urge them to mend their ways as quickly as possible and have them move on to a healthy track of business operations.

Market Formation, Reform in Circulation Sector

*90OH0135A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese
9 Nov 1989 pp 46-50*

[Article by Qiao Gang (0829 0474) and Li Youpeng (2621 3945 7720), State Council's Development Research Center]

[Text] Reform of the circulation system is an important part of China's 10-year economic reforms. The development and success that China has achieved in the circulation sector have attracted worldwide attention. Since last year, however, the weak points of economic development and various conflicts engendered in the process of systemic change have come egregiously to light in the circulation sector. An objective analysis of the causes of the various conflicts in China's circulation sector is unquestionably the starting point for overcoming our difficulties and deepening reform.

I. A Few Observations About the Current "Streamlining and Rectification" of the Circulation Sector

The current problems in the circulation sector manifest themselves primarily in the following ways: 1) With a seriously deformed price system, and after grave market fluctuations and across-the-board price rises for several years in a row, the price index rose by 18.5 percent in 1988, and inflation is clearly occurring. 2) There are too many intermediate links in the circulation chain, and there is too much chaos in circulation channels, so the cost of trading activity has risen precipitously. Particularly under the dual-track system, the market is very opaque and uncontrollable. Much speculative activity occurs, accompanied by swindling and other violations

of the law and discipline. Everything from household consumer goods to means of production has become the target of "speculative buying and selling." 3) There have been occasional wars over resources, and such phenomena as local economic separatism and departments isolating themselves from the economy have grown somewhat worse. There are many causes for the aforementioned problems. More recently, some flawed policies have contributed to the problem, while, over a longer time span, problems associated with development and reform have been accumulating. This requires a clear understanding of what is causing the problems.

Although inflation manifests itself through drastic jumps in market prices, it is primarily a problem of loss of macroeconomic control, and the direct cause is a serious imbalance between total social supply and demand. Although chaotic market regulations, the prevalence of excessively speculative activity, and increasing costs associated with commercial activity have indeed exacerbated the problem, the effectiveness of rectification of the circulation sector in relieving or controlling inflation must not be exaggerated. This method cannot fundamentally eliminate inflation. The deformation of the price system is not only made worse by inflation, but is itself a major cause of inflation. The irrational distribution of resources caused by the irrational price system is the structural foundation upon which inflation feeds.

The causes of the chaotic market order are even more complex. Promoting reform through dual-track operation regulations has inevitably had side effects, thereby affecting the success of the reforms. The lack of necessary innovation in the system and in the organizational machinery has led to chaotic market regulations and low efficiency in circulation. An economic organization in which official and commercial functions are combined and government and enterprises are not separate has caused functions to be mixed together, blurred policy mandates, added to the difficulty of enforcing market regulations, and magnified the side effects of the dual-track operation regulations. With respect to market regulations, there are three problems: One is that necessary laws and regulations have not been established in a timely manner, giving rise to a situation in which there are no laws or regulations to which the market can look for guidance. Unregulated areas include enterprises' entry to and exit from the marketplace, fair competition, and antimonopoly laws. A second problem is that some already-established laws are very flawed. Some are incomplete, some are unclear, and others have loopholes. A third problem is that existing laws and regulations are widely flouted. This is closely related to the quality of enterprises, administrative interference, and lackadaisical enforcement of the law.

The primary cause of the repeated trade wars is the current state of government revenues and the blurred distinction between the functions of different parts of the government. Faced with the dual constraints of performance evaluations by superiors and their own particular

interests, some government departments and local governments have been unable to resist the temptation of gaining increased benefits through irrational interference in the marketplace. Thus, in the realm of price setting and regulation, price hikes have occurred separately in many different localities, numerous barriers have been erected between different localities, and governmental departments have been fighting among themselves for profit. However, it should also be noted that many of the trade wars have erupted in competition for certain primary products that are produced seasonally and are badly needed for exports or by processing industries. This shows that the market trading organizations and trading instruments that we have set up for these products are very inadequate.

It should be said that windfall profits in the circulation sector, which have led to grossly unfair distribution, are the undesirable result of the fact that China's circulation sector combines administrative allocation with a market constrained by personal relationships. Currently, most market trading is deeply imprinted with the mark of personal relationships. This not only disintegrates the newborn key market elements, but also strongly affects the original planning methods. "Bureaucratic speculation" and "private speculation" alike are the offspring, to a significant extent, of special privilege, and both are deeply imprinted with the mark of personal relationships. Therefore, the chaotic situation in the circulation sector is not due merely to violations of law and discipline by small vendors and the true individual agencies. It can be said that the calls for "clean government" are aimed squarely at the illness of our times. If this goal is not achieved, the hostile mood of society cannot be fundamentally eradicated.

Since last year, the party and the government have taken a series of measures aimed at streamlining and rectification. They can basically be categorized as follows:

1. They have set about purifying and rectifying companies, and have begun to investigate the credentials of all types of enterprises involved in the circulation sector, implementing once again an enterprise registration system. The relevant departments have indicated that the efforts since last year to clear up channels of circulation and rectify companies have yielded significant progress. A group of bureaucratic and private speculators has been rooted out, and some front companies have been put out of business. Relatively speaking, it is much more difficult to deal with illegal actions committed by legally constituted commercial units than it is to deal with illegal companies. Some units that enjoy the status of legal enterprises and officially represent the state's interests engage in illegal trading. However, they don't use their official power to gain private advantage. Instead, they seek gains for the small group they are affiliated with. When these problems arise, they are difficult to deal with. According to current regulations, companies must separate themselves from the government, but because some companies run by government officials have powerful backing, they can hold onto some

of their privileges even after they have formally disassociated themselves with the government, after which they actually become legal. Because policy mandates are not clear, the dividing line between legality and illegality is not clear. For example, how does one distinguish between proper commercial transactions and illegal speculation? How does one distinguish between normal market activity versus speculation? Between the maintenance of proper inventory and hoarding? To different degrees, similar problems exist with regard to the establishment of the boundaries of commercial activity, and dealing with the dividing line between full-time versus part-time participation in commercial activity, the relationship between wholesale and retail activity, and the investigation of enterprise credentials. Some methods, which do not establish a system in a timely manner and involve merely a case-by-case approach, are not likely to solve the problem of bureaucratic and private speculation.

2. They have implemented monopolies over some important industrial means of production and industrial consumption goods. Since last year they have adopted a state monopoly over three types of agricultural means of production (pesticides, plastic sheeting, and chemical fertilizers) and five kinds of steel. Early this year a consumption tax and a government monopoly were imposed on the sale of color televisions. From the circumstances surrounding the adoption of these monopolies, it appears these actions were intended to achieve two primary objectives. One was to prevent commodities from "taking a grand tour" of the circulation sector, that is, taking long routes through the hands of many speculators. The other was to prevent price hikes from "snowballing" as goods passed through one link after another in the circulation chain. This is indeed one administrative method for dealing at certain times with commodities that are in extremely short supply. However, the essential point about government monopolies is that they rely on administrative power and inevitably suffer from all the foibles of the old system. They not only increase friction and conflict between producers, managers, and consumers; they also, in an objective sense, strengthen previously existing trade based on personal relationships, lower the efficiency of circulation, and increase the costs of commerce.

3. We have applied price ceilings to some commodities that are subject to market regulation. Several price control measures have appeared since last year. The problem is not with price controls themselves. In fact, different countries have all used various administrative means to intervene at different times. The most extreme example is where a government uses its political power to implement a total price freeze. The question is whether the purpose of a price freeze can be achieved. It is common knowledge among economists that price freezes and controls can dampen and postpone inflation, but cannot get rid of it. This is corroborated by the experience of other countries. According to relevant departments, many problems have arisen since price

controls were declared for several types of commodities last year. Neither the users, the circulation enterprises, nor the producing enterprises have been in favor of this method. Producing enterprises have lacked enthusiasm for production; users have feared that commodities would be unavailable in the marketplace, or that they would be bought up at high prices and hoarded; and circulation enterprises have dared not make purchases, but elected instead to watch and wait. In fact, people have resorted to various measures to get around this policy as soon as it was announced. For example, for previously settled contracts with prices exceeding limits, in some cases the excess amount has been classified as a processing fee. Products have been slightly altered and resold as a new product at a different price. Some small enterprises with high production costs would have lost money according to the price control plans, so the law simply has not been enforced at times. The fact that the price control policies are enforced to different degrees causes conflicts between different localities, and they have fought among each other to gain advantages. At the same time, the application of price controls on selected commodities produces internal conflicts, since the prices of different commodities are correlated. Is it also necessary to control the prices of the inputs of producer enterprises when their output is subject to price controls? If a so-called "coordinated set of price controls" were implemented, what would be the aftermath? The answer to this question is not known.

II. An Analysis of the Barriers Facing Reform in the Circulation Sector

The various conflicts and difficulties that China's current circulation system reforms have encountered, and the resulting economic chaos, have occurred primarily because barriers to market formation and development have arisen. These barriers are the following:

A. Resource Barriers. This refers primarily to the fact that the shortage of resources has limited the formation and development of markets. There are two ways this occurs: 1) China is the most populous country in the world, and the amount of resources per capita is not great. 2) Circulation resources are extremely scarce. The development of infrastructure and basic facilities, such as transportation, warehouses, communications, and ports is very backward, which shrinks market radius and damages its ability to cover large markets. The restraints just described, when combined with certain systemic and policy-related effects, have always caused a serious imbalance between supply and demand. The systemic shortages of the traditional system plunged China's economy into a chronic seller's market. As we remold our economy and promote reform of the circulation system, we must make proper adjustments to macroeconomic policy, control systemic inflationary pressures, prevent the imbalance between supply and demand from growing too extreme, and create a relatively relaxed economic atmosphere.

B. Barriers Between Areas. First, the economic structures in different regions have obviously different economic trends. In addition, transportation and communications between regions are poor. This impedes the development and deepening of cooperation and division of labor on an even keel among areas, because to a certain extent it limits the formation of a unified market as well as the overall effectiveness with which the market allocates resources. Second, in the process of reducing and decentralizing the central government's power, the ability of local governments to intervene in and regulate the economy has increased greatly. Spurred by local interests, phenomena inconducive to market formation have appeared. Districts that cut themselves off from each other is one example. Furthermore, this is not something that a simple prohibition can stop. The implementation of the system in which revenue collection is assigned to local governments has been a positive step, but viewed in terms of reform of the circulation system and the establishment of the revenue responsibility system, it has undeniably strengthened some things that should not have been strengthened, and it has entrenched some things that should not be entrenched. More important, the result of this type of change is that we now find ourselves between a rock and a hard place: On the one hand, the participation of local governments works against market formation; on the other hand, during the early stages of reform, the organization and establishment of a market cannot escape the influence of local government. Furthermore, there are generally some market factors involved in the intervention of local governments, including cooperation of product resources and compensation trade between regions. An understanding of this point could give us a firmer grip on the formation and development of China's market.

C. Functional Barriers. State-owned circulation enterprises are China's primary circulation force. They have clear advantages in terms of volume, quality, means of acquiring materials, and commercial networks. However, experience has shown that the competitive position of state-owned circulation enterprises in recent years has not been good. State-owned enterprises have commanded a steadily shrinking share in any market that has been opened up during the process of reform. Faced with the challenge of the dual-track commercial system, state-owned enterprises appear to have responded very weakly. The fundamental reason for this situation is that the functions of retailer and market regulator are both performed by state-owned enterprises. There is an internal conflict between these two functions. It is wishful thinking to expect state-owned circulation enterprises to stabilize the market, particularly as we are now vigorously implementing the rented and contracted management responsibility system. In reality, the activities of state-owned circulation enterprises in their pursuit of profit differ in no way from those of other retail units. Because these functions have not been differentiated, it is difficult to distinguish between retail losses and policy setbacks, and there has been much malpractice in the use of financial subsidies.

D. Barriers Posed by the Structure of Enterprises. There is a fundamental correlation between the confusion of the functions of state-owned enterprises and the incomplete overhaul of the microeconomic base. Only after state-owned circulation enterprises are molded into genuine market entities—sellers of commodities which are completely responsible for their own profits and losses—will they be able to perform the economic functions assigned to them. The 10 years of economic reform expanded the management authority of state-owned circulation enterprises to a certain extent, but there has been no fundamental alteration of the fact that state-owned enterprises are under the jurisdiction of the government at one level or another. The crux of the issue lies in the fact that, within the current framework that calls for separation of the two powers, the various levels of government serve as owners, but the meaning of ownership is too vague, so the necessary restraints upon the activities of enterprises are missing. When there are profits, both parties share them, but, in the end, losses are the sole responsibility of the state. This inevitably leads the government to intervene directly in the business activities of enterprises.

E. Barriers Posed by Market Organization. During the early stages of reform, state-owned circulation enterprises, which combined the government and the enterprise in a single entity and were the legacy of the traditional system, were practically the only resource from which to organize a market. As economic policies were gradually relaxed, collective and individual enterprises developed. The previously nonexistent low-level market was quickly filled in by collective trading, long-distance transport, groups of stalls and shops, and itinerant peddlers; but a high-level market suited to a modern economy was slow to form. The large numbers of administrative companies that were engendered by the old system became the organizational carriers for the operation of a market. Furthermore, due to the limiting factors of the old system, the organizational and creative functions of the market were naturally extremely weak, and the instruments and methods of market exchange were one-dimensional. A group of markets in different categories, each with its own distinctive characteristics, could not be formed, and the market mechanism took effect in a deformed manner.

F. Barriers Posed by the Price Mechanism. The price mechanism is not entirely equivalent to the market mechanism, but the formation and development of the market is inevitably connected to the issue of prices. The recent measures to free up prices provided a certain amount of opportunity for the formation and development of the market, but the real existence of irrational prices for various commodities, and the system of fixed prices, still constitute an impediment to the formation and development of the market. At the same time that local government intervention in the economy was being

strengthened, the traditional mechanism of administratively fixed prices underwent some changes, posing new difficulties for the transformation of the price mechanism.

III. Further Deepening of the Theory and Principles of Reform

We must coordinate the measures we take, targeting everything toward the development of the market, if we are to further deepen reform. We must begin by creating a series of market systems and organizations, filling in the vacuums and gaps created by the current simplistic reliance on "opening up" to promote reform. We must consolidate the gains already achieved by the reforms and prevent backsliding, which could occur during the course of reforms. To revitalize the current market system and organization, we will not only need to overhaul the original market organization, we will have to make a great effort to discover areas now existing where the market could grow, stress the expansion of new forms of market organization, and gradually establish and strengthen commodity markets with strongly defined characteristics. The key to deepening reform lies in promoting further reform of currently operating state-owned circulation enterprises, making them separate their double functions. On this foundation, we must promote a switch from administrative regulation of circulation enterprises by a plethora of government agencies at all levels to coordination among enterprises within the same field. In addition, we must adopt a program of strategic thought that includes a coordinated set of reforms targeted toward market formation and development. The problem of the distorted price system must be gradually resolved during the process of continual promotion of reforms aimed at establishing the market.

The reform strategy described above has the following major characteristics:

A. We must aggressively create the necessary conditions for the formation and development of the market.

1. Market Conditions. Relatively stable market conditions are a prerequisite for healthy development of the market. The repeated occurrence of excessive economic growth has not only affected reforms, it has limited development. It appears that it is not easy to hold the speed of economic growth within proper bounds once profit-seeking entities have become diversified. We must isolate a pattern of problems from the lessons we have learned through the last several years of alternate periods of control and inflation, and then find practical solutions.

2. Market Regulations. We must formulate the necessary market regulations and laws, and gradually perfect them in the course of reforms. We must not only stress their formulation, we must truly concern ourselves with their oversight and implementation. We must not only learn from the experience of Western countries, we must also

take China's conditions into account and formulate regulations that have our own characteristics.

3. Market Infrastructure. We must coordinate the formulation of industrial policy so as to strengthen our antiquated market infrastructure, including transportation, communications, ports, and storage facilities. We must establish three-dimensional, high-intensity transport nodes, including railroads, highways, river transportation, and air facilities, in order to expand market radius, and accelerate specialization, division of labor, and cooperation among different districts.

B. We must simultaneously overhaul the form in which circulation is organized and expand new forms by which to organize circulation. We must make sound commodity markets of all types, with strongly defined characteristics in accordance with internal demands posed by the laws of market operation.

1. Agricultural and Sideline Products. With respect to such bulk agricultural products as grains, we should introduce a futures trading system in order to prevent the large fluctuations in production and steep price roller coasters that result from time lags in the regulatory effect of the market. We must choose a few provinces and municipalities in which to open futures markets on a trial basis, taking our experience into account as we promote a proper degree of expansion. With regard to such perishables as meat, eggs, and milk, we must establish national and regional wholesale markets. We must guide and overhaul "wholesale markets" now in operation to introduce a genuine wholesale market mechanism. We must overhaul the current system of rural supply and marketing cooperatives to make them gradually become organizations linking small-scale rural producers and responding to the need for commodity circulation.

2. Industrial Consumption Goods. We must overhaul current trade centers and wholesale organs to form a wholesale market. We must use enterprise mergers and lateral economic links to develop giant enterprise groups with sales networks that cover large areas, complete communications facilities, and rapid publicity operations. Some could establish themselves as wholesale and commercial groups. This would enable them to achieve economies of scale and to stabilize the balance of supply and demand.

3. Industrial Products and the Means of Production. We must choose a few large centers for commodity concentration and distribution, and organize national commodity exchanges to carry out trading in bulk futures and spot goods. We must use various methods to overhaul the many means of production trade centers which have come into existence in recent years. One method would be to choose a group of local means of production trade centers and turn them into regional trade centers. Respecting the principle that management does not get involved in regulation, and regulators do not get involved in management, we would bring about a

gradual separation of regulatory agencies from management entities and of management entities from exchange floors. A second method would be to turn the remaining trade centers into nodes in a marketing network. In addition, we should study and learn from the experience of developed countries. Large-scale manufacturing enterprises generally play an important role in the circulation of means of production. They have their own product marketing systems, either by running one themselves or by linking up with other enterprises which can provide such services. Finally, we must stress the development of materials circulation groups.

In the process of bringing changes to market organization, we should consider the interrelated nature of the central government, local governments, and the market. It will be difficult for some time to reduce direct intervention by local governments in the economy. This runs contrary to the need (which arises during the course of formation development of the market) to break down local isolationism and establish more unified markets. We could consider taking the following measures: One would be to establish a giant circulation enterprise group which would cover many separate localities and departments. This could break down isolationism to a certain extent. The second would be to establish and develop common markets which would serve the needs of districts (providing that the various local governments were willing to participate in a manner beneficial to all). Enterprises would participate directly, while the government would exercise primarily regulatory authority and formulate regulations. The purpose would be to create the conditions for the establishment of a unified national market.

C. Separation of the Functions of State-Owned Circulation Enterprises. In the long run, we should gradually get rid of the traditional practice whereby the state uses actual goods to regulate and stabilize the market, and switch to indirect market regulation. However, we should perhaps consider the following measures over the short run: 1) We could reorganize some large-scale state-owned wholesale enterprises and warehouses which are now in operation and change them into a group of nonprofit economic entities to carry out market functions on behalf of the state. Their regulatory activities would be carried out primarily in the wholesale arena, and the great majority of the remaining wholesale and retail enterprises would genuinely perform the function of commodity sellers. 2) The government's purpose in maintaining control of a significant quantity of key materials is not to garner profit, but to stabilize the overall situation. Therefore, this type of material should be managed by nonenterprise government agencies. At present, China's State Reserve System has already established a complete set of organizations, agencies, and infrastructure, and would seem capable of performing this task. Materials circulation enterprises, for their part, should retain a one-dimensional function in carrying out enterprise management.

D. We must remold circulation enterprises and change the equity system. An important method for cultivating market entities is to bring property relationships, which are centered on the equity system, into balance. The current system of ownership by the whole people, under which government administrative organs serve as proxy managers of enterprises, has a deficiency: Government and enterprise are combined in a single entity. According to the theory of reform, the system whereby administrative organs serve as the agent of ownership should be discarded in favor of a system in which economic entities serve as the agent of ownership. These economic entities have independent interests and responsibilities, take responsibility for investment risks, are responsible for capital gains, and compete among themselves. The owners can invest funds or withdraw them in accordance with the enterprise's current situation and prospects for future development. The owners do not take responsibility for management risks in enterprise's stead, but allow the enterprises themselves to compete and take risks in order to turn them into genuine market entities.

E. We must implement reforms to establish separate taxes at the level of central and local government and to create the conditions for the formation of a unified market by promoting price reform.

F. Step by step, we must switch from administrative regulation by a plethora of government agencies to coordination within the various fields.

Finally, it must be noted that the market system as a whole also includes markets for such things as funds, labor, and technology. Although various markets of this type have appeared in an incipient form, the formation of these markets is relatively backward due to various limiting factors. To a certain extent, this can affect the overall ability of the market to fulfill its function. However, in terms of theory as well as practice, market formation and development pose an objective problem of timing. In carrying out reforms, we must be aware of the relationships between types of markets, and we must do all we can to coordinate them (or at least keep them from working at cross purposes). This is precisely the objective of deepening reforms. The process of deepening reform is, in reality, an across-the-board deepening of the market. It is the process of making the market mechanism fully perform its function of allocating resources.

Continued Tight Money Policy Encouraged

90OH0198A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 20 Nov 89 p 4

[Article by Huang Youhe (7806 0642 4421)]

[Excerpt] [Passage omitted] **Funds Tightening and Readjustment**

The question of whether funds are currently extremely tight and just how tight requires concrete analysis.

The industrial working capital credit balance at the end of the third quarter of 1983 fell to 13 percent in an 11 percentage point decline from the same period in 1988. During the same period, prevailing price industrial gross output value rose 17 percent over the same period in 1988, exceeding the rate of credit increase by four percentage points, and in marked contrast to the first quarter of 1987. Prices of the means of production were still rising in 1989. Industrial production grew 8.9 percent during the past 9 months, but because of the relative increase in products in inventory, which tied up funds, working capital was truly tight in industrial enterprises. A look at the proportional relationship between prevailing price gross output value per 100 yuan, and the industrial working capital credit balance for the second and third quarters of 1989 shows a 100:69 ratio between the two for the first quarter, and a 100:79 ratio for the third quarter. Prevailing price gross output value per 100 yuan as a percentage of credit declined between approximately three and 12 percent from the same period in 1988. Prices of the means of production rose greatly in recent years, particularly in 1988, and the percentage of material consumption in prevailing price industrial gross output value increased steadily. The percentages of material consumption in prevailing price gross output value during the third quarters of 1986 through 1989 were 68, 69, 70, and 72 percent respectively. This showed an ever increasing use of industrial enterprises' reserve funds. Unless there is a corresponding increase in loans for use as working capital, the shortage of enterprise funds and difficulties in meeting payments will get worse. Moreover, the percentage of funds that enterprises had on hand steadily decreased. Any tightening of credit or changes in market supply and demand will very greatly hurt industrial production.

However, the same period in 1988 happened to be one of loss of control over credit and the issuance of a substantial amount of credit for working capital. It is very difficult to come up with a relatively objective view when comparing 1989 with 1988. If the third quarter of 1989 is compared with the same period in 1986, credit issued for working capital as a percentage of prevailing price industrial gross output value per 100 yuan still shows a slight rise, which cannot be considered to be a funds shortage. Generally speaking, because industrial production exhibited seasonality, it tended to be low during the first and third quarters, and high during the second and fourth quarters. If the speed of development of production declined less than during the same period in 1988, it was still substantially larger than during the third quarter. Forecasts call for industrial production during the fourth quarter to remain at the same level as during the same period in 1988. As a result of the rise in prices of raw and processed materials, the prices of industrial products rose between 10 and 15 percent over the same period in 1988. The ratio between prevailing price industrial gross output value per 100 yuan and the credit balance remained at 100:73 (remaining at the same level as for the first quarter of 1986). The working capital total credit balance has to increase between 5 and

20 billion yuan. This means that the total balance of all credit will increase between 1.5 and 6 percent. This extent of increase is still a long way from reaching the high increase in credit during all the quarters of 1986.

Analysis shows the volume of credit not to be small by any means. One cannot come to the conclusion that the money supply should be eased. But why is working capital in short supply? The key lies in changes in the consumption market. Market sales were fairly weak during 1989 resulting in an increase in inventories, which tied up a large amount of working capital impeding turnover in social production. The State Statistical Bureau estimates that current inventories of industrial and commercial enterprises now exceed 50 billion yuan in value.

In view of the foregoing situation, overall, a tightening policy should continue to be carried out to control scale and regulate the structure. It is necessary to take a sober look at the easing of tight money for enterprises and production units; there positively cannot be any ill considered large scale increase in the total amount of credit. In addition, inputs of funds will have to be tilted, mostly in the direction of supporting key large- and medium-sized enterprises and enterprises that produce readily marketable commodities. It will also be necessary to call upon enterprises to take the initiative to do something about speeding up the circulation of funds; they cannot wait passively to obtain credit. In the actual implementation of a policy of controlling scale and readjusting the structure, matters such as whether banks may be allowed to provide a certain amount of credit to commercial units and material supply and marketing units so that they can make planned purchases of the readily marketable consumer goods and major means of production that industrial enterprises produce, thereby playing their role as "reservoirs" that regulate the flow of commodities and materials, we might as well term "turning on commodity circulation links." Macroeconomically speaking, turning on these links can reflect the national tilt policy. If, for example, most of the major means of production are produced by key large- and medium-sized enterprises, this action will somewhat increase the inventories of commercial and materials units. However, a reduction in industry's inventories will release funds that have "precipitated out," thereby enabling the turnover of social funds as quickly as possible.

The foregoing analysis shows that it will be necessary to maintain the tight economy policy, simultaneously using opportunities that another decrease in the speed of production and relative steadiness in product prices provide to carry out further readjustment of every part of the economy. One matter meriting special mention here is readjustment of the means of production price system. For many years, the irrationality of the country's industrial production structure has been generally recognized; however, because of the overly low prices of primary products, results obtained from readjustments of the structure have not been ideal. Since reform and opening

to the outside world, the country has several times readjusted upward the overly low comparative price ratios for primary products such as coal in an effort to use this as a starting point for a gradual rationalization of prices. However, in a climate of too much easing of the supply of capital, and overly high speed of economic development, this resulted each time in rounds of price increases of products up the line for a regression of price ratios. During 1988 alone, prices of the means of production rose suddenly and sharply amidst the continuing inability of supply to meet demand; price differences in the "double track" system steadily widened, and the commodity circulation realm was in turmoil. This delivered a setback to the building of means of production markets. Because of the serious imbalance between supply and demand, the loss of control over prices, and the lack of effectiveness of related administrative and economic price control measures, the industrial structure became more and more irrational. Now the rate of increase in prices at which the means of production are purchased has gone done again, conflicts between supply and demand have eased as a result of the tightening of credit, and no time has been lost in carrying out price readjustments gradually, but the principle still remains an upward adjustment of the prices of energy and basic raw and processed materials to advance readjustment of the industrial structure.

INDUSTRY

Third-Quarter Industrial Situation Analyzed

90OH0183A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 5 Nov 89 p 1

[Article by the Industry and Transportation Department of the State Statistical Bureau]

[Excerpt] [Passage omitted] 2. Causal Analysis

The third-quarter decline in industrial growth rate had both economic and noneconomic causes. The principle economic causes were as follows.

(1) Measures to improve the economic environment and rectify the economic order began to have an effect. After June 1989, consumer demand weakened markedly. Retail sales volume for August and September registered negative growth. If price increase factors are taken into account, the extent of the drop actually came to more than 15 percent. From January to September, accumulated investment in fixed assets under ownership by the whole people dropped 7.2 percent compared to the same period in 1988. And when price factors are taken into account, the extent of the drop is even greater. This has directly affected production of investment category goods in the machine-building and building materials industries. Input-output analysis shows that each 100-million-yuan reduction in fixed assets investment has affected 145 million yuan of industrial output value. The effect on industrial production has been gradual, being hardly noticeable during the first half of 1989. After

August, it became more evident, and in September, production of investment category goods took an across-the-board drop. As far as the funds situation is concerned, the prices of raw and processed materials during 1989 increased more than 30 percent, and this has consumed a considerable portion of working capital loans. Added to this have been serious overstocking of products, gradual exacerbation of the funds crisis, and a lack of buying, selling, and movement.

(2) The lack of balance in agriculture's proportional growth for the past several years and the inevitable results. Cotton output in 1988 decreased one-third compared to 1984, and jute and ambary hemp decreased two-thirds. During this same period, the capacity for cotton spinning expanded more than 40 percent. As of July, Hubei had shut down 250,000 spindles within the plan, and Jiangsu 224,000. The increases in sugar and silkworm cocoons have likewise not been able to catch up with the growth in processing capacity. Since August and September, products which use agricultural produce as raw materials, such as beer, white kaoliang, canned goods, dairy products, gunnysacks, woolen yarn, silk fabric, and woolen goods, dropped in production.

(3) The high base figures for 1988. The August 1988 daily output value increased 3.5 percent compared to July, and September's increased 11.1 percent compared to August. These were the highest increases in 10 years.

The influence of noneconomic factors on industrial production mainly refers to the deviation of some people regarding their lack of political understanding and their ideological understanding. The rectification in the urban and rural areas of individual enterprise households and the investigations of tax payments that took place after the counter-revolutionary rebellion was put down were basically normal undertakings. However, there has been an obvious decrease in the number of industrial and commercial units. Many privately owned collective enterprises in the cities and rural areas have actually been afraid to operate, and some have closed, creating a steep decline in the collective industry. At present, many enterprise managers have not drawn clear lines of distinction between operating without corruption and enlivening the economy and between expenditures for normal business activities and those for entertaining guest and providing gifts. Buyers are unwilling to go out, plant managers do not understand the real situation regarding contracts policy, and organization production enthusiasm is not high.

The downslide in economic efficiency has been influenced by the old problems of structure, prices, and management that have existed for many years, by this year's serious overstocking of products and the extremely rapid slowdown in industrial production, and by the loss of efficiency of scale. The principle factor affecting this year's drop in efficiency has been the increase in the sums spent on such things as wages, welfare, depreciation, major repairs, and interest. According to statistics, within-the-budget expenditures

by industrial enterprises for the above-mentioned items account for an proportional increase of 1.6 percentage points relative to sales income, roughly more than 10 billion yuan.

3. Developmental Trends

The speed with which industrial production has plummeted during the third quarter and September is in accord with economic laws, the effect of which will continue to be felt for a short time more. Unless sizeable measures are taken (for example, the release of large amounts of credit), the fourth quarter could maintain the 1988 levels or there could be a slower rate of growth. The growth rate for the entire year is anticipated to be about seven percent. If industry at the village level and below is included, the growth rate could reach the eight percent called for in the plan. Industrial production for 1990 could face even larger difficulties. The entire year could see a slower rate of growth. As for heavy industry, which has been affected by cutbacks in investments, the present relative growth in the production of energy and raw and processed materials could be slowed by reduced demand. Nor can light industry, which faces a weakening consumer's market, product oversupply, and structural readjustments, quickly move forward.

4. The Response That Should Be Taken

With the industrial economy in the 3d quarter presenting a new situation, enterprise production faces an even more serious predicament. From a long-range point of view, we must still resolutely implement the policies of improving, rectifying, and actively pushing for structural readjustment under conditions of general austerity. In accordance with industrial policy, we must carry out closings, suspensions, mergings, or retoolings with regard to past indiscriminate development and inefficient and poor quality enterprises, and we must implement an inclination policy toward trades that have been given priority for development, while combining protection as well as cutbacks in capital construction projects, thus basically resolving the problem of an improper structure. We must take measures that will realistically resolve the actual predicament we now face. To counter the weakening market, we must actively organize sales, including sending products to the rural areas. For products whose fixed prices are inappropriate, we can consider using price leverage where suitable. At present we could consider releasing as soon as possible a batch of commercial loans the interest of which would be paid in advance. This would increase the purchase of everyday consumer goods and industrial goods beneficial to the economy and the people's livelihood. We must allocate funds for the construction of key projects according to schedule, make advanced arrangements for the energy needed in the production and processing cycles and for the large scale electromechanical equipment used in communications and transportation, and support key projects to guarantee future construction needs.

Sichuan's Local Steel Industry Meets Production Goals

40060021A Chengdu *SICHUAN RIBAO* in Chinese
14 Dec 89 p 1

[Summary] By the end of November, Sichuan's local steel industry had produced 637,800 tons of steel, a 6.3 percent increase over its 1989 production quota and a 9.2 percent increase over 1988 production levels. The industry also produced 704,700 tons of steel products, an 11.85 percent increase over quota and 10.59 percent more than in 1988. Pig iron production was over 820,000 tons, 96.5 percent of the 1989 quota and a 4.93 percent increase over the same period in 1988.

According to forecasts by experts who attended a discussion on developmental strategies for Sichuan's iron and steel industry held in November, Sichuan's consumption of steel products in 1990 may grow to around 3.8 million tons. Since local industry will supply 20 to 25 percent of the steel needed, the market situation for local metallurgical enterprises should be better in 1990 than in 1989.

SMALL-SCALE ENTERPRISES

Commentator on Township Enterprises

90OH0208A Beijing *RENMIN RIBAO* in Chinese
28 Nov 89 p 5

[Commentator's article: "Revise, Reorganize, Remold, and Improve—Important Principles for Healthy and Steady Development of Township Enterprises"]

[Text] After successive years of high-speed growth in our country's township enterprises, development this year has shown a very obvious deceleration. Slowing excessive speed, better rationalizing the economic structure encompassing product and enterprise, lightening demands on energy resources and raw materials, reducing waste, and increasing benefits will not only be advantageous to promoting sustained, steady, and coordinated development of the national economy on the whole, but will also help the healthy development of township enterprise themselves. During this general administrative reorganization period, township enterprises must, without fail or exception, adhere to the principles of "revising, reorganizing, remolding, and improving."

When we speak of "revising" and "reorganizing," we are not referring to a passive limitation of the progress of township enterprises. The CPC Central Committee and the State Council have repeatedly stressed, encouraged, and supported the development of township enterprises without any change of policy. The cadres of the villages as well as the masses should rest assured of this.

Township enterprises have become an irreplaceably vital part of our national economy. Last year, 27.6 percent of our total industrial output value came from township enterprises; it gave our nation a currency exchange of

\$8.02 billion. In exporting finished clothing alone, township enterprise products accounted for 49.6 percent of purchases by foreign buyers. In the past 10 years, township enterprises cumulatively paid 114.69 billion RMB [renminbi] in taxes. They accounted for over half of the net increase in tax revenue.

An even more important and more direct effect of township enterprises has been its support of the modernization of farm villages and development of agriculture. Its effect has been even more noticeable in the face of financial difficulty on the part of the government, making it difficult to spend more money to aid village building and agricultural advancement.

According to official estimates, in the most recent 10 years, the money spent by township enterprises for subsidizing and establishing agricultural activities reached 16.28 billion RMB, or about 35.4 percent of what the government spent in such investment. It has been generally given that, wherever township enterprises have developed well, there has been growth in educational, technological, and cultural areas. There has been better participation in farming, more modernization in production, and an increase in the rate of intensive farming. There has also been a lessening of the burden on the farmer; cadre and mass relations have become more harmonious. When one considers that the correlation between the massive numbers laboring peacefully on farms and the stability of society, people would attach even more importance to township enterprises.

Township enterprise has strengthened the collective economy as well. In 1988, village and town capital reached 312.5 billion RMB, including 158.4 billion in fixed capital. This is a key part of our socialist "family" property.

Especially since township enterprises occupy such an important place in the development of village economy, we must ensure that their development stays on a healthy track. We must not gloss over shortcomings for the sake of the ultimate goal. We must realize that social and historical factors have contributed to a tendency to go blindly, to duplicate, or to overlap. Another aspect is the duplication of activity with urban enterprises, with different areas, and within the same area—all have occurred, leading to disconnected production and management structures, resulting in large-scale waste of energy resources and raw materials. There are other areas which, spurred by a previous period of overheated economic environment, made large investments without regard to plan or method.

Moreover, there has existed, in uneven degrees but clearly nevertheless, evidence of variances in management, product quality, consumption of energy, and raw materials, as well as pollution in different regions. It is from such a reality that the CPC Central Committee and the State Council decreed the "revise, reorganize, remold, and improve" policy so as to lead township enterprises onto a track for even healthier development.

This is a positive policy for long-range development of township enterprise. Everybody must realize this, must lead it onward in consideration of the overall requirements of national economic administration and reorganization. One must seize the initiative in revising product and production structures and seriously reconstitute the economic spirit, positively remold or rebuild backward equipment and production methods, and work hard to raise standards of management and technique.

In revision, one must start out with reality, follow industrial property policies, exert protection and pressure where appropriate, and not use a "single knife cut" to solve problems. One must support those enterprises that directly serve agriculture, major industry, integral sets of manufacturing enterprises, those that generate foreign exchange, those that originate or terminate on foreign soil, and those products that are marketable. One must not belittle anything just because it has a "rural" tag. As to those that are clearly nonproductive yet compete for materials with big enterprises, seriously waste things, have no benefits, and pollute the environment seriously, or have products that cannot sell, one must be determined to "close, stop, combine." If not, one will pay the consequences. Indecision and missed opportunities will result only in even worse economic losses.

From now on, we must encourage and guide township enterprises along the road of subsidiary farm products and local raw materials, utilize to the greatest advantage massed labor and traditional arts and crafts so as to serve and develop toward big enterprise and integral manufacturing, and conform to the overall requirements of city and township economies. Only thus can township enterprises develop deep and lasting roots and a bright future.

We must instill such confidence, and can by seriously implementing the "revise, reorganize, remold and improve" policy. Our nation's township enterprise will thus be even healthier, and will sail on with even greater confidence and make a major contribution to the continued, stable, and coordinated development of the national economy.

FOREIGN TRADE, INVESTMENT

Abuses of Foreign Exchange Control System Analyzed

90OH0031A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in
Chinese No 32, 14 Aug 89 P 14

[Article by Hsu Chiu-sheng (1776 4428 3932)]

[Text] Foreign trade and foreign exchange control systems complement each other; reform in a foreign trade system inevitably brings about changes in the foreign exchange control system.

Not Compatible with the Reform Demand of Foreign Trade System

The situation of China's foreign exchange control at the present time is: The system has been set up, but it needs to be amplified; it is in name only, and does not agree with reality; its regulation and control strategy lacks accuracy, and its business management is losing control; the legal system is far from perfect and the market is in chaos. Its incompatibility with foreign trade reform lies in:

1. *The system has been set up, but it needs to be amplified, so it is in name only, and does not agree with the reality.* This year the State Foreign Exchange Administration Bureau has been separated from the Bank of China, and is under the direct administration of the State Council. Since branch bureaus at provincial and city levels are still under the dual administration of the People's Bank and the local government, they cannot give full play to the function of independent management of foreign exchange and can only depend on provincial sub-bureaus and the People's Bank. Employees at branch bureaus are not very qualified, and they lack professional skills. The foreign exchange control deals only with investigation and research, or daily office management.

2. *Foreign exchange regulating centers lack vitality.* Foreign exchange regulating centers are very bureaucratic, and since they are directly subordinated to the Foreign Exchange Administration Bureau both administratively and operationally, they have the same staff serving two heads. There are foreign exchange regulating centers and their divisions in provinces, cities, and districts all over China, but they all have different regulations and diverse practices. There is no uniformed control over the market. The rational circulation of foreign exchange and its diversion have been blocked, because each area is responsible for its own financial management with no obligation to other areas. Organizations under the same administration at various levels are not coordinating with each other, and there exists a serious local conservative mentality that causes blocking of a rational, horizontal flow of foreign exchange funds. Market prices are not based on supply and demand of foreign exchange. The way foreign exchange is regulated is divorced from economic efficiency. Administrative orders direct the way in which foreign exchange is to be used. There is no control over market risks. Risks such as exchange rates are all shifted to the units that use foreign exchange to create foreign exchange. This makes the adjustment of the foreign exchange trends unrealistic, inaccurate, and without a standard, losing effectiveness as a result. Also, since the funds in the foreign exchange regulating market are regulated without the knowledge of the people involved, even more channels of foreign exchange funds are blocked. On one hand, both parties involved in the adjustment feel that they suffer reverses, so foreign exchange-earning and foreign exchange-using enterprises are dampened in their initiative; on the other hand, foreign exchange regulating centers in some provinces speculated that foreign exchange earning-enterprises

must turn in a certain percentage of their retention fund to the centers; some centers collect foreign exchange by force, in the name of the government, from foreign exchange earning-enterprises at prices lower than market prices. Since foreign exchange earning-enterprises have lost their own authority, they are filled with complaints and worries. They would rather freeze their funds instead of putting them into the regulating market. Foreign exchange-using enterprises also feel that prices at regulating centers are not rational. Now that the state is in a tight money situation, and has cut down the number of loans, the regulating market often faces a dull situation of having a market without business, or having business without a market. With circulation of foreign funds slowed down, the market lacks vitality.

3. *Planning and management of foreign exchange are made by too many departments without a uniformed control.* The current system of foreign exchange planning and management is that various departments make plans and manage foreign exchange separately. Since there is no coordination in planning, plans cannot be made and carried out in a systematic and proper way. Departments at various levels do things in their own ways. Departments under the same administration are not related to each other. Anyone can control foreign exchange, but no one is controlling it.

4. *Lacking good control over foreign exchange rates.* At the present time there are no efficient managing measures over foreign exchange rates; the exchange rates are in chaos: there are state exchange rates, regulating market exchange rates, and also black market trading rates. All rates are in operation at the same time in economic activities. State exchange rates are too high, while the market regulating exchange rates are only a symbol of administrative measures, and are not playing their part as a level in market regulating. Beyond state exchange rates and market regulating exchange rates, the black market trade is running wild day by day. It has turned from underground to the open, and has become a common occurrence. In some places there are phenomena such as illegal purchase of foreign exchange with force, demanding foreign exchange, and circulation and profiteering. They are competing with state exchange rates and the regulating market, disturbing the state financial order and the state market. In this respect, foreign exchange management departments appear to have less ability than their wishes.

5. *The retention of foreign exchange, its role of "serving many masters" and the "separation of two rights."* Currently, the state gets the most share of the foreign exchange, the government gets a medium-sized portion, and the enterprises get the least. This ratio is not rational. Since foreign exchange "serves many masters," everybody wants a share, this further dwindles the already limited foreign exchange funds. Because foreign exchange earnings are made through export, the efforts of who gets how much foreign exchange are not well coordinated, and the exchange funds are not allocated to the enterprises in a timely manner, the initiative of

foreign exchange earning-enterprises is affected. In the problem of "separation of two rights," there is the right to use foreign exchange and the right to keep foreign exchange. The enterprises might get the foreign exchange but cannot use it freely, and the existing administrative orders make this problem worse. On the other hand, everybody wants to use foreign exchange to do business, causing serious loss of the available foreign exchange, irrational structure of foreign exchange, loss of profits, blindly import, or worse, repeated import of wrong items, or import technically backward equipment and production-line items. This problem was evident in the case of "Hainan Automobile Craze" in 1984, and the imports of color TV, all of the production equipment and production lines in recent years. Since so many people are using foreign exchange, there is not enough to go around, thus causing the state's foreign exchange reserve to deplete, the accounts to freeze, and the enterprises to complain.

6. *The legal system needs to be amplified.* There is no strict legal boundary in cases violating the foreign exchange control system. Each department is not sure of its duty; the public security, the industry and commerce, and the customs all have authority to interfere, but they are not precise in determining the nature of the cases. At the regulating market the lack of more satisfactory trading regulations, which will guide the correct operation of the market, has weakened the regulating and control strategy of the foreign exchange control system.

7. *Foreign debts are not handled efficiently.* For a long time, the management of foreign debts has been in chaos, with many parties involved, and many parties getting loans. This caused the management of foreign debts out of control. The existence of unstable structures of foreign debts, inflated loans, low efficiency, and unrealistic statistics has all severely affected China's reputation in foreign countries. Last year the State Council stipulated that all foreign loans be handled by the People's Bank of China, and its affiliated state foreign exchange administration bureaus, thus putting an end to the chaotic situation of foreign debts management. But there are still things which need to be adjusted and amplified in areas like foreign debts management, foreign debt structure, returning debts, and the operation of foreign debts. Beginning in 1990, China will enter the peak year of returning debts. The country's economy will face a severe test.

Motions of Reform on Foreign Exchange Control System

As to how to reform China's foreign exchange control system and make it compatible with the reform of China's foreign trade system, the author suggests the following two ways:

First, legislation of the foreign exchange control system should be strengthened. Perfecting foreign exchange management rules and regulations are very effective measures to strengthen the macromanagement of foreign

exchange. At present, the main emphasis should be on strengthening legislations that cover violations of foreign exchange management, legislation on the legalities of borrowing foreign loans, enacting provisions on foreign exchange rate adjustments, restriction and regulation mechanisms, and rational guidance on the direction of using foreign exchange.

Secondly, reform and strengthen the macromanagement of foreign exchange system. Foreign debt management departments should be set up for specific handling of China's foreign debts, and foreign exchange regulating market should be improved, regulating mechanism should be strengthened, the foreign exchange regulating market should subordinate to the fund market of the People's Bank, and foreign exchange should be used as leverage to guide the market for normal operations. In addition, we should abolish the foreign exchange management departments and transfer the operations in the foreign exchange management bureaus to foreign trade offices, Bank of China or People's Bank according to the different situations. People's Bank must then strengthen the planning and the management of foreign exchange and be in charge of market regulations. It should also strengthen the macromanagement control of foreign exchange planning.

Downgrade of Externally Oriented Economy Advocated

90OH0133A Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 5, 28 Sep 89 pp 65-67

[Article by Liu Changli (0491 2490 7812), Northeast College of Finance and Economics]

[Text] I. Externally Oriented Economy Is But One Part of China's Economy

I believe that the extent to which a nation's or a region's economic activity depends on domestic and international markets and whether its economic structure (including demographic, labor, employment, consumption, productive, urban, regional economic, energy, import-export, education, research, and other compositions and patterns) is rooted primarily in domestic or in international markets and division of labor are the criteria by which to determine whether the economy of that nation or region is oriented externally or internally. One cannot make such a determination on the basis of the unique role in economic development played by a single activity, such as external economic activity. It is an objective fact that each type of economic activity influences economic development in its own unique way. Scientific and technical work, industrial production, and banking, for example, all exert their own unique impact on economic development. And economic development is shaped ultimately by the combined effects of all forms of economic activity.

China is a large country with a population of over 1 billion, is vast, and possesses a panoply of productive

sectors, great market potential, and much room for the development of regional and sectoral division of labor and exchange. The experience of nations with populations of 100 million or more demonstrates that the fundamental fact that China's economy is domestically oriented is unlikely to change no matter how advanced its externally oriented economy [EOE] becomes. That is to say, in the past, today, and in the future, EOE, which is rooted in international markets and division of labor was, is, and will always be, but a part of China's economy. Moreover, the experience of other countries of the world demonstrates that, under the market mechanism, China's EOE development must be rooted in the development of its domestic economy. A given enterprise or sector will instinctively be impelled toward external development and truly become guided by international markets only when the products of that enterprise or sector have basically satisfied domestic demand and exhausted sales growth potential at home or earn better returns abroad. Thus, all EOE's that are divorced from domestic markets and division of labor are on shaky ground and sooner or later must revert to domestic orientation.

The program advanced by the center for vigorous EOE development by coastal regions calls on the regions to focus on foreign-exchange earning through export of labor-intensive products, to aggressively participate in the great international circle, to put both ends abroad, and to engage in high-volume two-way trade. This, in essence, is synonymous with vigorous development of foreign trade, the only difference being that EOE development goes beyond the unique role that foreign trade plays in China's economic development. That is to say, by aggressively participating in the great international circle, coastal regions can shift labor out of agriculture and avoid vying with the interior for materials, funds, and markets; earn much foreign exchange and obtain much foreign capital, technology, and managerial experience; carve out a niche for themselves in the international division of labor and in international exchange and thereby introduce the market mechanism; etc. In real life, we frequently see and hear reports in newspapers, books, periodicals and on television and the radio of the vigorous EOE development undertaken by certain regions or enterprises, which reports for the most part deal with the details of the regions' and enterprises' efforts to develop external trade.

Naturally, once the EOE development program was unveiled, some theoretical workers presented further interpretation of EOE. The conceptualization that is most widely accepted today is that EOE is an economic development model, economic mechanism, or economic structure that is guided by international markets and under which the state provides appropriate policy packages, the nation possesses a powerful export industry, enterprises are able consciously to participate in international division of labor and competition, more foreign capital can be obtained, exporting accounts for 40 percent or more of GNP, or export procurement value

equals 20 percent or more of gross industrial and agricultural output value, and the like. This conceptualization, however, misses the very meaning of "economy" and ignores the fact that foreign trade forms but a part of China's economic activity and the basic fact that China differs from other small nations. Thus, we must reexamine this concept in a more scientific way.

II. The Strategy for EOE Development Cannot Serve as the Master Strategy for Coastal Economic Development

As everyone knows, coastal economic development strategy forms a part of China's strategy for regional economic development; is rooted in the fact that a gap exists in the levels of productive force development achieved by the coast, central China, and the west; permits coastal economic development to advance a step before the rest of the country; and is of crucial importance in promoting the economic development of the entire nation and thus in achieving the objectives of China's master strategy for economic development.

Nevertheless, since the coast is an important component and the flower of China's economy and since key economic cities, major industries and research organs, an outstanding labor force, and other things are concentrated in the region, we must ensure that both the master strategy for China's economic development as well as subsidiary strategies are successfully implemented in this region in particular.

Clearly, emphasizing the uniqueness of the coast, making the strategy for EOE development the master strategy for coastal economic development, and rendering the strategies for coastal demographic, scientific, technological, industrial, agricultural, urban, and other types of development subservient or subsidiary to the EOE strategy in effect accord the latter a status and role equivalent to those of the master strategy for China's economic development. This is contradictory in terms and harmful in practice.

Over the past year, the coast, while vigorously developing EOE, has achieved remarkable economic growth, especially in exporting and in obtaining foreign capital, where considerable progress has been achieved. These are facts and cannot be overlooked. Yet even so, we still must squarely confront the following disadvantages of making the EOE strategy the master strategy for coastal economic development.

1. The practice of making the EOE strategy the master strategy for coastal economic development disrupts the effort to restructure production. So long as Chinese heavy and chemical industry cannot compete internationally, focusing the effort to develop exporting and foreign-exchange earning on labor-intensive production is a practical choice. Second, labor-intensive production requires little capital or know-how and thus is suited to the development of town and township enterprises, so the claim that these entities constitute the main force of the effort to develop EOE is fully justified. The problem, however, is that labor-intensive production is not the

goal of China's economic development and participation in international division of labor and that town and township enterprises do not constitute the key forces of our national economy. Thus, a great contradiction arises when EOE is not treated as a part but as the core and goal of coastal economic development. This is especially true in provinces and regions possessing good heavy and chemical industrial bases, such as Liaoning, where the issues of whether the effort to develop EOE should focus on urban or town-township enterprises, key large- and medium-sized enterprises, or medium- and small-sized firms, and light and textile industry or heavy and chemical industry have arisen. Meanwhile, some industrial sectors that are at the stage of import substitution have introduced export-led developmental strategies and initiated preliminary EOE development through simple labor-intensive production of components, parts, machines, and electrical goods. Thus many people have argued that the coast should focus its effort to restructure production on EOE, and some people have even opined that Liaoning's heavy and chemical industries and large- and medium-sized enterprises must supply light and textile industry and town and township enterprises with productive machinery and equipment and the like.

So long as China's level of industrialization remains low, focusing our effort to restructure production on EOE rather than on the state's industrial policy diverts the attention of chemical and heavy industry from stepping up import substitution, which effort is designed to enable these industries to achieve levels of productive technology that are advanced by world standards. This cannot but disrupt China's effort to restructure its production.

2. The practice of making the EOE strategy the master strategy for coastal economic development undermines the effort to create a salubrious cycle in which "exports nurture imports."

Summarizing the successful experience of late developers, such as Japan's effort during the 1950's to catch up with Europe and America and South Korea's effort to industrialize during the 1970's, most of these countries achieved in their foreign trade a salubrious cycle in which "exports nurtured imports." That is to say, the countries used the foreign exchange they earned through export (for which the state provided necessary subsidy and preference) of goods produced by sectors in which the countries were strong to finance procurement of patented technology, machines, equipment, raw materials, and key components and parts and then used industries in which the countries were weak to effect import substitution and to rapidly reduce the gap between their levels and those of advanced countries. In this process, the export and foreign-exchange earning role of light, textile, and other such labor-intensive industries served as the "trousseau" for the development of heavy and chemical industry.

Since EOE has been established as the goal of China's coastal economic development and must also turn a

profit, so long as our terms of trade cannot be improved, EOE cannot help in turning around the tendency of "imports to nurture exports," which arose as follows. Foreign trade departments lose money because they procure many products at high prices and export them at low prices. Since the departments bear responsibility for profits and losses, they must stress importing so as to offset their export losses. The reason why China has experienced a flood of imported cars, televisions, video recorders, refrigerators, and other consumer durables is because foreign trade departments import such goods at low prices and sell them dear, thereby earning profits with which to counterbalance export losses.

"Import nurture of export" is a manifestation of foreign trade departments' pursuit of short-term gain, contravenes the principle that exporting by late developers should primarily be directed toward foreign-exchange earning, and thus is antithetical to "using exports to nurture imports." This practice implies that China must purchase, rather than promote, modernization through foreign trade. In view of the successful catch-up efforts by Japan, South Korea, and other countries, which imported few or no automobiles, household appliances, or other consumer durables, we must rethink our overemphasis on EOE development.

3. The practice of making the EOE strategy the master strategy for coastal economic development undermines the effort to correctly handle the relationship between international and domestic division of labor. When the strategy of participating in the great international circle was unveiled, there grew up the idea of promoting EOE from west to east, a notion that still persists. That is to say, some people believe that, once the coast puts both ends abroad and engages in high-volume two-way trade, the coast will no longer vie with the interior for raw materials and markets, which state of affairs will give western and central China a chance to develop and thus enable western products to break into central China, goods from central China to penetrate the coast, and coastal products to carve out international markets. This approach, which replaces domestic with international division of labor, entails severing the division of labor and trade relations between the interior and the coast and undertaking redundant investment and factory building in western and central China. Not to mention the issues of whether or not the approach can even be carried out and whether or not it would benefit China even if it could be carried out. If, excepting necessary restructuring, we shift production of all the products supplied by the coast, especially by Shanghai, Jiangsu, Beijing-Tianjin-Tangshan, and Liaoning, to the interior so that the latter can supply its own needs, how will the economic ties between the coast and the rest of the nation be preserved? And how will Shanghai, which is part of the coast and whose division of labor and exchange with the rest of the nation are already limited and weakening, continue to serve as the nation's largest economic center? Does China no longer need economic centers? We have clearly gone overboard here. To

abandon domestic division of labor in order to develop the division of labor between the coast and the rest of the world and to stress external orientation and not domestic orientation is very misguided.

4. The practice of making the EOE strategy the master strategy for coastal economic development undermines the effort to fully exploit the international environment. The international environment for China's economic development and for China's EOE development are two different things. Peace and development have become world leitmotifs; global economic ties are growing ever closer; relations between East, West, South, and North are relaxing; global scientific and technological revolution, a tide of reform, and economic restructuring are under way; the center of the world economy is shifting toward the Pacific; economic development in Asia and in the Pacific is especially rapid; and so forth. Hence, the international environment for the development of China's economy can be said to be better than ever. But for EOE development, that environment is grim indeed.

During the 1980s, world trade reached record levels, but ever since the second oil shock the economic growth posted by major developed capitalist countries has slackened, trade imbalances and friction have intensified, and thus world trade growth has slowed. From 1980 to 1986, global exports rose by only 6.4 percent, in stark contrast to the 8.7 percent growth posted in the 1950's, the 9.4 percent registered during the 1960s, and the 19.3 percent of the 1970's. In both 1987 and 1988, world exports, as computed in U.S. dollars, rose by more than 10 percent but actually grew by only three to four percent when adjusted for the depreciation of the dollar. Since the factors contributing to slow growth in the world economy during the early 1980's persist, with some continuing to worsen, not only will the economic growth of the United States and other developed capitalist countries remain sluggish, a new global economic crisis could occur at any time, and protectionist sentiment has already appeared. Thus prospects for growth in world trade are by no means bright.

Not only that, but during the 1980's there occurred many changes in the world economy that are detrimental to developing countries, especially backward ones. The changes took place primarily in the following areas:

First, exports of developed capitalist countries surged, while those of developing countries fell. From 1980 to 1986, exports of developed capitalist countries' exports climbed from \$1,267.9 billion to \$1,471.3 billion, or 16.4 percent, whereas those of developing nations (excluding socialist countries) fell from \$560.1 billion to \$443.1 billion, or 20.9 percent. Consequently, developed capitalist countries' share of total world trade rose from 63.3 to 69 percent, while that of developing countries declined from 28 to 20.8 percent.

Second, the exports of moderately developed countries rose, whereas those of other developing countries fell.

Although the exports of developing countries overall have declined since 1980, those of moderately developed countries have risen significantly, and of the latter, the "four little dragons" of Asia have posted especially rapid growth, ranging between 0.5 and 2-fold. Thus if these countries' growth is deducted, the decline suffered by other developing countries becomes even greater.

Third, industrial exports have risen, while primary product exports have fallen. Statistics from leading exporting countries show that from 1980 to 1986 industrial exports increased by 30.2 percent, while primary product exports fell 19.3 percent. Consequently, the share of industrial products in total exports climbed from 51.9 to 63.5 percent, while primary product share slipped from 48.1 to 36.5 percent

Fourth, primary product prices have slumped, and developing countries' terms of trade have deteriorated. In contrast to the 1970s, developing countries' terms of trade steadily worsened while those of developed capitalist countries continually improved between 1980 and 1987 because primary product prices declined by 34 percent between those two years and for other reasons. If 1980 terms of trade are indexed at 100, by the third quarter of 1987 those of developing countries had fallen to 77 while those of developed capitalist countries had improved to 113.

These changes in world trade stem from both the irrationality of the current international economic order and from the scientific progress and productive restructuring achieved by developed capitalist countries, which moves have undercut the labor and resource advantages enjoyed by developing countries.

Since China opened up to the outside world in 1979, its trade has skyrocketed, with annual export growth usually running between 20 and 30 percent, rates that rival those posted by the "four little dragons." This performance is very much related to the improvement in China's export capability and to the fact that China started off at a low level. In the future, as the Asian-Pacific economy develops and as China's economic cooperation with the Soviet Union and Eastern European countries improves, China's foreign trade will continue to expand. But in view of the facts that the world trade picture is growing grimmer each day and, especially, that China cannot improve its terms of trade overnight, we must not be overly optimistic.

The growth in trade friction and protectionist sentiment has spurred developed capitalist countries to restructure their production and to step up direct investment abroad. This, then, is a very opportune moment for China to obtain foreign capital and to develop import substitution industry.

Thus if we treat EOE as part of the coastal economy and vigorously develop EOE when the international environment is advantageous, coastal economic growth will not be jeopardized even when the world trade situation is

unfavorable or, worse still, if developed capitalist countries suffer severe economic crises and China's export markets dry up. In this way, we can from all directions exploit advantageous factors in the international environment and ensure the stable growth of the economies of both the coast and the interior.

TRANSPORTATION

Improving Road Toll Collection

90OH0185A Kunming YUNNAN RIBAO in Chinese
21 Oct 89 p 2

[Article by Yan Li (2518 0500) and Lin Xingwen (2651 5281 2429)]

[Text] Highway maintenance fees are a legally sanctioned source of revenues for the state. They are levied upon vehicles and used for roads. They are a principal source of funds for the maintenance of highways. Highway construction is an enormous engineering project. Large amounts of funds must be spent on construction and improvement, but state funds are limited. Large sums cannot be spent on highway construction. Highway maintenance fees must be relied upon.

With the vigorous development of the transportation industry, state-run, collective, and individual enterprises have created a new situation in which there are many different forms and channels of highway transportation. This has added to the difficulty of collecting highway maintenance fees, and added a new problem and a new responsibility to the task of collecting highway maintenance fees. Some of the original methods of highway maintenance fee collection no longer suit collection work development needs. We feel the following problems must be solved in order to do a good job of highway maintenance fee collection.

First, we must firmly grasp the task of building up a corps of collection workers and instilling professional ethics. We must raise the collection personnel's understanding of policy, as well as their quality. We must inculcate the ideology of complete devotion to serving the people.

Second, we must earnestly and correctly carry out the policy of "collecting all that must be collected, collecting nothing that is exempted." We must handle affairs in accordance with the "Highway Maintenance Fee collection Methods," which were issued in 1950 and state that "roads must be maintained by those who use them." We must enable the collection of highway maintenance fees to become a set state regulation.

Three, we must strengthen supervisory tactics and reinforce roadside control. Strengthening supervisory tactics is an important measure toward stopping up leaks and increasing revenues. After the reform of the highway and traffic management system, supervision, management, and fee collection were separated, thus fee collection lost the very effective support of the supervisory function,

and difficult funding problems became more pronounced than before. Collection and supervisory departments must put a stop to the old "your mileage is on the house" practice, in which units with vehicles were allowed to pay whatever they wished, and unpaid fees were simply forgotten. These departments must diligently hit the road and visit the various units to "drive the fish into the net." We must also secure the cooperation of petroleum departments. We must get them to demand proof of payment of highway maintenance fees before accepting gasoline ration tickets and supplying gasoline.

Four, we must implement a system of unified maintenance fee collection and supervision. Collection and supervisory departments should issue motor vehicle license plates, oversee vehicle manufacturing, and inspect the skill and qualifications of vehicle repairmen. After the reform of the traffic system, supervisory authority was given to the public security apparatus. Issuance of license plates, transferral of place of registration, and deed transfers are taken care of by vehicle regulatory departments within the public security system. Collection and supervisory departments have no control over the issuance of new vehicles, nor do they have any jurisdiction when the place of registration for a vehicle is transferred out of their area, even when the highway maintenance fee for the vehicle has not been paid, and they often don't even discover that a vehicle's registration has been transferred to another area until they attempt to collect overdue fees. If the issuance of motor vehicles, transferral of place of registration, and deed transfers were handled by the collection and supervisory departments, delinquent fees could be reduced. These departments would not permit vehicles that owe highway maintenance fees to transfer registration out of their area, and they would not accept applications to register vehicles in their own area that were not accompanied by a receipt proving that local authorities had been notified of the intent to transfer registration or deed. Only in this way can we achieve our goal of "collecting all that must be collected, collecting nothing that is exempted."

Five, we must switch from calculating fees on the basis of transport income to calculating them on the basis of vehicle tonnage. Under the impetus of the economic reforms, large numbers of transport enterprises have implemented the contract management responsibility system. Transport enterprise vehicles for which fees had been paid based on the amount of business they generated have now been contracted out under many different formats to individuals. As a result, income from transport is not accurately reflected on the books, and evasion of highway maintenance fees has arisen. If we calculate fees based on total vehicle tonnage, it will assure stable revenues from highway maintenance fees.

Six, we must resolutely stick to reform and innovation. We must use legal means to implement a system in which the levying and payment of highway maintenance fees are governed by contract and subject to notary. In recent

years, a small minority of work units and individuals have ignored the state's policy on highway maintenance fees. They have a fuzzy concept of the legal system, and use every artifice in their attempts to reduce, postpone, or evade payment of highway maintenance fees. Privately operated vehicles do not abide by fixed contracts for payment of highway maintenance fees, and the problem of arrears in this area is growing more serious all the time. One problem is that the state has yet to formulate any legislation regarding the collection of highway maintenance fees, so the matter is not yet on track within the legal system. The second problem is that when responsibility for safety administration and automobile inspection was handed to public security organs, an effective instrument for aiding in fee collection was lost. Collection and supervisory departments have been hemmed in and rendered powerless, and their personnel are ready to climb the walls. In order to do a good job of collecting highway maintenance fees, we must call on the state to pass legislation concerning the collection of highway maintenance fees. Furthermore, we must link up with organs of justice. We must utilize the procedures and methods of the legal system to subject the collection of highway maintenance fees to the control of the legal system. We must ask organs of justice to send personnel to collection and supervisory departments to work together. We must make both parties (the collectors and the payers of highway maintenance fees) sign contracts. The notary department must supervise these highway maintenance fee collection contracts in a timely manner, inspect them earnestly, and deal with all problems they discover, in order to preserve the seriousness of the state's policy on the collection of highway maintenance fees.

Seven, we must use microcomputers to manage highway maintenance fees and raise productivity. For a long time, we have relied entirely upon human labor for everything from collecting data and establishing files for individual vehicles, setting up accounts for vehicles, to filling out maintenance fee payment forms, storing vehicular information, keeping statistics, gathering reports, and searching for information. This not only greatly increases the amount of labor required, it can also lead to errors in fee collections. It is not suited to the demand for modernized management. Therefore, using microcomputers is an effective way to make highway maintenance fee management more modern, scientific, and standardized, and to raise the overall level of productivity. Hubei Province's collection and supervisory departments began to use microcomputers in 1987, and their experience has shown several things: 1) Computers can substitute for humans in filling out various forms. Forms that used to take four persons one entire day to fill out can now be filled out by a microcomputer in 30 minutes. 2) They can quickly check on any vehicle's overall situation, or find specific information. They are also accurate, fast, and convenient. 3) In dealing with vehicles from the typical unit, it takes 15 minutes to complete procedures for 15 vehicles, while a microcomputer can complete the

task in three minutes. 4) Various changes in the information on any vehicle, such as model, type, tonnage, fees, printing of new account forms, and suspending a motor vehicle's registration can be stored in a microcomputer.

Under the guidance of the program of reform and opening up, highway transport is becoming brisker all the time, the scope of highway maintenance fee collection is becoming broader and broader, the targets of fee collection are becoming more and more complex, and the task of fee collection is becoming trickier and more burdensome. This requires that collection and maintenance personnel change their concepts, improve their work styles and reporting methods, and continually explore new ways to carry out their work. Only in this way will they be able to create a new situation in the area of highway maintenance fee collection, and make an active contribution toward revitalizing the construction of Yunnan Province's highways.

Nantong Plans Civil Airport

40060021B Beijing *RENMIN RIBAO OVERSEAS* in Chinese 19 Dec 89 p 3

[Summary] Jiangsu's Nantong City plans to build Yudong Civil Airport, the province's first civil airport, with funds the city raises on its own and with a 60 million yuan investment from the State Communications Investment Corporation. The grade-2 airport will be 15 kilometers away from the city, cover an area of about 1,700 mu, and be equipped with instrument landing facilities. To date, the design plans for the airport area and its flight area have been examined and approved by the Civil Aviation Administration of China and by the State Communications Investment Corporation. Foundation work will begin in the near future.

AGRICULTURE

Problems Caused by Rising Agricultural, Material Prices

90OH0062A Beijing *JIAGE LILUN YU SHIJIAN [PRICE THEORY AND PRACTICE]* in Chinese No 8, 20 Aug 89 pp 19-21

[Article by Chou Hanlin (0092 3352 2651)]

[Text] In Jiangsu Province this year, except for urea used in fertilizers applied on grains and cotton under government procurement contracts, vegetables, and for disaster relief which is under the province's planned allocation and the price of which is fixed, the prices of almost all franchised chemical fertilizers, pesticides, and plastic sheet mulching and other agricultural goods and materials have gone up. The authorities estimate that between January and May, province-wide, prices of major agricultural goods and materials have gone up 28.8 percent compared to the same period last year, and the rising tide has not subsided. In many cities and counties, the plant-exit prices of chemical fertilizers produced by

small plants exceed the province-set ceiling prices by 10-30 percent. In view of the tight supply, many pesticide plants have taken it upon themselves to raise prices, charging 1,000 to 3,000 yuan above the per ton plant-exit price set by the provincial government. Some localities recklessly allow the manufacturers to handle a larger share of the sales and let them wholesale their products at retail or higher-than-retail prices to increase their income.

Higher prices of agricultural goods and materials raise the cost of agricultural production substantially, and the peasants complain that if this persists, they will have to give up farming. Some ask, now that agricultural goods and materials are under government franchise, why are their prices still rising? Some people suspect that the franchise has given those in the agricultural material business a "monopoly": In the past, many were in the business, and the profit was shared by many; today, business is monopolized, and the profit is swallowed by one.

The complains and suspicions have cast a shadow over the practice of agricultural goods and material franchises. The franchised businesses which shoulder grave responsibility have their share of problems too. They say, with franchising this year, prices of agricultural goods and materials as examined and approved by the government and the Administration of Commodity Prices have indeed gone up substantially, but the already low-profit enterprises are clearly less profitable now, and they not only are not "making a bundle," but their low profit has turned into losses. For the province's 76 city and county agricultural material companies, if we compare their first quarter of this year with the same period last year, sales have gone up 11.2 percent, but profit has fallen 28.3 percent; seven units have shown losses that add up to 13.1 billion yuan. Business performance is even worse at the primary level. In Danyang City, 28 agricultural material management departments out of the 29 primary-level sales and supply cooperatives have lost money. This situation is not unusual in other localities throughout the province. In some localities and agricultural material businesses at the primary level, because of losses, not only are they unable to pay bonuses but even wages are not paid in full. No wonder some managers of the agricultural goods companies sigh and say, we are shouldering the political responsibility of supporting agriculture; we have to take a lot of business risks. Others get all the glory for supporting agriculture; we are chewed out for losing money. Some say, it may sound irresponsible, but we are probably better off without this franchise business; hopefully, the higher-up leading departments can understand and give it serious consideration.

Prices of the franchised agricultural goods and materials are higher, but there is a negative correlation between total sales and profit in the agricultural goods sales and supply sector. Why? The key lies in the fact that the chemical fertilizer, pesticide, and plastic sheet mulching franchisees are operating under "1960's margins, and

1980's expenses." Take ground-produced ammonium carbide, which gets the largest volume of business, for instance: In recent years, the price has risen again and again, from around 160 yuan a ton to over 200 yuan a ton in 1988, and this year it has been brought up to around 300 yuan. Meanwhile the government sets the margin between the selling and the purchasing prices of agricultural materials only once every few years, and that price differential has always been around 20 yuan a ton (including transportation and miscellaneous expenses after leaving the plant, loading and unloading cost, interest on funds, spoilage in storage and so on—until the peasants take possession of the goods.) So, the higher agricultural material prices in recent years are just the higher manufacturers' plant-exit prices, but there is no end to the rising operating expenses of the agricultural material sector. For example, preferential price for transporting agricultural goods has been abolished; the monthly interest on loans charged by the banks was originally only 0.42 percent, but the lowest since 1 February this year has been 0.945 percent, and on the average, it has been around 1.2 percent. Statistics show that, if we compare the province's agricultural material sector in the first quarter of this year with the same period last year, transportation and miscellaneous expenses alone have gone up 20.1 percent, and interests paid to the banks have gone up a whopping 85.5 percent. The increase in these two items alone account for almost 10 million yuan. Because the approved operating expense (the price differential) cannot cover the actual expenditure, it has led to operating losses. At present, Suzhou City's agricultural material sector loses an average of eight yuan per ton of ground-produced ammonium carbide, and 11 yuan per ton of phosphate fertilizer, sold. Based on the normal annual supply, the city loses a total of 4.73 million yuan each year. A survey of Yixing City's six primary-level sales and supply cooperatives shows they lose an average of 0.02 yuan per ton of ammonium carbide sold. That is why agricultural material sectors everywhere are actively expanding their operations, trying to make a profit out of their "sideline business" to make up for losses incurred in their "main business" in order to keep the enterprises going.

Because of higher raw and processed material prices and other objective factors, the production cost of domestic agricultural goods and materials has risen substantially, and because of the international market situation and the change in the foreign exchange regulation rate at home, the cost of imported agricultural materials is higher too. Under the circumstances, if prices are not adjusted properly, enterprises will not be able to absorb the higher cost. That in turn will affect market supply and will affect the ability to meet all agricultural needs. The peasants will grumble. But, higher prices will mean heavier burden for the peasants. This is a clear and present supply-demand conflict. To mitigate this conflict, the provincial and local authorities have done their best to control the price of agricultural materials as much as possible to lighten the peasants' burden. This year alone, the province has used almost 60 percent of its

retained foreign exchange to import agricultural goods and materials, and when the provincial government decided to raise the price of chemical fertilizers, it specified that the original commercial purchase and sales prices must be maintained. Many localities too have granted subsidies, have eased up on the production plants, have subsidized the sales and supply cooperatives, and have helped the businesses in related lines of businesses to absorb the higher cost. During the first four months of this year, the agricultural material sector in Suzhou and Wuxi and other localities have spent more than 7 million yuan, money earned through their expanded operations, to subsidize the above-plan prices of agricultural materials so that the peasants can buy them at reduced prices. The concerted effort of those on top and below are both necessary and beneficial; otherwise, the existing agricultural material prices could go even higher. But such effort is limited, especially because, besides offering their services, the agricultural material manufacturers and business sector, as enterprises, have their profit to worry about. Since the state has not formulated any special policies, we cannot permanently ignore their profit and make those enterprises shoulder the burden and perform a social service for nothing. Some of the problems which have emerged under the franchise system have been resolved only through extraordinary efforts from all quarters, but we are far from able to deal with the many outside factors which are forcing prices up: Prices of the upstream products have been rising freely, transportation cost has gone up, interest rate on loans are rising, and there is a multitude of mandatory fees. It is inevitable that the price of agricultural goods and materials must go up, and the gap between those prices and the price of agricultural products, which has been "moving up in small steps," naturally must widen, and the more dissatisfied the peasants, the worse the conflict.

But the peasants cannot give up farming. No matter how high the price, they still have to accept it. However, do we realize that today by letting the price of agricultural materials rise, like "boats rising with the river," which seems reasonable and is in fact legal, we have in fact shifted all the outside inflationary elements to the peasants? When we sum up and revel in the very fine situation of increased agricultural inputs, a lot of that good situation in fact has been offset by visible and invisible inflationary elements. To take this a step further, when we suggest giving agriculture more conscientious support, are we in fact hurting agriculture in some other ways? How many hands are reaching into the peasants' pockets indirectly via the production and circulation links? In order to ensure agricultural development and achieve the goal of "increasing grain production and preserving cotton production," there indeed is a need to appeal to the public: We must set up an agriculture support and development mechanism as soon as possible, so that as the peasants increase production and contribute more to society, they can expect solid benefits in return. The practical thing to do now is to stabilize the

price of agricultural materials. This is not just an economic issue but also a political issue, because from the standpoint of the nation's economy as a whole, if we want to stabilize the economy, we must first stabilize agriculture, stabilize grain and cotton production. In recent years, the price of agricultural materials has continued to rise; it has exceeded what the grain and cotton growers can tolerate. If this continues, grain and cotton production will once again shrink. At present, the most serious problem in agriculture, especially in grain and cotton production, is profitability. What determines profitability is the price system, and the breakthrough point lies in resolving the "negative correlation" between the peasants' input and their output. Certainly, state and local governments have worked very hard in this area in recent years, and they have on many occasions raised the procurement price of agricultural products in a planned and systematic way. But compared to the huge increase in agricultural material prices, those efforts are like using perfume to put out a fire—they are futile. We must adopt more practical and effective measures. For this reason, I suggest that we start in the following three areas:

1. We must stand firm on controlling the price of agricultural goods and materials. This is one of the most important issues in our present effort to develop agriculture and increase grain and cotton production. Franchising the important agricultural goods and materials may solve the "reckless price increase" problem, but it does not resolve the outside factors which force prices up. The present method of controlling only the plant-exit price of the end products and the franchised sales price is unsound. We must formulate a complete set of policy for pricing agricultural means of production which takes care of the peasants', the manufacturers', and the business sector's interests. The effective way is: One, as much as possible, we should accelerate the development of industry that produces agricultural products and increase the effective supply of chemical fertilizers and other important agricultural goods and materials and further improve the franchise system. Special arrangements should be made to guarantee supply of important raw materials and fuel and other resources necessary for producing the agricultural materials and products under government franchise. Two, we must make a firm decision to stabilize the price of the agricultural goods and materials. We must begin with controlling the prices of their upstream products. We must set a reasonable price ceiling for everything in the production link, from raw materials, coal, and electricity to the products' plant-exit price and their sales price. Enterprises in every link should be ordered explicitly to comply with the price ceiling. We must reinforce the state's regulatory and control measures and implement a strict one-price system. Any outside factor we may encounter during this process which may cause prices to rise should be left to the state and local governments to resolve, and we should grant overt instead of covert subsidies. Three, we must strengthen the management of the agricultural material pricing system. Not only must we control the

plant-exit price of the products and their commercial retail price but also the price of the upstream products. Not only must we control the circulation link but also the production link, and more important, we must clear up and eliminate all factors that stem from the upstream products which cause prices to rise. Four, manufacturers and businesses that produce and sell agricultural goods and materials, which are required by the state's existing policy to operate just to break even and earn minimal profit, should be asked to expand their operation to earn a bigger profit; they should let their sideline business support their main business, cut down their operation links, lower cost, and manage their business better. In addition, the government must promulgate and implement a set of policy and measures to foster the superior to complement the above move, so that it can serve the agricultural sector better and increase social benefits.

2. We should continue to readjust the fixed-quota grain and cotton procurement prices. Today, in grain and cotton production, first, there is a "negative correlation" between input and output; and second, there is a significant difference between the fixed-quota procurement price and market negotiated price. They make it very difficult to fulfill the government's fixed procurement quota. In this era of vigorous development of the commodity economy, to rely only on rigid, mandatory order to force the peasants to deliver their grain or cotton in order to fulfill the government's procurement quota not only causes serious side effects but is not really a permanent remedy. The best way to solve our problem is to strive to change the irrational situation where the peasants "earn less if they deliver more to the government." We should continue to raise the fixed quota procurement price of grain and cotton, and in qualified localities, we can also experiment with guaranteeing the value of the grain and cotton delivered by the peasants to meet the fixed procurement quota. The peasants should be subsidized if higher prices of means of production lead to the devaluation of their grain and cotton. For the masses of peasants, the following must hold true: The more they plant, the more they produce, and the more they deliver, the more they earn.

3. Every trade and every industry must sincerely want to serve the peasants. All related sectors must firmly believe that "agriculture is our foundation" and that "we develop if agriculture develops; we develop along side agricultural development." We must be more conscious about serving agriculture and do something practical to help the agricultural sector. The industry which produces agricultural goods must actively tap potential to increase output and ensure quality and quantity. The agricultural sector must further improve its agricultural technology management and service system. The agricultural material franchisees must seize every opportunity to find more sources of goods and guarantee supply; they must enforce the supply policy as well as franchise discipline. All trades and industries must enforce the inspection and supervision system and resolutely curb all unhealthy tendencies. The production and sale of poor quality

agricultural goods and materials, attempts to tie up and divert goods and materials which are under the planned allocation or linkage systems, arbitrary price increases, and substitution of lower grade products, price suppression, embezzlement and blackmail in grain and cotton procurement, and other disgusting conduct and illegal acts that infringe upon the interests of the peasants will be investigated and dealt with harshly. Those who caused damages must compensate the peasants in full. The more serious cases should be investigated to affix responsibility.

Ministry of Forestry Functions, Organizations

90OH0090A Beijing ZHONGGUO LINYE
[FORESTRY IN CHINA] in Chinese
No 9 17 Sep 89 pp 7-8

[Article by the General Section of the Ministry's General Office]

[Text] On the basis of the deployment and demands of the State Council with regard to structural reform, and in line with the principle of "change functions, grant authority to lower levels, adjust structure and streamline personnel," the State Agency Authorized Strength Committee considered and approved plans for the Ministry of Forestry's primary functions, organizational setup and personnel. It determined that the Ministry of Forestry's primary functions and tasks are: the Ministry of Forestry is the functional department under the State Council in charge of forestry administration and is responsible for afforestation and management of the forestry industry. Its primary tasks are: implementing the forestry principles, policies and laws and regulations of the party and the State Council; protecting, managing and supervising forest resources and the forest ecological environment; carrying out overall planning of afforestation, forest industry and diversified management and comprehensive development and utilization of forest resources; guiding and coordinating development of forestry production and providing service; promoting forestry reform, accelerating forestry growth, fully exploiting the many functions and benefits of forests to provide abundant forest products and an excellent environment for state construction and the people's daily lives.

The authorized strength of the Ministry of Forestry administration is 570 persons. The ministry has 15 departments (offices, bureaus) and a directly subordinate agency party committee. Their names and primary functions are:

General Department. Assists the Ministry's leadership organizations to coordinate agency work; drafts and implements the system of each task of the Ministry's agencies; is responsible for document secrecy, files, information, inquiries and security.

Policy and Law Department. Researches and makes proposals for overall reform of major forestry principles and

policies and reform of the forestry economic system. It is responsible for managing forestry law work.

Resources and Forestry Administration Management Department. Organizes and manages forestry surveys, division and planning, monitors growth and decline of forest resources nationwide, supervises inspection and acceptance of afforestation and forestry business, and manages acceptance of new forests. Examines and verifies and supervises enforcement of provincial (regional, municipal) forest cutting quotas, arranges for forest resources audits, inspects and directs lumber shipping and administrative management of wood and bamboo markets, and is responsible for forest lands and forest rights management.

Afforestation Management Department. Researches and drafts principles, policies and laws related to afforestation and tree planting and arranges for their thorough implementation; organizes and directs nationwide the production of forest tree seedlings, tree planting, tending, closing hillsides to facilitate afforestation and construction, inspection and acceptance of such bases (projects) as commercial forests, shelter forests, and economic forests; organizes, coordinates, and inspects direction of national service tree planting and undertakes the daily work of the national afforestation committee office.

Forest Industry Department. Researches and drafts principles, policies and laws and regulations of the national forest industry and enterprise diversification and arranges for their thorough implementation. It is responsible for management of timber harvest and shipment, forest products, pulp and papermaking and forestry machine industries, organizes and directs production of forest industry, product distribution and enterprise management, forest cultivation, diversified management and employee ideological and political work, and is responsible for management of forestry system safe production and industrial hygiene.

Wildlife and Forest-life Protection Department. Researches, drafts and implements principles, policies and laws for wildlife and forest-life protection; directs and manages protection, development and use of wildlife and precious woody plant resources, arranges for and directs forest and wildlife species nature preserves and prevention and control of plant diseases and insect and animal pests, quarantines forest plants and is responsible for management of import and export of diseased plants nationwide.

Forestry Security Bureau. Directs forestry security nationwide, supervises, investigates and handles special cases of damage to forest resources and assists local agencies in carrying out social security of key national forest regions.

Forest Fire Prevention Office. (State Forest Fire Prevention Command Office and Armed Forest Rangers) Enforces principles, policies and laws for forest fire prevention, inspects, supervises, directs and coordinates

forest fire prevention work nationwide, directs aerial forest protection, takes on the daily work of the State Forest Fire Prevention Headquarters and relevant tasks of managing the armed forest rangers.

Overall Planning Department. Arranges for planning of forestry development strategy, draws up forestry development plans, medium-range plans, annual plans and goods and materials supply plans, drafts the system of regulations and standards relevant to forestry plans, statistics and management of capital construction. It manages forestry statistical figures and analyzes and distributes statistical information.

Financial Department. Implements state principles, policies and regulatory system related to financial and economic work, organizes and manages forestry funds, directs and manages forestry financial affairs and pricing of forest products, coordinates the research and drafting of forestry economic regulatory policy and measures by relevant departments, and carries out macrodirection and supervision of the forestry industry's economic activity. It manages financial work of funds under ministry control and directly subordinate units.

Science and Technology Department. Implements the relevant state scientific and technological work principles, policies and laws, organizes and formulates forestry science and technology development planning, directs reform of the forestry science and technology systems, and is responsible for organization, coordination and service of forestry science and technology work.

Education and Propaganda Department. Implements relevant state education and propaganda work principles, policies and laws, organizes and formulates development plans for personnel training and forestry education of the forestry system, directs reform of the forestry educational system and specialized education. It organizes and directs forestry propaganda work and manages the publication and distribution of forestry periodicals and books. It directs the spiritual culture building of the forestry system.

Foreign Affairs Department. Implements relevant state foreign policy principles, policies and laws, is responsible for managing forestry foreign affairs work, is responsible for contacts with international organizations and foreign governments and civilian organizations, secures foreign economic and technical assistance, imports and utilizes foreign investment, organizes foreign affairs negotiations and treaties, and arranges for reception of visiting delegations and individuals.

Personnel and Labor Department. Implements party and state cadre lines, principles, and policies and the regulatory system of relevant personnel matters, manages personnel and labor work of ministry agencies and subordinate units. It directs the forestry industry's labor wages, safe production, and management of specialized forestry technical personnel.

Administration Department. Manages such ministry agency administrative affairs as financial affairs, property, and building construction, and is responsible for the relevant logistical service work of ministry organizations.

Subordinate Agency Party Committee. Carries out unified leadership of the party organizations of ministry agencies and subordinate units in the capital, organizes study, propaganda, and implementation of party and state lines, principles, policies, is responsible for self-building of party organizations, carries out supervision and rewards and punishments of party personnel, and leads the mass organizations of ministry agencies. It assists and coordinates the administrative leadership's management of ideological and political work and united front work among employees and agency party mass organization cadres, coordinates the evaluation of administrative leadership cadres of personnel departments.

Appendix: Department, Bureau and Office Setup

General Department (five sections and two offices)
General Office (Ministry of Forestry Security Committee Office), Minister's General Office, General Section, Secretarial Section, Visitor's Section, Filing Section, Security Section

Policy and Laws Department (four sections and one office)
General Office, General Section, Policy Section, Structural Reform Section, Laws and Regulations Section

Resources and Forestry Administration Management Department (six sections)
General Section, Resources Survey and Statistics Section, Planning Section, Resources Consumption Management Section, Timber Circulation Management Section, Forest Lands Forest Rights Section

Afforestation Management Department (seven sections and one office)
General Office, Seedling Section, Afforestation Section, Economic Forests Section, State Owned Forests Section, Rural Forests Section, National Service Forests Section, Departmental Afforestation Office

Forest Industry Department (eight sections and one office)
General Office, General Section, Enterprise Management Section Security Section, Technical Equipment Section, Yinglin [3602 2651] Section, Production and Marketing Coordination Section, Papermaking and Wood Products Industry Section, Diversified Management Section

Wildlife and Forest-life Protection Department (three sections and two offices)

General Office, Wildlife Management Section, Natural Preserve Management Section, Plant Disease and Insect Pest Prevention and Cure Section, Diseased Plant Import-Export Management Office

Forest Industry Department (four sections and one office)

First Section, Second Section, Third Section, Fourth Section, Ministry of Forestry Office of Procuratorial and Court Work

Forest Fire Prevention Office (four sections)

General Section, Organization and Command Section, Aerial Forest Protection Section, Armed Forest Ranger Section

Overall Planning Department (six sections and one office)

General Office, Long-range Planning Section, Annual Plan Section, Foreign Capital Planning Section, Project Management Section, Capital Construction Section, Statistics Section

Financial Department (five sections and one office)

General Office, General Management Section, Subordinate Enterprise Financial Section, Subordinate Undertaking Financial Section, Capital Construction Section, Statistics Section

Science and Technology Department (four sections and one office)

General Section, Scientific Research Promotion Section, Science and Technology Exchange and Cooperation Section, Standards Section, Ministry of Forestry Science and Technology Committee Office

Education and Propaganda Department (five sections and one office)

General Office, General Section, Subordinate School and College Section, Education Section, Propaganda and Reporting Section, Propaganda Management Section

Foreign Affairs Department (four sections)

General Section, Foreign Affairs Section, Economic Cooperation Section, International Relations Section

Personnel and Labor Department (four sections and one office)

General Office, Agency Personnel Section, Subordinate Unit Personnel Section, Science and Technology Cadre Section, Labor Wages Section

Administration Department (four sections and two offices)

General Office, Administration Office, Housing Management Office, Agency Financial Section, Reception Service Section, Capital Construction Section

Subordinate Agency Party Committee (three departments and two offices)

General Office, Organization Department, Propaganda Department, Mass Organization Work Department, Agency Discipline Committee Office

Ministry of Supervision Supervision Bureau Stationed in the Ministry of Forestry (two sections and one office)

General Office, First Section, Second Section

Auditing Bureau of the Auditing Administration Stationed in the Ministry of Forestry (two sections)

First Section, Second Section

Reporters Visit Nuclear Submarine Base

90ON0199A Beijing JIANCHUAN ZHISHI [NAVAL AND MERCHANT SHIPS] in Chinese
No 8, 8 Aug 89 pp 2-3, 5

[Article by staff reporter Shen Lijiang (3088 4539 3068)]

[Text] There is a force in the Chinese Navy codenamed "09." People in the know recognize that this is the mysterious nuclear submarine force. On New Year's Day 1987 the news agency XINHUA SHE publicly reported, "A Chinese nuclear submarine has set a new record in underwater long-distance navigation." Thus, it revealed the current situation in this force's long-distance navigation. On 28 September 1988 China's official news media publicly announced that a guided missile nuclear submarine of the Chinese Navy had successfully launched a rocket booster, and they carried photographs of the submarine cruising on the surface of the sea and of it launching from under the sea a rocket booster, which drew a great deal of interest among foreign military experts.

This writer, by obtaining permission to go the Chinese Navy's Nuclear Submarine Force and interview it, had the good fortune to be among the first reporters to visit the Chinese Navy's nuclear submarine base.

Symbol of the Country's Deterrent Force

The military car sped along the winding mountain road. Outside its windows green hills met the eye on every side. Very few pedestrians and houses were seen throughout the journey. After several hours the car turned onto an asphalt road that could reach the seaside. At the side of the road stood a rectangular wooden sign with a white background. On the sign in intimidating black characters was written "Special Military Restricted Zone." Feng [7458], the extremely eye-catching Navy commander accompanying us, straightened his uniform and told us in a soft voice, "We'll soon be at the nuclear submarine base."

Looking through one of the car's windows, this reporter saw a watchtower loom straight ahead. Two fully armed guards flourished red flags, indicating that the driver should stop the car and be checked. After Commander Feng showed his special pass, the guards closely examined the credentials of every one of us. They then waved us through with green flags. Obviously, the base was heavily guarded.

Rear Admiral Yang [2799], commander of the Chinese Navy's Nuclear Submarine Force, was New China's first nuclear submarine captain. He wore a trim all-blue woolen uniform. Of medium height, he had a ruddy face and when he spoke his voice was loud and clear, showing that he had a lot of the military temperament. We reporters first of all asked him to explain why the Chinese Navy had wanted to develop a nuclear submarine force.

"The navy of a maritime country is a strategic armed service, and the possession of a maritime nuclear force is a sign that the navy is a strategic armed service." Rear Admiral Yang briefed us, "A nuclear submarine possesses the superior characteristics of having a large cruising radius, a wide scope for its activities, good concealment capability, strong mobility, and high navigational speed. In a future war against aggression, one nuclear submarine will be a mobile, hidden guided-missile base. It can gain mastery by striking only after the enemy has struck. It can make a surgical strike, and it is a country's trustworthy second nuclear counterattack force."

Then, Rear Admiral Yang told us reporters, "Because of current developments in science and technology, the large number of reconnaissance satellites in the sky plus other means of reconnaissance make it very difficult for fixed missile bases and very large mobile missile vehicles on the ground to remain undiscovered and unmonitored. Some foreign military experts predict that by the end of this century all strategic nuclear weapons on the ground will be revealed to the eyes of the other side's spies. Under these circumstances the nuclear forces at sea will show their superior survivability. Underneath the vast sea a nuclear submarine comes and goes invisibly and without leaving tracks, making the enemy's strategic defense difficult. Therefore, some developed countries in the world do not stint on huge expenses in developing nuclear submarines, and they make the nuclear submarine force a symbol of the country's important deterrent force. China pursues a foreign policy of peace, while maintaining its independence and keeping initiative in its hands. However, in today's world, where hegemony and might still exist, to ensure national security and safeguard peace it must have its own seagoing nuclear force. Only in this way can it better play the psychological role of preventing the outbreak of a nuclear war."

Safe, Reliable Technical Performance

"Not long ago a nuclear submarine of the Soviet Navy sank in the sea next to Norway, causing a calamity. What is the safety coefficient of the nuclear submarines now on active duty in the Chinese Navy?" A reporter immediately posed this question to Rear Admiral Yang.

"I think that, in all their technical performances, the nuclear submarines designed and built by China are safe and reliable," Rear Admiral Yang answered in a positive tone.

He then disclosed to us reporters that, at the beginning of 1970, China's first nuclear submarine put to sea, and it has now navigated safely for nearly 20 years. From the end of 1985 to the beginning of 1986, a nuclear submarine of the Chinese Navy conducted a test of its maximum self-supply capability. It sailed a little over 20,000 nautical miles, breaking the record of 84 days as the maximum self-supply capability set by the American

nuclear submarine Nautilus, thereby showing the superiority of China's nuclear submarines in mobility, seaworthiness, and concealability and in the stable, reliable operation of their motive power systems, and creating a miracle in the history of the Chinese Navy's submarines. In the spring of 1988 a Chinese nuclear submarine for the first time drew a pure white track across the Taiwan Strait, coming all the way from the South China Sea. It successfully conducted tests in all-underwater long-distance navigation and in deepwater torpedo recovery. This showed that China's nuclear submarines completely meet the demands for concealment and raiding and the demands for medium- and deep-water, large depth, long-distance operations.

"Does the fact that the crew works year-round in a nuclear submarine damage their health?"

Hearing this question Rear Admiral Yang, with a relaxed smile, said, "To say that there is no effect at all is impossible, but it is unlikely to damage their health." Then he briefed us reporters, "As everybody knows, the radioactive rays produced by nuclear fission do great harm to the human body. Some people describe them vividly as 'a mountain of swords and a sea of flames that cannot be seen.' Their effect on the human body is to injure or destroy a large number of white blood cells, and the damage from an overdose of radiation is even greater. However, the nuclear reactor system on a nuclear submarine is a completely sealed, independent system. To its outer surface is added a thick protective screen. It keeps the radioactive matter within a completely safe range. To ensure the health of nuclear submarine crews, besides taking various necessary protective measures, the state gives them special consideration in treatment, and every month a crew member receives a certain nutritional subsidy."

Taking a sip of tea, Rear Admiral Yang continued, "Now, in society some people turn pale at the mention of anything 'nuclear.' This is understandable, because they don't comprehend the true situation. Actually, no matter whether in work environment or living conditions, a nuclear submarine is much superior to a conventional submarine." After saying this, the admiral said wittily, "You see that I have been working on nuclear submarines for 20 years, and 'all parts' of my body are sound. I have not yet been 'sent to the factory for a major overhaul.' Doesn't this elucidate the question?"

Drawing the Attention of Foreign Naval Colleagues

When talking about nuclear submarines, Rear Admiral Yang showed that he was very familiar with the subject and also that he was excited and stirred. He told us reporters that Mao Zedong, Zhou Enlai, Zhu De, Nie Rongzhen, and other proletarian revolutionaries of the older generation, as well as the current leaders of the party, government, and Army, have all been extremely interested in and have attached importance to the building of the nuclear submarine force. In August of last year, Premier Li Peng, full of zest, climbed aboard a

missile submarine that was preparing to carry out a test launch of a booster rocket in order to observe the test. He went to every compartment and questioned the crew in detail about their work and health. He gladly wrote a complimentary statement for the Chinese Navy's Nuclear Submarine Force: "A strong nuclear deterrent force at sea benefits both the country and the people."

Depending completely on its own strength, China built and developed a nuclear submarine force, becoming after the United States, the Soviet Union, Great Britain, and France, the fifth country in the world to possess nuclear submarines, which attracted worldwide attention and drew the interest of foreign naval colleagues. Rear Admiral Yang continued his briefing. He said that America's "father of the nuclear submarine," Rickover, as well as leading figures in the navies of about a dozen countries, including the United States, Great Britain, and France, have observed the attack nuclear submarine of the Chinese Navy. When, after his visit, a high-ranking naval officer of a Third World country, heard that all the several tens of thousands of parts on a Chinese nuclear submarine were "made in China," he gave the thumbs-up sign again and again in praise.

A Scientific "Labrynth"

There is a common saying: "It is better to see once than to hear a hundred times." When we reporters were visiting the Chinese Navy's Nuclear Submarine Force, they made an exception and we were given permission to board one of China's missile nuclear submarines.

Accompanied by Lieutenant Hu [5130] of the Nuclear Submarine Force's organization, we reporters rode in a car to a bay surrounded on three sides by hills. Looking ahead we saw several nuclear submarines berthed majestically at a dock. From a look at their exteriors—slender hull, round head, and high-standing tail—they looked exactly like "great whales" lying in the waves.

In sequence, through a hatchway in the bow's chartroom, we reporters entered a compartment in one of the nuclear submarines. It was like going into a "labrynth." We saw that the submarine's "vital organs" were filled with switches, valves, meters, and indicator lamps—all packed close and numerous and of many colors—a dazzling sight. In his briefing Lieutenant Hu said that the nuclear submarine embodies in concentrated form the levels of China's science and industry: in the hull alone are parts from more than 2,000 factories in more than 20 provinces and cities throughout China. One submarine has several thousand pieces of equipment of various types, and has a great number of instruments, meters, indicator lamps, and large and small valves. The amount of electricity generated by one nuclear submarine could illuminate a medium-sized city; if its pipelines and electric cables were linked together, they could perhaps circle the globe.

In the missile compartment we reporters saw thick launch tubes lined up in an orderly row. Also, in the compartment, the large computer and the missile launch

control console were highly conspicuous. Pointing to a red push button on the control console, Lieutenant Hu told us reporters, "In last September's launch of a rocket booster, the launch controller operated the launch by means of this push button." After hearing this we reporters, unable to contain our curiosity, came forward and felt the button. During the visit we reporters discovered a singular phenomenon: In some compartments the crew wore overcoats and in other compartments singlets and shorts. Lieutenant Hu explained that the temperatures required for the precision advanced equipment on a nuclear submarine were different; if one were to go from the bow to the stern, one would pass through "spring, summer, autumn, and winter."

A nuclear submarine's technology is complex, and it involves navigation, guided missile, computer, and several other specialities. During the visit we reporters came to understand that a nuclear submarine crew has had college and school training, and almost all the officers have a college or higher education. Among them there is no lack of graduates of Qinghua University, Beijing University of Science and Technology, and other famous universities. The educational quality of the officers and men is the highest among the PLA's first-line units.

Underwater Hardships

A nuclear submarine sails under water for a long time. The crew does not see the rays of the sun, does not hear the song of birds, does not smell the fragrance of flowers, and does not know whether it is day or night. Even the air is recycled. The hardships of the crew's life are difficult for the ordinary person to imagine.

A sailor told us, "When I first boarded the submarine, I was not used to the roar of the machinery, which often made it difficult for me to sleep at night. To deal with this difficult problem, each one of us has his own trick method. Some men count the machinery's roar in musical metres, and in this way fall quickly into dreamland. Other men chant doggerels that they have composed, such as, 'Dum, dum, dum, bang, bang, bang; I go with you to make good dreams.' This 'lullaby'" can also be effective. If you don't believe me, try it.' Seeing his serious expression when he said this, we believed him without question.

However, another sailor told us that this lullaby was on a box-type tape recorder. The first sailor's girlfriend had been a music teacher, and she mailed tapes regularly to him. On the tapes are songs that his girlfriend painstakingly sang for him, like *Fifteen Moons*, *Looking at the Starry Sky*, *Sending Love to My Darling*, and so forth. Also on the tapes are expressions of her love and longing, encouragement and hope. Every time the submarine sets out on a voyage, when he is off duty he lies on his bunk, puts on earphones and enjoys himself by listening to the tapes. With the soothing sound of his girlfriend's songs he drifts into dreamland. He thinks that, on the vast expanse of water, listening to the voice of the person in his heart is highly romantic and full of poetic meaning.

Lieutenant Hu told us that once a nuclear submarine sets out on a voyage it is cut off from the world for several dozen days. Life in a submarine is not as multihued as it is on land or in a city. The crew adapts to local conditions by thinking of ways and means to initiate many kinds of recreational activities so that they are content with their lot. For example, every weekend the submarine's radio stages a "Dragon Palace" evening party, carrying "World Outline," "Famous Songs To Enjoy," "Seamen's Dribbling," and other special-topic programs. The crew also regularly, in the narrow compartments, hold push-up, dumbbell lifting, and other physical culture competitions. On the submarine every day a copy of the LANJING KUAIBAO [BLUE WHALE BULLETIN] is put out, and every crew member is both a reporter for and contributor to the bulletin and a figure in the news.

When we finished our visit to the nuclear submarine, it was dusk and the sun had sunk in the west. The afterglow of the setting sun painted the nuclear submarine on the sea a striking orange color, presenting a grand sight. In the minds of us reporters floated up a wild and fanciful thought: These "giant steel whales," in which are concentrated contemporary advanced science and technology, are like metal shields and sharp swords, and are the patron saints of the republic's tranquillity.

Our young republic and the republic's young Navy should feel proud of possessing this kind of nuclear submarine force.

New Military Automation Software Unveiled

Engineering Systems Command Software

90CF0081 Beijing JISUANJI SHIJIE [CHINA
COMPUTERWORLD] in Chinese
No 36, 20 Sep 89 p 1

[Article by Tan Keming (6223 0344 2494)]

[Text] The Armed Forces Engineering Systems Command Automation Software Development Plan was discussed on 15 August in Yantai. It is the first long-range plan for the development of military command automation software for China's military to be openly discussed, and it takes a gratifying step toward the goal of moving armed forces command automation software development in the direction of implementing "unified leadership, unified planning, unified organization, and unified standards."

Since 1984, the development effort for the Armed Forces Engineering Systems Command Automation Software has achieved great progress under the organizational leadership of the General Staff Engineering Corps Department. More than 100 items of various application software have been developed, among which are 18 pieces judged to be outstanding software for all forces, and 17 programs judged to be outstanding software for engineering systems. Among the subject matter covered are eight major pieces of high-level intelligent software involving the profession and different levels of strategy,

campaigns, tactics, and engineering technology. Functions are developed from simple data management into calculation optimization, quantitative evaluation, operations planning, and decision support. The majority of software has undergone verification involving training, exercises, and actual duty, producing high strategic results with a high application value. But because it lacks unified planning and management, the software that has been developed still has such problems as duplicative development, low-level circulation, and application results that are not high. There has been an urgent need to enhance overall control and guidance, and to improve the level of software development and application. In accordance with this requirement, the General Staff Engineering Corps Department promptly undertook investigative research, and arranged for the formulation of the "Development Plan for Engineering Systems Command Automation Software."

The fundamental principles and theories to be complied with, according to the plan's proposal for software development efforts, are the principles that call for implementation of a good foundation, smooth interaction of relations, consolidation of successes, and improvement of results; enhancement of efforts at fundamental preparations for software development; and attention paid to making the most of the results of existing software. Efforts should be made to resolutely establish an engineering systems command automation software system on the basis of armed forces unified leadership, unified planning, unified structure, and unified standards. There should be a resolute integration of combat with training, joint principles for command management, and progressive improvement of the standards for automation of engineering systems information handling and for making command decision-support scientific. The most should be made of the enthusiasm of the different levels of engineering organizations, units, institutions, and research units for rationally dividing labor, closely cooperating, and developing in coordination. And there should be detailed planning regarding such problems as the system structure of the engineering systems software, development goals, development steps, division of task labor, and funding sources. As discussed by the conference specialists, the plan meets the needs of development efforts of armed forces command automation software. This is a groundbreaking effort, and will not only have great significance toward improving the engineering systems command automation software development and application, but will also serve an important role in stimulating as quickly as possible the serialization, the standardization, and universality of armed forces command automation software.

Automated Command Network Expanded

90CF0081B Beijing JISUANJI SHIJIE [CHINA COMPUTERWORLD] in Chinese No 37, 27 Sep 89 p 2 sb
[Article by Liang Songlin (2733 2646 2651) and Zhou Fugui (0719 4395 6311)]

[Text] On the eve of the National Day celebration, the following news report was issued from the Tibet Military Region: A test connection was made between a terminal on the armed forces command automation network and this military region's command automation network, and with this action we enter an era of command automation, which signifies the completion of a command automation network for all armed forces units of the army level and higher.

From successful on-line connection on 25 July to the present, the Tibet Military Region has transmitted 50 telegraphic dispatches and 30 images, all of which arrived with satisfactory results regarding accuracy, punctuality, security, and clarity.

The Tibet Military Region command automation network is a portion of the armed forces command automation network for units of the army level and higher. But because of the harsh climate of the Tibet Plateau, transmission channels are difficult, to which must be added a weak technical capability; all of this has created difficulties for this major project that would have been difficult to imagine. Some experts once predicted that it would be difficult to put the Tibet Military Region command automation on-line with the other armed forces, but pertinent departments of the Chengdu Military Region and the Tibet Military Region rose to the challenge. Early this year [1989], carefully chosen personnel from the Tibet Military Region went into the interior for training, and the Chengdu Military Region promptly sent specialist technical personnel into Tibet for repeated experiments. With the close, strong support of relevant units both within and outside the region, they quickly resolved the technical difficulties involving the time delay of satellite communications and the conversion interface between wired channels and radio channels, until finally on 25 July communications were achieved with Chengdu nodes of the armed forces command automation network.

The establishment of the Tibet Military Region command automation transmission and processing system improves the office efficiency of units stationed in Tibet, reduces the time for transmission of electronic text and images, and realizes command automation for the General Staff Headquarters and the Chengdu Military Region with respect to the Tibet Military Region. Today, the Tibet Military Region can automatically transmit and exchange official documents, files, data, and static images, and share data [and graphics] with any army-level unit throughout the armed forces.

CENTRAL-SOUTH REGION

Hunan Urges Socialist Orientation in Literature, Art

90ON0251A Beijing WENYI BAO [LITERATURE AND ART] in Chinese 4 Nov 89 p 1

[Text] Under the auspices of the Propaganda Department of the Hunan provincial party committee, Hunan writers and artists held a forum to discuss how Hunan literature and art can further be made to flourish. Without avoiding the subject, everyone at the forum seriously took stock of the influence that bourgeois liberalization has had on Hunan literature and art work.

Hunan writers and artists think that, if literature and art are to flourish, they must first seriously take stock both ideologically and theoretically, sum up their experiences, and clearly delineate right and wrong. In reviewing the creative literary and artistic work and theoretical criticism accomplished in Hunan these past several years, they felt that it would be worthwhile to sum up the following major aspects of their experience.

First, we must adhere resolutely to a socialist orientation in literature and art. These past several years, under the influence of the ideas of bourgeois liberalism, some people failed to show enthusiasm for the party and people's glorious revolutionary history and for the people's heroic achievements in the four modernizations, and they liked to write certain gloomy, repulsive, and damaging things. Others declared the highest purpose of literature and art was "self-expression." They were unwilling to plant their feet on solid ground and take part in real life and were unwilling to show solicitude for the masses and write about their various feelings. Everyone felt that if they are to adhere to a socialist orientation they must boldly and assuredly initiate it as the dominant theme in literature and art. If they stray from this dominant theme, the socialist orientation of literature and art will come to nothing. Departments exercising leadership over literature and art and departments responsible for literature and art work must bravely criticize the deviations and errors that have appeared in creative works, and they must not only show concern for writers and artists and cherish them, but also make strict demands of them. Second, socialist literature and art must adhere to the guidance of Marxism and Mao Zedong Thought. Some literary and art theoreticians felt that, although Hunan literary and art theoretical work adhered to Marxist and Mao Zedong Thought guidance, it lacked forcefulness and took an improper attitude by not interfering and not becoming involved in certain important issues where right and wrong were confused. The vast majority of the comrades at the meeting were of the opinion that socialist writers and artists must conscientiously study and grasp Marxism and Mao Zedong Thought, use them to guide their own artistic practices, and, while adhering to Marxism and Mao Zedong Thought, must develop their ideas on literature and art. Third, they must earnestly strengthen

party leadership of literature and art and strengthen the ideological and political work of literature and art. These last few years, a very few comrades have been cool toward accepting party leadership in literary and artistic affairs. They have been unable to take a positive stand and use their creative works to induce people to improve their understanding of and correctly deal with problems that have occurred in reform and construction and with errors in party work. In some units, ideological and political work has become weak, thinking confused, organization lax, and people of talent have been lost. This situation affects the development of literature and art, and strong measures are urgently needed to resolve it. Fourth, we must carry on and fully utilize the fine traditions of our national culture. In these past several years, a group of writers and artists have, through bold exploration, achieved useful results and experience. Others, however, lack enthusiasm for carrying on and utilizing the fine traditions of our national culture. They ignore the psychology and esthetics of our national culture, and they frequently cater to esoteric interests instead of presenting what the people want to see and hear. Their works are obscure, as if the harder they are to understand, the more lofty they are. Everyone recognized that literary and artistic circles must strengthen patriotism and the teachings of our fine national culture and take measures to preserve our national culture. Fifth, socialist literature and art cannot become commercialized. Many comrades at the meeting expressed great anxiety about the tendency in the past few years in literary and artistic circles to "look at everything in terms of money" and to "have an eye for money." They feel that, if we rely completely on the laws of a commodity economy to regulate literature and art, people will be led astray.

Hunan writers and artists feel that the present climate and social environment are advantageous for developing literature and art and making it flourish. They say that, by reflecting on the past and clearly understanding it, they will create more and better works brimming with confidence.

NORTHEAST REGION

Jilin Governor Discusses Economic, Political Achievements

90ON0063A Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese No 204, 16 Sep 89 pp 38-44

[Article by Li Kuo-chiang (2621 0948 1730) and Ho Hsiao-ming (0149 0879 2494): "The Glorious Prospects of the Northeast Asian Economic Circle—An Interview With Jilin Governor Wang Zhongyu (3769 0022 4416)"]

[Text] He Did Not Let His Wife's Death Affect His Work

Wang Zhongyu is the newly appointed governor of Jilin Province. He is 56 years old, but looks much younger. Wang Zhongyu is an alternate member of the CPC

Central Committee and is a senior engineer. Since he became governor, he has devoted himself to Jilin Province's reform and opening up and other undertakings. In June 1989, his wife died. It was a terrible blow to him, but despite that, he never slackened his work pace.

In the afternoon of 11 August 1989, Wang Zhongyu accepted an exclusive interview by KUANG CHIAO CHING reporters at the Songyuan Hotel in Changchun. The interview lasted more than three hours.

An Exceptionally Good Memory

Wang Zhongyu was born on 18 February 1933 in a village outside of Changchun City in Jilin. When he was little, he attended an old-style private school for over a year. He has deep impressions of that period of his life. To quote him, "In the old-style schools, we memorized our lessons without understanding them. We started with *Bai Jia Xing* and *San Zi Jing*, and then went on to *Si Shu* and parts of *Wu Jing*. Memorizing so many books as a child was good training for improving my memory."

From Chief Engineer to Governor of Jilin

In 1947, Wang Zhongyu came to Changchun to attend elementary school and then middle school. China was still under KMT [Kuomintang] rule then. He first attended Ziqiang Elementary School in Changchun, and later went on to the province-run No. 2 Middle School. After the liberation of Changchun on 17 October 1948, he transferred to the city-run No. 3 Middle School. That school is now affiliated with Northwest Normal University. In 1950, Wang Zhongyu enrolled in the Shenyang Light Industry Higher Vocational School to study pulp and paper-making. He graduated in 1953. Upon graduation, he was assigned to Jilin Paper Mill to work as a technician. From then until 1979, he was promoted step by step to engineer, chief engineer, workshop deputy director, section chief, head of the plant office, and deputy plant supervisor. In 1980, he was appointed deputy head of the Jilin Department of Light Industry, and, later, the department head.

In 1981, he attended classes at the Central Party School in Beijing.

Upon completing his studies in Beijing, he returned to Jilin in 1982. In 1983, he was transferred to the Jilin Provincial Party Committee, and he became a member of the Standing Committee of the Jilin provincial party committee and chairman of the Policy Research Department.

In 1984, he was a member of the Standing Committee of the Jilin provincial party committee and its secretary general.

In 1985, he was appointed deputy secretary of the Jilin provincial party committee and was in charge of propaganda, culture, and education. The reporters learned from other sources that, at that time, Beijing had considered Wang Zhongyu for a post as deputy director of

the CPC General Office. In June 1988, Wang Zhongyu became deputy secretary of the Jilin provincial party committee and vice governor of Jilin. In January 1989, he became acting governor of Jilin.

In March 1989, when the Jilin Provincial People's Congress convened, Wang Zhongyu was formally appointed governor. Concurrently, he is also a member of the National People's Congress, an alternate member of the CPC Central Committee, and deputy secretary of the Jilin Provincial CPC Committee.

During the Cultural Revolution, as a member of a minor ruling faction in Jilin Paper Mill, he had his share of bad times and was branded a sinister bourgeois go-getter. For a time during the Cultural Revolution, he was banned from all party activities. The ban was lifted in December 1970, but soon thereafter he was sent down to the countryside for tempering through labor. In May 1971, because his skills were needed to make paper for the publication of *Selected Works of Mao Zedong*, he was transferred back to Jilin Paper Mill and became the deputy head of the control group within the production group.

Wang Zhongyu's Family

Wang Zhongyu's wife was secretary of Jilin Papermaking Company's party committee and a senior engineer. She died of lung cancer on 16 June 1989. Wang and his wife learned from each other and kept each other company for more than 30 years and were devoted to each other.

Wang Zhongyu has three children. His daughter teaches at Northeast Normal University. Upon receiving a degree in foreign languages, she went on to graduate school and received a master's degree in comparative education. She once participated in a UNESCO conference.

His older son graduated from Jilin University with a degree in economics. He is with the Jilin urban and rural social economic survey team, doing research work.

His younger son is 25 years old. He graduated from Jilin Engineering Institute and is working in the Jilin commodity inspection bureau.

What Are Jilin's Special Features?

Governor Wang Zhongyu told us that Jilin is a coastal province near the border and is not one of the inland provinces. It shares a 1,500-km border with the Soviet Union and Korea. At the closest point, Jilin's Hunchun is only 15 miles from the mouth of the Sea of Japan. This location serves Jilin well as it opens up to the outside world.

Jilin is long and narrow, narrow from north to south but long from east to west. It is about 300 km from north to south, and 600 km from east to west. It has a total area of 187,000 sq km, with 60 million mu of arable land.

Jilin is a multinationality province. The census taken at the end of 1988 shows that it has a population of 23,574,000 people. Besides the Han nationality, there are 35 minority races. Among them, the Chaoxians make up the largest group, with 1.17 million people; there are 730,000 Mans, 110,000 Huis, and 100,000 Mongols; the Xibes are the smallest group, with only 1,800 people.

There are six prefectural-level cities in Jilin Province and one administrative district, one autonomous prefecture, 14 county-level cities, 27 counties, and 18 county-level districts.

From what the reporters saw after several days of traveling, Jilin has fine natural conditions. According to Wang Zhongyu, the following are Jilin's natural advantages:

1. Jilin is located near the border and the coast. It is the communication hub of the northeast. Railroad density is 3.6 times the national average.

2. It is rich in natural resources. In a nutshell, Jilin has "four abundances":

One, an abundance of grain: Jilin ranks first in per capita grain consumption, in ratio of commodity grain production, total amount of grain transferred out, and in maize exports. Provincewide, per capita grain consumption is 720 kilos, twice the national per capita average; as much as 50 percent of its crops are commodity grains; around five billion kilos of grains are transferred out, and Jilin accounts for 70-80 percent of the nation's maize exports.

Two, an abundance of timber: Jilin is one of the nation's key forestry provinces. Provincewide, 9.11 million hectares of land, or 48.6 percent of Jilin's total area, are devoted to forestry, and of that area, 6.23 million hectares are timberland, ranking seventh in the nation in size. There are reserves of 760 million cubic feet of standing timber, ranking sixth in the nation (Heilongjiang ranks first,) and its timber production ranks second in the nation.

Three, an abundance of underground mineral resources: Jilin produces 46 kinds of mineral products. Its oil shale, pumice, and silica and limestone reserves all rank first in the nation, and it also has rich reserves of coal, nickel, molybdenum, gold, and copper.

The Three Treasures of the Northeast Are Found Primarily in Jilin

Four, an abundance of local and specialty products: The three treasures of the northeast (ginseng, marten, and pilose antler) are found primarily in Jilin. Changbaishan produces 80 percent of the nation's ginseng. There are more than 1,800 kinds of Chinese medicines, including herbal, animal-based, and mineral-based medicines, and Jilin produces more than 40 kinds in quantities in excess of a million kilograms a year. Best-known among them are glossy ganoderma, roots of membranous milk vetch, and dangshen. Jilin is in the process of developing

Chinese pharmaceutical products made from ginseng and pilose antlers; they have very good curative effects.

3. Jilin's industry has solid foundation, and there is a fairly complete range of industries. Provincewide, there are more than 13,000 enterprises; 321 are large and midsized enterprises. Of the 156 projects that the Soviet Union helped develop during the First 5-year Plan, 12 were in Jilin. Today, these backbone enterprises continue to play a role. There are basically five mainstay industries in the province: 1) engineering industry, led by the automobile industry; 2) petrochemical industry; 3) timber industry; 4) metallurgical industry; 5) food industry. These industries come in every category and the structure is sound. They are an asset to Jilin Province's future development.

4. Agriculture has a sound foundation and is developing rapidly. In 1949, Jilin produced only 4.5 billion kg of grain. By 1979, total production has topped 9.1 billion kg, and in the last 10 years, it has surpassed the 10 billion kg and the 15 billion kg benchmarks. In 1988, total production was 16.93 billion kg, setting a historic record. Per mu output has increased significantly, too. In 1949, the per mu output was 74.5 kg; in 1988, it had risen to 325 kg. Meanwhile, large quantities of other agricultural and sideline products are also being produced.

5. Jilin is fairly strong in the areas of education and science and technology. The province has 42 colleges and universities. There are 33 college graduates per 10,000 population. Three of the state's key institutions of higher education are in Jilin, and they have trained 100,000 talented people for the country since 1978. Jilin also has substantial science and technology capabilities. There are 160 provincial-level scientific research units, which engage more than 517,000 technical personnel. There are 125 scientists and technicians per 10,000 population, ranking fifth in the nation.

Jilin Had a Late Start; It Must Now Quicken the Pace of Opening Up

Jilin was developed late in China's history. Wang Zhongyu told us that if we look up *Comprehensive History of Jilin*, we will find that ironware was not used in Jilin until the late Western Han dynasty, and animal husbandry was only partially developed in the Ming dynasty. Industry had a very late start. Handicraft industry, mining, and hand-manufacturing did not begin to develop until late in the Qing dynasty. Because of this late start, Jilin must quicken the pace of opening up.

Jilin Did Not Have Its Own Foreign Trade Until 1980

Before 1980, Jilin had not set up its own foreign trade. Everything was entrusted to Liaoning's Dalian Harbor and Tianjin's Xingang, which acted as its agent. In 1980, Jilin began to set up its own foreign trade. At that time, its foreign trade was worth only \$60 million a year. By 1988, total foreign trade has reached \$530 million, and in the first six months of 1989, it has topped \$312 million. Frontier trade with the Soviet Union and Korea

has reached 35 million Swiss francs in the first six months of this year, 2.8-times the 1988 figure over the same period.

Rapid Development Seen in Port Construction and Frontier Trade

Jilin's port construction is progressing rapidly. Before 1980, Jilin had no foreign-trade ports. Today, there are 10 of them—four for sea transportation and six for land transportation. Sea transportation includes facilities leased in Dalian Harbor. There are 13 frontier ports doing business with the Soviet Union and Korea, and this year, Hunchun's Changlingzi Port is open for business. Jilin has also done well in bringing in technology and skilled personnel. Today, Jilin has contacts with 135 foreign countries and regions and has direct business contacts with 1,500 foreign customers. Negotiations for 728 projects have already been completed, and 52 factories will be built under joint-venture agreements; the investments are worth \$120 million. The investors come from Hong Kong, Japan, the United States, and West Germany, and so on. During this period, close to 500 experts from 28 countries have come to Jilin to give lectures and collaborate in science and research projects. As for organizations stationed abroad, Jilin has accredited offices in the United States, Japan, Canada, and Hong Kong, and so on. In recent years, it has also set up friendship-city arrangements, and there is a growing amount of foreign contacts.

Since the 4th Plenary Session, Jilin has again accelerated its reform pace and is prepared to court foreign cooperations in 10 areas.

In order to speed up Jilin Province's economic development, and in view of Jilin's realistic situation, we are seeking foreign economic and technological cooperation in the following 10 areas:

- 1. To make full use of Jilin's agricultural and sideline industries and local and specialty products, we should vigorously develop the food industry, feed-processing industry, and pharmaceutical and health-care products industry.*
- 2. To take advantage of Jilin's advanced automobile industry, we should vigorously develop industries to make heavy, midsized, and light-weight trucks, different kinds of refitted cars, tourist buses, and mini cars.*
- 3. To take full advantage of Jilin's vast prairie, we should manage it and develop comprehensive use. We should vigorously develop animal husbandry and the animal-product processing industry.*
- 4. To make full use of Jilin's chemical and industrial raw materials, we should bring in advanced technologies and engage in resource processing and develop new, precision industrial and chemical products. We should make use of Jilin's petroleum resources and vigorously expand the production of petrochemical products.*

5. We should upgrade Jilin's chemical fertilizer and pesticide plants and develop organic compound fertilizers and high-efficiency, low-toxicity pesticides and other products.

6. To make full use of Jilin's rich forestry resources, we should put the timber to comprehensive use and produce more high- and medium-grade furniture and paper and cardboard and other products.

7. We should import advanced technologies and equipment for manufacturing small-scale farm machinery, farm tools, and livestock farm machinery and upgrade the existing farm machinery manufacturing industry.

8. We should actively develop the electronics and optics industries and develop technologies in the areas of integrated circuit, microprocessor, optical-fiber, laser, and various atomic devices.

9. We should bring in advanced technologies and speed up the exploitation of nonferrous metals and nonmetallic minerals in Jilin and develop comprehensive use of oil shale.

10. We should vigorously develop the tertiary industry.

As a part of Jilin's labor export, several thousand people have been shipped out, mostly to the Soviet Union, South Africa, Latin America, and Eastern Europe.

Offering Better Terms Than the Coastal Provinces

Wang Zhongyu said, "When it comes to foreign cooperations, if we want to attract foreign investors, we must offer them terms that are superior to the coastal provinces." Foreign investors who invest in the coastal provinces are exempt from income tax for three years, beginning the year the business shows a profit; in Jilin, they are exempt for six years, and the income tax of foreign businesses that produce capital goods and advanced-technology products is reduced by half. Jilin Province has also drawn up 16 provisions offering favorable treatment to Overseas Chinese investors, 12 provisions on foreign investments, and seven provisions on equity and contractual joint-venture enterprises.

In order to continue to implement reform and opening up, Jilin is paying special attention to the construction of economic development zones. It has already set up the Qianfu Economic Development Zone, the Meihekou Trade Zone, the Jian Open District, the Nan-Nan (Nanling and Nanhu) Science and Technology Development Zone (Nanling and Nanhu are the hubs of scientific research institutions and universities), and the Hunchun Development Zone.

Wang Zhongyu said that Jilin needs reform and needs to open up. It already has a good beginning, but the burden is heavy and the road is long, the mission is arduous and the responsibility is grave.

The Home of Changbaishan and Songhuajiang

Jilin has the right conditions for developing tourist trade. It has many natural and human landscapes, such as Changbaishan, Songhuihu, historic Jian City, and Tonghua in the frontier. But at present only 40,000 tourists come to Jilin each year. Why? Why doesn't the figure match Jilin's rich tourism resources and its beautiful sceneries? Wang Zhongyu attributed it to the lack of transportation and publicity. In the future, more effort will be spent on this area.

The Economic Development Strategy for the Year 2000

Jilin Province has formulated a economic development strategy which will last until the year 2000. It stresses thorough reform and linking up with the south while opening up the north; it emphasizes efficiency and gives priority to science and education; it stresses structural readjustment and enhancing management; it emphasizes breakthroughs at the key points and also comprehensive revitalization. With regard to linking up with the south and opening up the north, Wang Zhongyu said that linking up with the south means forging closer relations with the southern coastal provinces. At present, Jilin has fairly close ties to Shanghai; it has adopted Shanghai's technical management methods; it uses Shanghai's best-known brand-name products. In turn, Shanghai utilizes Jilin's raw materials and agricultural and sideline products. They make use of each other and benefit each other. For example, much of the lumber used in Shanghai is from Jilin.

Welcome the Glorious Prospects of the Northeast Asian Economic Circle

With regard to opening up the north, because the Northeast Asian economic circle is steadily gaining in status, the future looks very promising. Some economists said, "the 21st century is going to be the Pacific century." But Wang Zhongyu said, "That statement is not entirely correct. I think the Northeast Asian economic circle has great prospects and potential for future development." Northeast Asia is rich in resources. China is a huge market and has ample labor resources; Japan and South Korea possess advanced technologies. These countries can supplement one another. For example, the Soviet Union urgently needs labor, and China has an ample supply. In anticipation of the full-speed economic development of the Northeast Asian areas in the 21st century, and in order to invigorate Jilin's own economy, we must begin to make preparations now. At present, we are engaging in vigorous construction of Hunchun's Changlingzi Port, putting in railroads. All these will be useful to us later. As for reform and opening up, Jilin is turning to the "three imports" (importing trained personnel, technologies, and capital) and the "three exports" (exporting to the outer regions, other provinces, and foreign countries).

Jilin has plans for eight-percent economic growth this year. Wang Zhongyu said this is a formidable task and the province must make an utmost effort, but he is

confident that the goal can be reached. Presently, Jilin must try every possible means to solve the energy and fund shortage problems.

In discussing the power supply problem, Governor Wang Zhongyu admitted that there was a serious power shortage problem in the northeast. Jilin is prepared to solve its electricity problem in several ways:

1. Use energy resources more efficiently: At present, output value per kilowatt-hour [kWh] of electricity is 2.9 yuan RMB at the best, and the worst is as low as 2.4 yuan. Jilin uses more than 1 billion kWh of electricity per month, with different degrees of efficiency. Maximum and minimum efficiency can mean a difference of 500 million yuan. This is a lot of potential, and Jilin should try to increase efficiency to raise the output value.
2. Conservation: Today, Jilin uses 15-18 billion kWh of electricity a year. A 10-percent conservation can take care of one month's electricity consumption.
3. Construct reserve power plants: Jilin produces coal and is equipped to build more power plants. Shuangliao Power Station meets all the requirements, and studies have proved its feasibility. As soon as the state stamps its approval, construction will begin. The project will take several years, and it can increase power supply by 2.4 million kilowatts.
4. Upgrade the existing power plants and tap potential.
5. Make full use of existing energy resources: For example, we can tap into the oil shale and gangue for energy to generate electricity. The provincial government has asked the provincial science committee to speed up research and produce some results.
6. Nuclear power plants: Although the one-time investment is high, nuclear power plants take up little land; they are clean and efficient and are particularly suited to Jilin. But extra care must be exercised in site selection.

Rectification and Improvement Are Producing Results

Wang Zhongyu said, in the areas of rectification, improvement, and thorough reform, Jilin has attained some preliminary results since the beginning of 1989. They are seen primarily in the following areas:

1. Jilin Province has continued to implement thorough reform and has further improved the contract system, improved the forms of contract, brought in competitive mechanisms, drawn up mutual protection contracts, and given play to the workers as masters. Jilin has plans to set up some enterprise groups, primarily among the large enterprises, to take advantage of the superior factors of large enterprises and to help medium-size and small enterprises grow. Recently, the Jilin Chemical Industrial Company implemented a series of equity and operation mergers with 12 other enterprises, with good results. Large enterprises have the capital and management

experience, and after the mergers, they pay even more taxes to the government, which is a great help to Jilin's economy.

2. With respect to prices, Wang Zhongyu said that prices in Jilin are dropping slowly. In 1988, Jilin's price index was 119.9 (prices in the previous year equal 100.) In July 1989, the price index was 116.5, 11.4 percent lower than the January 1989 index and 12.2 percent lower than the December 1988 index. But to make prices significantly lower than last year's will be rather difficult.

3. Jilin has effectively reduced the scale of construction. In 1989, construction in the province has been reduced by 18.9 percent compared to the previous year; there is a 70-percent reduction in new projects.

4. Jilin has cleaned up and consolidated many companies. Jilin originally had 6,417 companies. Upon sorting them out, the new registration record shows 736 fewer companies, and party and government cadres too have been dismissed.

5. The gap between total demand and total supply is slowly narrowing. Jilin's total supply this year has increased 6 percent over last year's, and total demand has increased eight percent. Total demand exceeds total supply by 500 million yuan, significantly smaller than last year's margin (last year, the gap was 1.5 billion yuan.)

6. Industrial production has definitely increased. Jilin Province's industrial growth in the first six months of 1989 was 6.6 percent, with a 15-percent increase in budgeted income. It looks like economic efficiency has improved and the results are good.

Honest Government and Efforts To Fight Corruption

On the honest government and anticorruption issue, Wang Zhongyu said, most of China's party members and leading cadres are honest; only a few are corrupt, and a handful are indeed outrageously corrupt. But one cannot conclude that the CPC is corrupt because of that. If the party were indeed corrupt, how could we have achieved today's success? Of course, corruption is a serious problem. As Chen Yun said, corruption affects the very survival of the CPC. There are only a handful of corrupt elements, but they have a tremendous impact, and we cannot afford to wait to solve this problem. Wang Zhongyu said that, after setting up a new leading group with Jiang Zemin at its core, the Central Party Committee has charged us with seven tasks. It was a correct and timely decision, and the people supported it. As for Jilin Province, it has recently convened an enlarged meeting of the provincial party committee and has decided to do the following:

How Does Jilin Fight Corruption?

1. Jilin has created an honest government leading group to fight corruption. It is headed by Du Qinglin [2629 7230 2651], deputy secretary of Jilin's provincial party

committee, and Vice Governor Liu Xilin [0491 1585 2651] serves as deputy head.

2. The provincial party committee and the provincial government will hold regular discussions and are determined to perform their 10 tasks.

3. The province is promoting the "two public, one supervision" work system.

4. The province is focusing on the investigation and handling of major crime cases. On 29 July of this year, Jilin Province began handling several crime cases in public. One provincial-level cadre, four department-level cadres, and 9 section-level cadres have been convicted.

5. Jilin has reinforced the systems, plugged loopholes, and has drawn up 10 regulations to ensure an honest government.

6. Jilin will consolidate government departments, rectify ideologies, consolidate organization, strengthen discipline, and take three months' time to reorganize the government departments.

On the matter of wages and income, Wang Zongyu said that most cadres are poor but honest. Jilin Province's workers earn an average of 1,630 yuan a year; the peasants' per capita net income is 627 yuan. Among the government functionaries, the vice governor earns 180 yuan a month; the governor and the secretary earn 205 yuan; department heads earn 160 yuan. The homes of the provincial-level cadres measure about 100 square meters, with approximately 80 square meters of livable space. They generally consist of four rooms and a lounge; some have three rooms and half a lounge. A very experienced veteran leader or cadre may be slightly better off, but not much better off than the average citizen.

Where Are the College Students Heading?

With respect to education, Jilin's budget for education in 1988 was 766 million yuan; the 1989 budget is 10.2 percent higher. The 1988 budget was three times the 1979 budget, an increase of 16.45 percent a year, which is faster than the increase in government income. Jilin Province's income has been increasing at a rate of 13.8 percent per year, and expenses have been increasing at 10.3 percent. Jilin spends 2,900 yuan per university student per year, 500 yuan more than the national average, ranking fifth in the nation. In 1988 Jilin's average education spending per 10,000 people was 320,000 yuan (the national average was 250,000 yuan,) which was 34.4 percent more than in 1985. But there are still many problems. The average monthly salary of a middle school teacher is 120 yuan; 80 percent of the elementary school budget goes to wages, and 30-40 percent of the university budget also goes to wages. Wages, in fact, account for more than half of the outlay for education. It affects funding for improving teaching

methods, repairing dilapidated buildings, and purchasing teaching materials and apparatus. Wang Zhongyu said, Jilin will strive even harder and come up with ways to solve these problems.

As for intensifying education of the students' political ideologies in this new academic year, Wang Zhongyu emphasized the following three areas: 1) The government should unite the students' thinking behind Deng Xiaoping's recent speeches and the spirit of the 4th Plenary Session of the 13th CPC Central Committee. The students must understand the reasons for and the background of the recent rebellion, and their ideological cognition should be enhanced. 2) The government should intensify education in basic Marxist theories, teach philosophy and history, and educate the students about conditions in this country. 3) There should be more socially practical activities to make the students understand society better.

Wang Zhongyu said that today's students do not understand society. They are detached from reality and from production, and they do not understand the differences between the two social systems. This year, the graduates basically will not be assigned to the government offices but will be sent to the grassroots level for tempering, and they will be promoted step by step. Wang said this is good for the students; it gives them a chance to see more, hear more, and experience more; it broadens their outlook as they grow to maturity.

Heilongjiang Forum Discusses Marxist Education, Propaganda

*90ON0054A Harbin FENDOU in Chinese
No 9, 1 Sep 89 pp 7-9*

[Text] On July 18, the provincial party committee Propaganda Department and this publication invited individuals in the Harbin section involved in theoretical work to participate in a symposium at the provincial party committee Propaganda Department conference room. The participants in the meeting spoke their minds freely, and highly rated the 4th Plenary Session of the 13th CPC Central Committee. The discussion centered on the problems of Marxist propaganda and education. Below is a record of the different questions involved in the discussion.

1. To Successfully Handle the Task of Marxist Propaganda and Education It Is Necessary To First Solve the Problem of Adherence

Zhang Zhijun, professor of politics, Harbin Teachers College: In conducting Marxist education, the tasks of top priority include the need to solve the problem of adherence or nonadherence and the need to restore Marxism to its proper place and restore its true colors. Only by adhering to Marxism is it possible to grasp the problems of development, because such adherence is the prerequisite and end result of development, and the process of development exists to the extent of ever better adherence. The scientific predictions of more than 100

years ago have all proven accurate. We must, first, successfully handle the relationships between individual theses and the overall scientific system, for if we don't handle things properly we could become weak and powerless. Second, it is necessary to have a correct theoretical research orientation which involves the scientific exploration and theoretical study of all existing problems dealing with a correct political orientation. We must carry on with the policy of letting a "hundred schools of thought contend" on the basis of adhering to the four cardinal principles, otherwise, the trend toward liberalization could run rampant. This is one lesson we must bear in mind.

Hong Songtao, professor at the Provincial Administration Propaganda and Education Management Cadre School: In adhering to Marxism, it is necessary to promote the development of a struggle on two battlefronts and to restore the militancy, revolutionary spirit, and critical nature of Marxism. In recent years, we have achieved ample success in criticizing "leftist" thinking, and followed the path of reform and opening. But in terms of things of the right and in terms of the trend toward bourgeois liberalization, because they have not been given sufficient consideration, we have been comparatively lacking in fighting power. In one group on the right, some people will try to persuade you to pin labels on people and come down hard on them. In terms of theory, when there is a lack of a normal critical atmosphere, there is a great obstacle to criticism of liberalization, while those persons with ulterior motives who attack Marxism-Leninism and Mao Zedong Thought do so because it is considered fashionable behavior. Without the solution to these problems, a discussion of adherence of Marxism is devoid of content.

Jiang Qi, vice minister, Harbin provincial party committee: In terms of the question of adherence to Marxism, three questions facing us must be emphasized and made clear: 1) Is Marxism-Leninism a scientific theoretical system? The answer is affirmative, but simple affirmation won't do. It is necessary to do painstaking theoretical research work, distinguish right from wrong, and conduct a thorough overhauling, in order to restore the vitality and vigor of Marxism. 2) Can Marxism continue to act as our guiding ideology? Again a simple affirmative answer won't do. At present, although the guiding position of Marxism is clearly stipulated in the party constitution and the state Constitution, there are some comrades who wonder what this guiding means, who cannot say clearly what this guiding consists of, and who consider Marxism to have become the mere mouthing of hollow words. Some comrades even go so far as to hold that Marxism can guide only a revolution, but cannot guide development. To counter this mistaken way of thinking, we must carry out rational and empirical criticism and education, using the history of China's socialist construction and development and the great successes that have been achieved by the policy of reform and opening to the outside world in order to respond forcefully. 3) In terms of problems involved in

adhering to and developing Marxism, in the past there has been much discussion of development and little discussion of adherence, and frequently in discussing development there is a departure from adherence. There are those who daily raise the cry of adherence, but in reality work feverishly to negate the business of Marxism; there are some who use development as a pretext for this negation. There are some who publicly write articles saying adherence to Marxism is adherence to a policy of seeking truth from facts. Who is it that must adhere? The party organization must adhere. We must make a great effort to solve these problems or we will not be able to successfully conduct Marxist propaganda and education.

Liu Yinglin, deputy director, provincial Academy of Social Sciences, and deputy research fellow: In recent years, academic research has not provided sufficient positive guidance. Concerning what is correct, what conforms to Marxism, and what is contrary to Marxism, there has been a lack of proper analysis and elaboration. This can easily lead to the path of theoretical deviation from Marxism.

Xing Weili, provincial Social Union deputy chairman and associate professor: Adherence to Marxism must emerge from current reality both within the country and in the international environment, and must use Marxist positions, viewpoints and methods to analyze problems, to consider problems, and to solve problems, and in practice to adhere and develop Marxism.

Liang Shicheng, Songhua Jiang prefectural party committee Propaganda Department head: Adherence to Marxism is a problem we presently face involving the divorce of theory from practice, and it must be solved as rapidly as possible. On the one hand we must reform the bad practice of paying lip service to Marxism, especially saying one thing and doing another, as this makes people become disgusted. On the other hand, we must unify present policies and the fundamental tenets of Marxism, because their mutual divorce can also dilute Marxist propaganda and education. At the same time, it is also necessary to solve the problem of the stagnation of theoretical research. At present, theory has seriously stagnated and cannot adequately guide practice. The results of the reform policies have often been outstanding but lack the necessary theoretical preparation, and in the process of summarizing the pilot experiments and demonstrating the keys to their success people run up against a stone wall in trying to get at the root causes. This leaves people unsure as to what path to take, and they are forced to follow their feelings. For this reason, it is necessary to conscientiously move forward with theoretical work, and give full play to the educational, predictive, and guiding functions of Marxism.

2. Why Has Marxist Propaganda and Education Not Been Handled Well?

Zhang Zhijun: In recent years, there has been a certain bad atmosphere in theoretical circles, involving the fact

that a discussion of the terms "socialism" and "capitalism" has not been allowed. Anyone who asked such questions was labeled as stubbornly resistant to change, conservative, and having an ossified way of thinking. But if there is no distinction between capitalism and socialism, then how can the development of socialism be handled properly? Problems in the fields of science and technology, management, and administration are not great, but for many things, such as the question of a system of ownership and ideological questions, mustn't there be a discussion of the terms "socialism" and "capitalism"? There is no contradiction between a discussion of the terms "socialism" and "capitalism" and the reform and opening policies. If questioning is not allowed then problems can emerge, and people are given the impression that regardless of the existence of capitalism there is still socialism, that both can operate at the same time. This also indirectly negates (denies) Marxism. Under these circumstances, how is it possible to handle Marxist propaganda and education successfully?

Lu Zhendong, associate professor and deputy group head of provincial party committee lecturing group: In the last few years it has been very difficult to handle Marxist propaganda education well, as some among the leaders have not emphasized it and some among the masses have not understood it. If it was known that someone was involved in Marxist-Leninist theoretical work, then everyone would thumb their nose at him. The cause of the crisis in Marxist belief and the indifference to propaganda education is that those promoting bourgeois liberalization spare no effort in slandering Marxism, and we have no positive and effective counterattack. They have advocated "two theories." One is called "the obsolescence theory," which holds that Marxism is an obsolete ideology. As a science, Marxism has already completed its own mission, and now we must search for a new truth. The other is called the "hundred schools of thought contend theory," which says that Marxism is one school of thought among a hundred contending schools. This denies the guiding function of Marxism. It holds that Marxist philosophy is not guiding and scientific, and the use of Marxist philosophy as a guide has never achieved success. It considers Marxism as closed, exclusive, ossified, and ugly, as well as ambiguous and vague, a narcotic for pleasing the public, and it threatens to drive Marxism from China's stage. In fact, the slanderous propaganda of this clique is not so terrible. What is terrible is the lack of an effective resistance, as no one dares to criticize, denounce, and make clear these falsehoods. Prolonged weakness and ineffectiveness can create false impressions and make it seem as though Marxism really does not work, and is not applicable within the reform and opening policies.

Recently, in theoretical circles there are some comrades who, when translating, reviewing, and propagating Western social science works relevant to this discussion, do not contribute analysis and criticism, absorbing them lock, stock, and barrel. Taking this doctrine as a new

discovery, and that doctrine as truth, also results in the dilution of Marxism and the unchecked spread of the mentality of bourgeois liberalization.

After the shift in the center of gravity of the work of our party, taking economic development as the core, adherence to the policy of "grasping with two hands" was completely correct. In reality, the grasping of economic work has been more real and more truly carried out. But work related to the ideological and political aspects has been neglected, and it has been very difficult to promote Marxist education, which has been looked upon as merely the empty shouting of slogans, and lacking a concrete program and direction.

The philosophy of pragmatism currently in vogue also adds fuel to the fire. In the last few years there has been a trend of thought that considers that which is useful to be that which is also correct, and anything that fails to pass this test is considered obsolescent and useless. It does not take Marxism as a stand, viewpoint, and method for analyzing, understanding, and solving problems, but attempts to make it become a remedy for all ills. The study of Marxism-Leninism must enable one to solve concrete and real problems, otherwise the study of Marxism-Leninism is useless. It would be better to deal with concrete facts, it would be better to reach out one's hand and grasp for money.

Peng Ruiling, professor, department of Marxism-Leninism at Harbin Polytechnical University: Marxist propaganda and education and the stability and continuity of present policies must be closely related, otherwise policies vary widely, constantly flip-flopping, and how can we talk about what is right? Right and wrong are not clear, mistaken political views cannot be correctly analyzed and effectively refuted, and, hence, the guidance function of Marxism cannot be given full play. For this reason, in recent years, vigilance in our policy toward capitalism's "peaceful evolution" has not been adequate, as we have emphasized the harmonious aspects and neglected the contradictions. There has also been a lack of understanding of the serious and dangerous nature of the trend toward bourgeois liberalization within the country, holding that a great wave could not arise from a few erroneous political views.

Su Zhongliang, Propaganda Department section chief, Harbin Ironworks: In recent years, we have been slack in ideological and political work and basic theoretical education. We have not waged an effective tit-for-tat counterattack against the trend toward liberalization, while the advocates of bourgeois liberalization have not let up in their attacks against us. There are some who regard the four cardinal principles as empty abstractions, and many who deny their concrete viewpoints. If you raise the questions of class struggle, dictatorship of the proletariat, and public ownership of the means of production, you will be labeled a "rightist." Education emphasizes the content of the reform and opening policies at the expense of an education encompassing a Marxist world view, a Marxist outlook on life, and Marxist ideals and

morals. People only think about earning lots of money and reaping material benefits; there is ideological confusion, the atmosphere is bad, and the will of the people becomes unfocused. Marxism is cast by the wayside.

Jiang Qi: Today's cadres and the masses are subjected to the serious assault on and disruption of Marxism-Leninism and Mao Zedong Thought by the advocates of liberalization, and the attachment of cadres and the masses to the former is not the same as it once was. The advocates of bourgeois liberalization launch attacks from all sides, distorting Marxism, and we have not conducted a timely counterattack, but have instead generated a great deal of confused thinking. The result has been that positive education has been weak and ineffective, and the attractive power of negative things has been substantial.

3. What Type of Ability Is Required To Successfully Handle Marxist Propaganda and Education?

Lu Zhendong: The key to regaining the support of the people and rediscovering lost ideals lies in carrying out abundantly effective propaganda and educational work, reestablishing the spiritual prop of the people, and conducting comprehensive administration. First, the party committees must genuinely stress theoretical educational work, be truly responsible for doing the job right, and also be able to adhere consistently to Marxism, while emphasizing theoretical educational work in a down-to-earth manner. Second, they must create an honorable atmosphere for studying theory and understanding Marxism-Leninism, where a lack of understanding that goes so far as to distort Marxism is considered disgraceful. Creating a favorable environment of public opinion and opinion in broadcasting and printed media requires that a high quality product be turned out. Once again it is necessary to stipulate rules and regulations, arrange concrete programs, and the stipulations and requirements of theoretical study for each grassroots, midlevel, and senior cadre must be made clear, linking the Marxist theoretical level with a certain position's overall ranking, and thereby strengthening the quality and capabilities of vast numbers of cadres.

Peng Ruiling: It is necessary to handle Marxist propaganda and education properly, which must include a systematic study of Marxism; from primary school, middle school, and the university, all the way through to post-graduates, we must, step by step and stage by stage, repeatedly and systematically conduct education. What is taught at each stage and how it is taught must have a unified program that is comprehensively considered and researched. We must spur everyone to go into action enthusiastically, studying Marxism and investigating Marxism, and take study and research and propaganda and education as a closely linked and integrated whole. We must increase the quality of propaganda and education workers. In conducting Marxist propaganda and education one should have a purpose, be persuasive, be appealing, and be militant, and this requires skills and a

certain level of education. Without such skills and education, after a lecture everybody will turn a deaf ear and not be attracted; the goal of education will not be reached and it will not be possible to pull people out of the quagmire of bourgeois liberalization. We also must be adept at conducting Marxist propaganda and education through solving practical problems. The phenomenon of corruption within the party has not been eliminated, unhealthy tendencies within the party have not been dealt with, and this can only aid the surge of liberalization and diminish the prestige of Marxism. If China's Communist Party was practicing Marxism, how could corruption exist? We must carry on with economic development with an effective Marxism truly in the lead. All things must be handled properly in order to increase the attraction and persuasiveness of Marxism in practice.

Professor Liu Hanruo, department of economics, Heilongjiang University: Regarding young students, there are three things education should pay close attention to. The first is education of individual and national moral quality and national pride. Whether it is an individual or a nation, all should have their own spiritual pursuit, which cannot be that everything foreign is good; one must have self-pride and a spirit of self-reliance. The second is education concerning national conditions. There is a need to make young people understand the historical process of the development of the Peoples' Republic, clearly explaining the formidable problems, long-term nature, and complexity of the reform and opening policies, and strengthening their sense of mission and responsibility. The third item is the education in a spirit of self-reliance and arduous struggle. Such a large country as China must develop, and a decisive factor is our own strength. Foreign exchanges and intercourse are necessary, but we cannot become dependent on them. At a time when our material conditions are still not abundant, a spirit of arduous struggle is exceedingly valuable, and it is our spiritual power that will enable us to overcome difficulties and achieve victory. Together with Marxist education these three educational aspects are mutually interpenetrating and complementary.

Hong Songtao: It is necessary to strengthen historical education, especially education in modern history, contemporary history, and revolutionary history, providing true understanding to vast numbers of young people and our future generations concerning the fact that Marxism has rescued our nation from serious disasters, and that Marxism alone has the ability to guide our country's revolution and development in its march from victory to victory.

Xing Weili: In conducting Marxist propaganda and education, currently we must solve a three-tiered problem. At the administrative level, we must probe, expose, and criticize bourgeois liberal thinking while adhering to a socialist standpoint. As long as there are two social systems, classes will exist, and even with their partial existence it is still a problem of standpoint. At the theoretical level, not only is it necessary to explain the

essence and threat of bourgeois liberalization, but it is also necessary to boldly conduct theoretical research and exploration, using Marxist positions, viewpoints, and methods in place of all forms of erroneous thinking. In practice, it is necessary to adhere to the use of Marxism to deal with the new situations and new problems that emerge from the reform and opening policies and the development of a socialist commodity economy, using the facts to educate and convince people and make Marxism truly take root in the hearts of the people.

Liu Yinglin: Strengthening the management of consciousness formation and a proper learning atmosphere are very important. In the ideological sphere and on the propaganda front, it is necessary to firmly establish the guiding position of Marxism, while in learning it is necessary to integrate creative and scientific attitudes. Scientific truths not adhering to Marxism, reliance on creating something new and original just to be different and to create a disturbance, and the bad atmosphere of confusion must be resolutely eliminated.

Liang Shicheng: There is a need to increase the quality of propaganda and educational work, strengthening the development of work teams, first overcoming excessive stress on education level and the trend toward increasing specialization, and strengthening the theoretical understanding of Marxism. At present, in primary city and local units, there are too few theoretical contingent personnel, which is harmful for propaganda and educational work. We must pay attention to fostering local Marxist theoreticians, propagandists, and educators in order to further increase strength and replenish reserves of strength.

Yang Fudong, assistant editor in chief and copy editor of FENDOU: In terms of how to successfully handle Marxist propaganda and education, I would like to make the following suggestions.

1. Party committees at each level should first increase their level of political consciousness, truly placing Marxism in a guiding position, genuinely taking Marxism as the theoretical basis for unifying our thinking. Once this problem has been solved, other problems can be successfully dealt with.

2. It is necessary to create a strong atmosphere for learning by forming a good studying environment. In this case, that each level of leadership take the lead is very crucial. The leading nucleus of each party committee must genuinely give full play to the functions of the nucleus in terms of taking the lead in studying.

3. It is necessary to vigorously launch a struggle against the mentality of bourgeois liberalization, while establishing the authority of Marxism in the course of the struggle. If there is deviation from this struggle, then it is impossible to talk about adherence to Marxism, and it is also impossible to successfully carry out propaganda and education.

4. It is necessary to conscientiously strengthen theoretical research and to answer all the questions of the cadres and masses that arise during study. Development can advance and be achieved by using China's distinctive socialist theory. This approach integrates research and propaganda and is beneficial in the successful handling of both types of work.

5. There is a need to establish highly qualified theoretical contingents with perfect mastery of their subject. It all depends on human effort, if there are no people there is no contingent, and the undertaking is not done well. This aspect is a very important one, it is necessary to fully arouse the enthusiasm of theoretical workers, and on this basis to progressively increase their quality.

Article on Recent Taiwan-China Trade

90OH0222A Taipei CHING-CHI JIH-PAO in Chinese
12 Nov 89 p 2

[Article by Hou Chia-chu (0186 1367 7467) in his special column]

[Text] The title of this special column on 7 August was "Giving Deng Xiaoping One More Advice as if I Were in His Place," when I specially demanded: "If I were Deng Xiaoping, I would issue an 'imperial decree' blaming myself, abdicating with an expression of remorse for misdeeds committed, accepting responsibility for the massacre on Tiananmen Place, and rehabilitating all those fellow countrymen who have perished there. In the 'imperial decree' of condemnation, I would also point out that the inevitable way for the modernization of the Chinese mainland is to render its society ethical, its politics democratic, and to free its economy. (Of course, this particular terminology would possibly not be used)."

At the 5th Plenary Session of the CPC Central Committee on the 9th of this month, Deng Xiaoping resigned as chairman of the CPC's Central Military Commission and will also resign at the next NPC as chairman of the NPC's Central Military Commission. The way Deng Xiaoping stepped down, he does not, of course, fulfill my demands of "abdicating with an expression of remorse for misdeeds committed." The main thing is, however, that as the storm of the democracy movement rolled with full force over the countries of Eastern Europe and many diehard communist chieftains, as Honecker and the like, were forced from their posts, this must have unavoidably given Deng Xiaoping feelings as "the fox who mourns the death of the hare." Rather than also being forced to step down in the near future like "in sackcloth and ashes," better resign from office now voluntarily. In that respect we can still give Deng Xiaoping credit and rate him—even at half measure—as quite a guy. He was unlike some chiefs of Eastern Europe who "did not shed tears until they saw their own coffins" [refused to be convinced until faced with grim reality], or like other former leaders east and west of the Taiwan Strait who chose to die in harness than admitting the crime. The reason why he can only be called a guy "at half measure" is because he did "abdicate" but without "expressing remorse for his misdeeds," nor did he even once "accept responsibility for the Tiananmen massacre and rehabilitate our fellow countrymen who had perished," not to mention that he failed to promote "social ethics, political democracy, and free economy."

Deng Xiaoping is the principal culprit responsible for the Tiananmen massacre. If he bows out now and leaves office, it may, of course, call forth optimistic hopes that there will be a favorable change of trend on the mainland. However, not only is it too early to speak of any such change of trend, but it is almost impossible to expect it because it is the very executor of the massacre, Yang Jiajiang (2799 1367 1412), who stepped into the key position at the CPC's Military Commission. As to the economic and trade relations between the two shores,

they have also been emasculated with the butcher knives of the Tiananmen massacre. As to the mutual entrepot trade, the long-lasting effects of the Tiananmen massacre were still clearly apparent in August. The growth rate of entrepot trade in August in 1989 was 22.6 percent, which obviously pales when compared to the corresponding period of 1988, when it was 90.64 percent. Even compared with the preceding month, it was a reduction by almost half, because the July growth rate was 40.86 percent. Even just consider the exports of the entrepot trade, the growth rate for August in 1989 was a mere 20.33 percent, which is far below the 94.15 percent in the corresponding period of 1988. The imports of the entrepot trade in August of 1989 had a growth rate of 34.68 percent, compared to 73.97 percent for the corresponding period in 1988. These figures show that just before Deng Xiaoping's retirement, trade between the two sides of the Taiwan strait suffered a disastrous decline.

Now, even after Deng Xiaoping has retired, economic relations and trade between the two sides of the Strait will hardly take a turn for the better in the near future, because the tendency has now become one of retrenchments. First about the mainland situation: A few days before Deng Xiaoping's retirement, the Chinese communist authorities suddenly announced at the Guangzhou autumn fair that purchases from Taiwan must be effected through 68 mainland state-operated enterprises. At the same time they restricted Taiwan businessmen's dealings with the mainland; purchases of various commodities they usually import from the mainland must from now on be negotiated with the various specialized trading companies on the mainland or be arranged through units in charge of foreign economic relations and trade in the provincial or municipal administrations. These two important provisions are measures of retrenchment which are related to the resolution of the 5th Plenary Session of the CPC Central Committee to cut down total social demand. They are identical in spirit, and they will have the effect of reducing economic and trade relations between the two shores. The former provision will directly reduce Taiwan's entrepot exports to the mainland, while the latter provision will have an indirect effect on Taiwan's roundabout investments on the mainland.

In the entrepot trade between the two sides of the Taiwan strait, the Taiwan side has consistently had a huge favorable trade balance, and exports had developed at an extremely rapid pace, one may truly say at a tremendous pace indeed. This flourishing situation must mostly be attributed to the opening-up policy of the Chinese communists, to their delegating decision-making powers in economic affairs to the local governments, to their "letting a hundred flowers blossom and a hundred schools of thought contend." Now, these powers are being taken back by the central authorities, so that Taiwan exports to the mainland must pass through specified state-run enterprises, and this will of course reduce Taiwan's entrepot exports. However, in yet

another respect, the Chinese communists' policy of economizing in foreign exchange expenditure may bring about an increase in mainland exports to Taiwan. This is evident from the fact that in the above-mentioned August figures the growth rate of Taiwan's imports was larger than the rate for Taiwan's exports to the mainland. There is also a startling discovery of the rapid growth rate of particularly two items of imports. One is umbrellas and sunshades, of which imports for the period January to August of 1989 were almost 131 times the amount imported during the corresponding period of 1988. The other items are synthetic fiber products, which had gone up 54 times during the same period.

However, it may only be that the increases by leaps and bounds of entrepot imports of these particular two items are possibly the return in products from investments made by South Taiwan on the mainland. If that is the case, there is a limit to their further growth (and this will have the effect of weakening at the same time both entrepot imports and entrepot exports), because the second provision made known at the Guangzhou autumn fair will deal a devastating blow to investment activities of Taiwan businessmen on the mainland. This is so because Taiwan businessmen have always transferred to the mainland the lower-grade, labor-intensive production, and had the Taiwan main factories go on to medium- or high-grade production, with the intermediary products or raw materials for processing before being shipped to the mainland. The commodities that have shown the most rapid increases in entrepot exports from Taiwan during the period from January to August in 1989, namely an increase rate of 243.28 percent, are parts made of various kinds of materials for the manufacture of shoes. This is ample proof for the way Taiwan manufacturers of shoes have readjusted their production. If the Chinese communists now restrict Taiwan businessmen in that imports into the mainland of all kinds of products must be effected through specified administrative units or specialized companies, it amounts to formation of a supervisory and control network over the business operations and purchases of raw material of the Taiwan businessmen, which they will experience as a serious impediment.

Finally, speaking of the Taiwan businessmen's side, according to an analysis in the mid-10-day issue of last month's Chinese communist 10-daily, the LIAO WANG [OUTLOOK], the attitude of Taiwan businessmen toward the development of economic relations and trade between the two sides of the Taiwan strait has turned from hot to cool, from enthusiasm to a wait-and-see attitude, and this for two reasons: One is anxiety about the political risk, the feeling that personal safety is not guaranteed, and the terrible fear of being branded a spy by the Chinese communists. The other reason is concerning the economic risk. The turbulent and lawless situation on the mainland provides no guarantee for the long-term economic interests of Taiwan businessmen. In addition, the fact that Taiwan businessmen cannot expect protection or support in commercial disputes

between the two sides of the Taiwan strait further lowers their desire for investments on the mainland. The provisions announced at the autumn trade fair have revealed to Taiwan businessmen the true face of the capriciousness of the Chinese communists. This is why nothing will change even after Deng Xiaoping's retirement.

Cross-Strait Trade Shrinkage

90OH0222B Taipei CHING-CHI JIH-PAO in Chinese
21 Nov 89 p 7

[Article by Taipei correspondent Xiong Chuan-hui
(3574 0278 1979)]

[Text] The International Trade Bureau yesterday published statistics of cross-strait entrepot trade for September 1989, showing a growth rate of a mere 4.24 percent, which is a record low for recent years, and indicates a large decline of cross-strait entrepot trade.

Basing on statistics of the Hong Kong Customs Administration, the International Trade Bureau pointed out that the total value of cross-strait entrepot trade in September of 1989 was \$281 million, an increase of 4.24 percent, compared with the growth rate in the corresponding month of the preceding year. The entrepot exports in this figure accounted for \$237 million, with a growth rate of 4.34 percent, and the value of entrepot imports amounted to \$43.8 million, with a growth rate of 3.73 percent. (For details see table below)

The International Trade Bureau pointed out that the values of entrepot imports and exports are a record low for the last seven months, indicating a very serious decline.

The following is an analysis by the International Trade Bureau of the present situation of cross-strait entrepot trade:

Totalling all cross-strait entrepot trade during the period from January to September of 1989 gives a figure of \$2.627 billion, an increase of 42.93 percent over the corresponding period for 1988. In this figure, Taiwan entrepot exports account for \$2.19 billion, an increase of 46.57 percent, and Taiwan entrepot imports for \$437 million, an increase of 27.14 percent.

Analyzing proportionate values, the total amount of entrepot cross-strait trade through Hong Kong during the period from January to September of 1989 accounted for 2.95 percent of Taiwan's total foreign trade (\$88.92 billion) during that period. In this figure, entrepot exports accounted for 4.4 percent of Taiwan's total exports, and entrepot imports accounted for only 1.2 percent of Taiwan's total imports during that period.

Analyzing the relevant product mixes, we find that most of the commodities exported by Taiwan to the mainland are industrial raw and semifinished materials as well as components and parts of a large variety. These exports were mainly in the lines of synthetic fiber yarn and cloth

(36.09 percent of total entrepot exports), electric and electronic spare parts and components (11.67 percent), and plastic raw materials (8.06 percent). The mentioned four large categories accounted for 70.58 percent of the total value of Taiwan's total entrepot exports to the mainland.

In entrepot imports, the largest proportion is still taken up by Chinese medicinal herbs, but they now show

negative growth and are being quickly replaced by agricultural and industrial primary raw materials.

The International Trade Bureau believes that whether by examining the present economic and trade situation on the mainland, or by analyzing the relevant statistical data, it appears unavoidable that cross-strait trade will continuously decline, and they forecast that the remaining months of this year will show negative growth rates.

Statistical Table of Entrepot Cross-Strait Trade Through Hong Kong by Months

Unit: \$1,000						
Months	Entrepot Exports 1989	Growth Rate (%)	Entrepot Imports 1989	Growth Rate (%)	Total Entrepot Trade	Growth Rate (%)
Jan	230,067	74.62	46,285	77.52	276,352	79.10
Feb	195,179	81.38	31,900	-4.22	227,079	61.15
Mar	253,547	71.25	65,042	46.98	318,589	65.66
Apr	270,564	69.33	51,456	14.08	322,020	57.16
May	255,062	58.13	50,271	17.26	305,333	49.55
Jun	247,629	39.88	50,763	44.16	298,393	40.59
Jul	254,793	44.10	45,899	25.50	300,692	40.86
Aug	246,116	20.33	51,892	34.68	298,008	22.60
Sep	237,329	4.34	43,811	3.73	281,140	4.24

Source: Statistical Bureau of the Hong Kong Customs Administration

Dissident Lin Yi-hsiung's Version of New Constitution

90ON0214A Taipei TZULI WANPAO in Chinese
6 Nov 89 p 8

[Article by Lin Yi-hsiung (2651 0034 7160)]

[Text] Preamble

We, the residents of Taiwan and the islands under its jurisdiction, seeking continued existence, prosperity, and development for ourselves and our descendants; equality, freedom, and happiness for mankind; justice, integrity, mutual assistance, and security for a civilized society; hereby establish the Republic of Taiwan.

We fervently believe that respect for and protection of human freedom and rights are prerequisites for a civilized society. The organization of government, the creation of officials, and the implementation of policy must first pass a democratic process and receive the direct approval of the people.

Human dispute and conflict must be resolved by peaceful means.

In accordance with the above goals and hopes, we have established a Basic Law for the Republic of Taiwan as the highest standard for the common life of the entire nation. We also want to call special attention to our willingness to do all we can to respect and protect our own as well as the freedom and rights of others; to nullify

all government and government policies that did not pass through democratic process; to use mutual respect, love, and concurrence as a guide in the manner we seek to achieve equitable and satisfying progress and interest in country; to eliminate the use of military force to gain public power, private gain, and settlement of disputes.

We renounce all offensive warfare, but will instead engage in international relations using equality, cooperation, and mutual agreement.

Chapter One. The Citizenry

Article 1. All powers of the Republic of Taiwan reside in its citizens. All government policy formulation and missions of its public servants must be in accordance with the Basic Law or other laws as determined directly or indirectly by its citizens.

Article 2. When the Basic Law takes effect, the following are considered citizens of the republic:

- a. Residents within the republic.
- b. Those born within the republic, but who reside elsewhere.
- c. Immediate family and spouses of the above. None heretofore mentioned may hold dual citizenship. Those who do, must, within six months after the Basic Law takes effect, renounce such other citizenship according to the laws of the other country before they may become citizens.

Article 3. Conditions or procedures concerning acquisition or loss of citizenship not covered above will be determined by law.

Article 4. Human dignity must not be violated. The respect for and protection of human dignity is an unavoidable mission of the entire people and government bodies.

Article 5. All citizens are equal under the law irrespective of sex, race, color, language, background, personal belief, religion, place of birth, political views, or any other physical and psychological differences and may not be discriminated against in political, economic, social, or any other human relationships.

Article 6. There will be special protection of those who, individually or as a body, receive unequal treatment despite assurance of the preceding article. The elderly, minors, and those physically or psychologically disadvantaged must receive special protection. Pregnant mothers and newly born babies must receive special protection. Illegitimate and legitimate children will receive equal opportunity to develop.

Article 7. Personal freedom will not be violated. Those who perform public duties may not insult, mistreat, or physically abuse any citizen. Except in accordance with legal procedure, no agency, body, or individual may search, arrest, confine, bring to trial, or punish a citizen.

Criminal defendants have the right to a speedy, public, and fair trial. Confessions by a defendant may not be used as evidence in court if not made under the jurisdiction of that court, nor may it be the only evidence. Except in wartime, no citizen may be tried in military court.

Article 8. No person may be in bondage or be held hostage. Slavery or slavery-like conditions will not be tolerated.

Article 9. A citizen's residence will not be invaded. A citizen has free choice of residence within the nation, not to be deprived or restricted by law or other means. A citizen has free choice to move within or without the nation.

Article 10. A citizen has the liberty to express opinions using speech, writing, illustrations, drama, or any other means. A citizen has the liberty to receive public information. There should be particular guarantee of freedom of mass broadcasts. There must be no pre-inspection of opinion to be expressed.

Article 11. A citizen has the liberty to have secret communication by any means.

Article 12. A citizen has freedom of religion, of ideology, or any other beliefs.

Article 13. A citizen has the freedom to engage in mass demonstrations; such assembly must be peaceful and weaponless. There must be no restrictions upon meetings

in or outside one's house, nor should there be any upon public demonstrations, providing the size of the group will not adversely impact upon public safety or social order.

Article 14. A citizen has the right of freedom to organize. There must be no organizations with criminal intent or that seek to achieve goals by force.

Article 15. There should be a guarantee of freedom of thought and of conscience.

Article 16. A citizen has the right to life. Laws must not arbitrarily assign a death penalty.

Article 17. A citizen has the right to a minimum standard of health and to a cultural life.

Article 18. A citizen should be guaranteed the right to own property. Property may be expropriated for the common good, but only with appropriate compensation.

Article 19. A citizen had a right and obligation to work. All professions and vocations have the right to organize and the right to bargaining or movement.

Article 20. Citizens upon reaching 18 years of age have the right to vote in elections, recalls, new policy, and referendums. Unless specially provided for, citizens who are 20 years of age may be elected to public office. There should be an election annually either for national or local office.

Article 21. Except as provided in the previous article, the right to vote in elections, recall, policy, and referendums should be prescribed by law.

Article 22. A citizen has the right to criticize or make recommendation to government agencies. Such agencies should respond responsibly in researching, evaluating, and taking any appropriate action.

Article 23. A citizen has the right and obligation to receive an education.

Article 24. A citizen has an obligation to defend his country.

Article 25. A citizen has an obligation to pay taxes according to law.

Article 26. Although not expressly covered in the Basic Law, a citizen's other freedoms and liberties are guaranteed.

Article 27. Unless prescribed in the Basic Law, in cases where the freedom of others might be obstructed, in emergency situations, to maintain social order and promote the public welfare, the rights and freedoms of citizens may be restricted by law. Such restrictions must provide an appeal procedure and receive the consent of the people. The National Assembly will determine whether a bill conforms to the parameters as expressed.

Article 28. A citizen may not exercise freedoms and rights irresponsibly. A citizen must also take every opportunity to use such rights and freedoms to promote the public welfare.

Article 29. A citizen has the right to ask for judicial protection when such rights and freedoms are violated.

Article 30. A citizen has the right to seek compensation when a public official violates these rights and freedoms.

Article 31. Except as otherwise prescribed by law, a foreign national shall have the same freedoms and rights. A foreign national's obligations shall be prescribed by law.

Chapter Two. Territoriality

Article 32. The sovereign territory of the Republic of Taiwan includes the island of Taiwan and its jurisdictional isles. Changes to the territoriality must be passed by the National Assembly and the consent of the people.

Territorial waters and air space shall be determined by the National Assembly in accordance with international practice. The Republic of Taiwan may not seek territorial aggrandizement by force.

Article 33. The land within the republic belongs to all the people. A citizen may gain ownership of land through legal provisions. Private land ownership will not include mineral products, natural power sources, and buried objects of cultural value.

Article 34. All citizens and government agencies have an obligation to protect the natural environment so as to ensure a place to live and continued existence for the entire people and our descendants.

Article 35. The National Assembly of the Republic of Taiwan is the nation's supreme authority, exercising its powers in accordance with the Basic Law and other legal prescription.

Article 36. The National Assembly is composed of the following members:

a. Each magistracy elects two legislators. For those with a population in excess of 50,000, one additional legislator for each additional 50,000.

b. With the entire nation at large, original residents elect three legislators. When the original resident population exceeds 500,000, an additional legislator shall be elected for each additional 300,000.

c. With the entire nation at large, according to a ratio principle, legislators will be elected at a number equal to the previous legislators combined.

d. A previously elected speaker will be a legislator without election.

Article 37. A legislator shall serve for four years, with over half of the house standing for election every two years.

Article 38. Except as provided under the Basic Law, a legislator shall be elected as provided by law.

Article 39. Guided by conscience, a legislator shall exercise his duties for the greatest welfare of the national citizenry and not be subject to any other direction or orders.

Article 40. The republic's major bills, such as laws, budget, final accounting, martial law, general amnesty, treaties, declaration of war, peace negotiations, censures must be passed by the National Assembly. Upon passage, such bills will be sent to the Ministry of State Affairs, the Citizens Rights Commission, and the Examination Commission as appropriate. Should the respective executive department find it difficult to implement, it may, with the approval of the president, return the bill to the National Assembly for resolution. If over two-thirds of the Assembly members present again vote for passage, the appropriate department head will implement it or resign.

Article 41. After passage by the National Assembly, except as provided above, the president shall publish the bill as law within 10 days after receipt.

Article 42. Each Assembly session shall be for two years. Upon convening, the Assembly shall elect a speaker.

Article 43. The speaker may assume no other duties other than honorary ones. He must also divest himself of any party affiliation and exercise his duties impartially. A speaker may not remain such for more than 10 years.

Article 44. Assistants to the speaker and to the other legislators shall be recruited according to procedures determined by the Assembly.

Article 45. The National Assembly shall be convened at its own determination, but at least once each year and at least eight months in duration.

Article 46. During recess, the Assembly may be called into session either by the president or upon the request of over one-fifth of its members.

Article 47. The National Assembly may establish committees of any kind. Each committee may invite government officials or interested parties to appear and testify, express views, or serve as witnesses. Except as otherwise provided by law, such government officials may not decline such an invitation.

Fraudulent or false testimony will be dealt with according to law.

Article 48. When the National Assembly is in session, the chairmen of the Citizens Rights Commission, the Examination Commission, the minister of state affairs and state affairs deputies have the right to appear and express their vices.

Article 49. Except as prescribed under the Basic Law, the various committees of the National Assembly require at least half of its members present to form a quorum and require half of those present to pass a motion.

Article 50. Except as otherwise provided under the Basic Law, any law passed by the Assembly, upon motion by a member either during the current or the next session, may be referred to the people for a referendum. Such a motion takes preference over any other motion, and must be passed by a vote in favor by one-third of those present.

Article 51. No committee of the National Assembly may hold secret sessions or use secret ballots unless so voted by at least two-thirds of the members present. Meetings will be open to the public either physically or in broadcasts unless otherwise dictated for the sake of public order or security of the members.

Article 52. Each committee of the National Assembly will keep a record of its proceedings in detail, including the comments of each speaker. After each vote, the names of each who voted in favor, against, or abstained shall be recorded. Such records will be published and circulated as soon as completed, except for secret sessions. Requests from any citizen to examine such records or for transcripts may not be declined.

Article 53. When necessary to perform its functions, the National Assembly may request documents from concerned agencies and any other assistance needed.

Article 54. Security and order of the National Assembly halls are under the leadership of the speaker. No one may enter its premises to search, detain, or arrest.

Article 55. Except for a current criminal activity, no Assembly member may be arrested or imprisoned without permission of the Assembly.

Article 56. While performing his duties, an Assembly member is not liable to any outside source for any remarks or votes he performs. The National Assembly must establish a system to punish improper or illegal conduct. Any resolution to expel a member requires a quorum of two-thirds of the Assembly and a two-thirds vote of those present.

Article 57. Each Assembly member will be paid an adequate salary to ensure his livelihood and be paid for his performance of any other required duties.

Article 58. An Assembly member may not be employed by any other government agency.

Article 59. If an Assembly member should be obliged to perform temporarily as the president, he shall temporarily forfeit the rights and privileges of a member.

Article 60. Except as provided for by the Basic Law, the National Assembly will be organized in accordance with the law.

Chapter Four. The Presidency

Article 61. The president of the Republic of Taiwan represents the nation in foreign relations, and represents the entire people internally in promoting cooperation between central government agencies and between the central and local governments.

Article 62. The following are qualifications for being elected president:

a. Those who are citizens, for at least 30 years, of the Republic as defined by Article 2 of the Basic Law.

b. Those who have lived in the republic at least three years of the five years immediately preceding an election. Those who are required to perform official duties overseas will have the time overseas credited toward residence within the republic.

c. At least 40 years of age.

Article 63. The president shall be elected at large with a simple majority of votes cast.

Article 64. The term of office shall be five years. No one may serve more than 10 consecutive years.

Article 65. Except as provided by the Basic Law, presidential elections will be regulated by law.

Article 66. There shall be an open ceremony for assumption of office. Under affirmation by the chairman of the Justice Conference, the president-elect shall make the following affirmation to the speaker of the National Assembly:

"I, in utmost sincerity, accept the charge of the people, and assume office as president of the Republic of Taiwan. In my term, in addition to performing my duties according to the Basic Law and other legal requirements, I will, willingly use my conscience as guide, seek to the limit of my ability to advance the rights of the people. This I solemnly affirm."

Article 67. According to law and the recommendations of the minister of state affairs and his staff, the president will perform the following duties:

a. Command the armed forces.

b. Declare war, negotiate peace.

c. Make treaties.

d. Appoint or dismiss representatives to foreign nations, international organizations, and international conferences.

e. Proclaim martial law.

f. Bestow honors.

g. Grant general and special amnesties, commutation of sentences, and restoration of rights.

h. Proclaim laws and amendments to the Basic Law. The minister of state affairs answers to the National Assembly in the context of the presidential functions as previously listed.

The minister of State Affairs and his deputies must, following the lead of the president, render their responsibility toward the National Assembly.

Article 68. With the exception of the following articles, all presidential directives due to the performance of his duties must bear a countersignature by the minister of state affairs or by both the minister of state affairs and his senior deputy:

a. Appointing or dismissing those personnel as prescribed in Article 73, Section a, Article 86, and Article 103.

b. Supervision of the Citizens Rights and the Examinations Commissions according to Article 70.

c. Disputes submitted to the Justice Department for arbitration according to Article 106.

Article 69. The president may abolish the functions of the personnel stated in Article 73, Section a, Article 86, and Article 103. However, the incumbent will continue to serve if the new nominee(s) does not receive National Assembly concurrence.

Article 70. The president supervises the Citizens Rights and Examination Commissions.

Article 71. The Citizens Rights Commission develops procedures to exercise the right to vote in national elections, in recalls, in national policy establishment, and in referendums.

Article 72. The Examination Commission administers the tests for eligibility of civil servants in the national and regional governments as well as for licensing occupational and technical personnel.

Article 73. There shall be, in each of the above two commissions, one chairman and 10 members who are appointed with concurrence of the National Assembly.

Article 74. The members of both commissions must rise above partisanship and administer their duties by law.

Article 75. The term of each commissioner shall terminate upon assumption of office by a new administration, and the president will carry out the provisions of Article 73. However, the incumbents will continue to serve pending National Assembly concurrence in the new nominees.

Article 76. In the discharge of its obligation to the National Assembly, each commission shall make scheduled reports to the Assembly. The may be subjected to questions by Assembly members.

Article 77. Except as prescribed by the Basic Law, the organization of each commission shall be according to law.

Article 78. If the presidency should be vacant, the speaker of the Assembly shall temporarily perform the duties of that office and will thereupon convene the Assembly, which will then elect one of its members to be temporary president who will perform duties until the president-elect assumes office. The term of the speaker in such capacity will not exceed three months. That of the temporary president will not exceed one year.

Article 79. When the president, for any reason, cannot perform his duties, the speaker may temporarily do so for up to two months, whereupon the provisions of Article 78 will apply. But when there is no president-elect, and the reason for presidential incapacity no longer exists, the incumbent president will resume his duties.

Article 80. When a presidential term expires, but there is no president-elect, the provisions of Article 78 apply.

Article 81. The president may not occupy other positions or perform other employment other than of honorary designation. The president must also be divested of party affiliation and perform duties impartially.

Article 82. Except for crimes of sedition or treason, a president shall not be criminally liable.

Article 83. The national treasury shall provide an adequate salary for the president as well as other remuneration commensurate with his position. A president who leaves office after five years without blemish shall enjoy a lifetime pension. The salary and other compensation shall be prescribed by law.

Chapter Five. The Ministry of State Affairs

Article 84. Except as provided by the Basic Law or any other legislation, all business of the Republic of Taiwan shall be conducted by the National Assembly.

Article 85. There shall be a minister of state affairs and a number of deputy ministers. All must be citizens.

Article 86. The minister shall be nominated by the president and confirmed by the National Assembly. No minister may serve more than 10 years.

Article 87. The minister shall recommend and the president shall nominate deputy ministers subject to Assembly confirmation. Concurrently, with such nomination, the president shall also nominate department heads.

Article 88. The minister and deputy ministers shall leave office upon the convening of each new Assembly session.

and the president shall administer the provisions of the preceding two articles. But before confirmation of the new nominees, the incumbents shall continue to perform their duties.

Article 89. The president shall designate a deputy from the Ministry to fill in for the minister should a vacancy occur. The president shall present the new minister along with the deputy-designate approved by the National Assembly within 30 days.

Article 90. The minister and his duties shall, with conscience as guide, serve to benefit the entire citizenry.

Article 91. No minister or deputy may hold other employment, either public or private.

Article 92. The minister and his deputies shall constitute a State Affairs Committee and, using consensus, carry out such duties as are provided for in Article 84. The minister or his designated deputy shall choose a chairman of the State Affairs Committee.

Article 93. The ministry shall establish departments as appropriate for performing its duties. Each department head shall be one of the deputies to perform the daily department duties and carry out resolutions of the State Affairs Committee.

Article 94. The minister and deputies are responsible as a body to the Assembly in matters of resolutions reached by the State Affairs Committee.

Article 95. The ministry shall periodically and regularly make policy recommendations to the Assembly and report on policy implementation. When the Assembly is in session, it may seek to question the minister and/or deputies.

Article 96. Three months prior to the start of a fiscal year, the ministry shall submit its budget to the Assembly. Three months before the end of the fiscal year, it shall render its final accounting bill to the Assembly.

Article 97. Other than provided for by law, public funds of the republic may not be used to subsidize any private organization, body, or individual.

Article 98. Except as otherwise prescribed by the Basic Law, the organization of the ministry shall be determined by law.

Chapter Six. Justice Conference

Article 99. The Republic of Taiwan Justice Conference is the arbiter for the nation's civil, criminal, and executive litigations and provides punishment and penalties for public servants.

Article 100. There shall be a chairman and 11 members in the conference. They must be citizens of the highest moral caliber with unblemished reputations.

Article 101. The chairman must have served at least 10 years in the highest arbitration agency of the nation or at least 10 years on the conference or a combination of 10 years in both areas. The conference must have two to four members who have served at least 10 years at the highest arbitration level. Another two to four members must have had at least 10 years experience in the law education arena and possess special concentrations.

Article 102. Among the conference members, one shall be the director of the supreme justice administration, one the director of executive justice administration, and one the director of civil servant disciplinary administration.

Article 103. The chairman and conference members shall assume office upon Assembly confirmation. When the president nominates, he shall include his choice for agency heads as described in Article 102 above.

Article 104. The term of all members shall expire when a new president assumes office and nominations shall be made according to the preceding article. But the incumbents shall continue to serve prior to Assembly confirmation of the new nominees.

Article 105. The chairman and the conference members may not engage in other employment. Each member must also sever party affiliation and perform duties impartially.

Article 106. Whenever disputes arise between central government agencies or between the central and any local government, the president may refer the dispute to the conference for arbitration.

Article 107. Referees of the various arbitration agencies are selected from those who have passed a national examination and have received prior training.

Article 108. After having been appointed, no referee may be suspended, transferred, reduced in salary, or forced into retirement. None may be dismissed, other than for the following:

- a. Punished for criminal offense, fined, or warned.
- b. Received a directive to be prohibited from managing property.
- c. Dismissed by National Assembly resolution.

Article 109. When a referee serves as the chairman of the Justice Conference, he retains his position as referee.

Article 110. A referee shall be free from undue influence or interference in the performance of his duties according to his conscience.

Article 111. A referee shall sever party affiliation and may not engage in any political activity.

Article 112. The organization shall be prescribed by law unless already prescribed by the Basic Law.

Chapter Seven. Local Government

Article 113. Magistracies and towns are local autonomous government units.

Article 114. The towns and magistracies shall govern locally according to law concerning property, local affairs, and implementation of resolutions.

Article 115. The residents, according to law, will exercise self-government in their right to vote on policy, in referenda, and to elect or recall local magistrates, council member, mayors and other public servants.

Article 116. The magistracies and towns shall establish local committees and its members shall be elected. Such members represent the public in supervising local administrations and execution of regulations.

Article 117. Local governments will perform duties according to law in self-government and in those matters delegated by the central government. The local administration is responsible to the local committee in such duties. The local administration may not decline those tasks delegated to it by the central government.

Article 118. The central government must pay attention to equitable progress at the local level. In those locales that are not developed in economics, education, and culture, there should be central government assistance.

Article 119. When certain National Assembly legislation affects only some locales, the residents must be allowed to vote in a referendum.

Article 120. Local organizations are promulgated in accordance with the law stipulated by local governments.

Article 121. There shall be village governments to be organized according to law.

Chapter Eight. Other Rules

Article 122. The Basic Law is the republic's highest law of the land. All laws, orders, local regulations, or government conduct that violate it are null and void.

Article 123. All citizens, Assembly members, the president, and public officials have an obligation to observe and defend the Basic Law.

Article 124. All laws must be ratified by the National Assembly or passed by referendum or as a publicly voted policy and be proclaimed by the president. Unlawful orders, local regulations, or government conduct are null and void.

Article 125. Treaties negotiated by the Republic of Taiwan with foreign nations in accordance with the Basic Law are the law of the land. The republic shall observe international protocol.

Article 126. Amendment of the Preamble to the Basic Law shall be done as follows:

a. Upon recommendation by one-fifth of the National Assembly membership, a quorum of three-fourths of the members, and two-thirds of those present in favor.

b. One-fifth of citizens with the right to vote on policy in favor.

Amendments to the Basic Law itself shall be initiated as follows:

a. Recommendation by one-tenth of the Assembly members, a two-thirds members quorum, and one-half of those present voting in favor.

b. Ten percent of citizens with policy voting rights.

Article 127. The amendments shall then be placed by the Citizens Rights Commission for national vote. There must be at least 50 percent of those with policy rights voting and a simple majority in favor to carry.

Article 128. The president shall proclaim the amendment within 10 days after the vote.

Article 129. The procedure to execute the Basic Law shall be determined by the National Assembly separately.

Article 130. The Basic Law and its implementation procedure must be presented to a vote by the local voter and take effect within 10 days after an affirmative vote.

Senior Legislative Yuan Members Under Fire

90ON0236A Taipei TZULI WANPAO in Chinese
22 Nov 89 p 14

[Article by Yang Hsien-hung (2799 2009 1347): "A Political Party That Carries Urine Bags"]

[Text] Circular on why the Democratic Progressive Party [DPP] should be elected—The front cover shows octogenarian Kuomintang [KMT] legislators holding urine bags with a caption calling the KMT "a political party that carries urine bags." So the KMT drafts a namelist of 34 who should be urged to retire. In order to make the increased numbers of legislators over the numbers of these senior legislators (130 versus 129), this naturally is another "election" check that has no guarantee of being cashed.

The Legislative Yuan, for which voting procedures have not changed in 40 years, is a big burden for KMT elections. Nevertheless, this "election burden" is also the KMT's magic weapon to control the Legislative Yuan. Although effectively accomplishing the urged retirement of these 34 people, in the future the KMT will still be assured of a 49.9 percent octogenarian portion in the Legislative Yuan, constituting an immobile stronghold to control it.

As for the 130 members of the Legislative Yuan for whom voting has changed, one still must first subtract

the 29 Overseas Chinese seats held entirely by the KMT, leaving only 101 seats really elected by votes of the Taiwan people.

If in this election the DPP gained 100 percent of the votes or 20 million, the result would still be 101 to 158 (if urged retirement is discounted, then it would be 101 to 192). The DPP will still be a minority party in the Legislative Yuan. From the start, this is one of the inequities in local elections.

Many citizens feel that DPP is still immature. They fear that if they cast their vote with it and if by any chance it came to power, the fear is that... Actually, there is no need to fear. As of today, if 100 percent of the votes were

given to DPP, the KMT would still be in power. This is the greatest skill won by the KMT.

And what of the 34 urged to retire? It has been said that they could not pass an arithmetic test. Photos of the octogenarian members of the Legislative Yuan who carry urine bags date to their school days. The number that has seized the Legislative Yuan is very clear; as for the opposing party that has been elected, they have been trampled, trampled, trampled. Don't KMT candidates always tell people, "Bring out the proof?" This is all proof. The number for urged retirement is 163 people or 34? Isn't this a bit too careless? There is bound to be no promise in relying on a urine bag-carrying political party.

Problems Posed by Vietnamese Boat People

90ON0076A Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese
No 204, 16 Sep 89 pp 56-59

[Article by Wu Mingch'in (0702 2494 2953)]

[Excerpts] [Passage omitted] The problem of the Vietnamese in Hong Kong has been troubling the people of Hong Kong for more than a decade. Not only does it show no signs of being resolved quickly, but it is becoming increasingly serious instead. [passage omitted]

The Vietnamese in Hong Kong can actually be divided into the following two classes:

1. Vietnamese refugees: This refers to the Vietnamese who arrived in Hong Kong before the screening policy went into effect on 16 June 1988, all of whom are regarded as refugees seeking political asylum, as well as the Vietnamese political refugees who arrived in Hong Kong after the screening policy went into effect, and who are truly seeking political asylum through reexamination of their cases. About 14,000 Vietnamese refugees were in Hong Kong by the end of August 1989.

2. Vietnamese boat people: This refers to the Vietnamese who arrived in Hong Kong by boat after the screening policy went into effect, and who were classified as nonpolitical refugees after being screened. About 42,000 Vietnamese boat people were in Hong Kong by the end of August 1988.

I am fairly optimistic that the problem of the Vietnamese refugees in Hong Kong will be resolved. At the International Conference on Refugees that was held in Geneva in mid-June 1989, it was widely understood that the Western signatory states had consented to accept, and were expected to resettle within three years, all Vietnamese refugees who were in Southeast Asia's major refugee centers (including Hong Kong). Provided these Western countries fulfill their promises, the number of Vietnamese refugees in Hong Kong is expected to decrease gradually and the problem is expected to disappear gradually. But I am terribly pessimistic that the problem of the Vietnamese boat people in Hong Kong will be resolved, and the developing circumstances are certainly depressing.

The Vietnamese boat people in Hong Kong have gradually deteriorated from a social problem to a social crisis. The concern is that the steps that the Hong Kong Government has taken to deal with the problem of the boat people have all been obviously powerless as either general policies or enforceable measures, and public opinion has been even more critical of them as being indecisive, vacillating, redundant, and self-contradictory. Moreover, the prospects for solving the problem are bleak, and the people of Hong Kong seem to be lost in a bottomless pit of not knowing when they will finally be able to get out from under this heavy and puzzling burden. [passage omitted]

First, let us review how the Hong Kong Government's policies and attempts to enforce them have enmeshed it in a web of its own spinning and allowed the problem of the boat people to deteriorate into a social crisis.

The dissatisfaction of the people of Hong Kong with their government's general policy stems from the fact that, while the Western countries certainly have not fulfilled their part of the 1979 Geneva agreement, they have still fiercely attacked Hong Kong, as the major refugee center, for being inhumane in its treatment of refugees and boat people. The agreement on how to deal with Vietnamese refugees that was signed in Geneva in 1979 was divided into the following three major parts: 1) Vietnam was supposed to take effective steps to stop the mass and disorderly exodus of its people from Vietnam. 2) The countries or regions in Southeast Asia that were the major refugee centers were supposed to make temporary allowances for Vietnamese refugees who were seeking asylum. 3) The Western countries were supposed to accept Vietnamese refugees from the major refugee centers. But developments in recent years have shown the following violations of the Geneva agreement: 1) The Vietnamese Government has basically (deliberately?) not stopped the mass and disorderly exodus of its people from Vietnam. 2) The Western countries have taken a casual and passive attitude and not exerted their full strength to accept Vietnamese refugees from the major refugee centers. 3) Many of the Southeast Asian signatory states that are the major refugee centers have "escaped through cunning maneuvering" by taking various steps to reject immigrants and maintain their status as major refugee centers in name, while rejecting it in reality. Although it may not be the exact truth, it is certainly not far from it to say that the 1979 Geneva agreement has become waste paper! And is it not being blindly loyal or simply stupid to think that Hong Kong should still be forced to live up to the promises of this agreement that was signed for it by England and ignored by the other signatory states? Is this not like the contradictory attitude of Chieh K'ete [6113 2688 1795] of the T'ang Dynasty or an illusion of Madame Butterfly? The people of Hong Kong generally believe that the Hong Kong Government intends to sacrifice their interests to preserve the so-called international humanitarian image of the British monarchy. How could the people of Hong Kong who believe this not be angry at their government! [passage omitted]

The screening policy has also angered the people of Hong Kong. Before it went into effect on 16 June 1988, public opinion polls had constantly warned the Hong Kong Government that a screening policy could only add to the troubles of the people of Hong Kong, and that it was simply wishful thinking that it would scare the Vietnamese out of coming to Hong Kong. When criticizing the idea of a screening policy in the early summer of 1988, I predicted that the following things would occur after it went into effect: "Most of the so-called economic Vietnamese refugees would stay in Hong Kong even longer. Since they were illegal immigrants, the Hong

Kong Government itself would have to assume responsibility for them. The United States, Western countries, and UN organizations would give them token support from then on as 'gifts,' and feel 'justified' in simply standing by with folded arms. It was even more likely that, even though these countries that were pursuing a self-styled policy of humanitarianism were looking at Hong Kong's problems with indifference, they would still point their fingers and criticize the people of Hong Kong for being inhumane and practicing racial discrimination at the slightest hint of any mishandling of Vietnamese by Hong Kong, which was exactly what they did! Hong Kong would have to initiate a dialogue with the Vietnamese Government to negotiate ways to repatriate these 'illegal immigrants.' In fact, how could we be optimistic about such negotiations, what bargaining chips did we have, and, based on the Vietnamese Government's previous arbitrary approach, how could we expect the government of that reactionary society to skip the opportunity for covert blackmail? When the chips were down, we innocent people of Hong Kong were stuck with the following two even worse punishments: 1) We had to continue to support the Vietnamese who were in Hong Kong. 2) We had to help Vietnam in a certain civilized manner (under some sort of pretext of economic aid), when we were actually being blackmailed..." It was particularly unfortunate that not only did my predictions about the screening policy come true but even more Vietnamese poured into Hong Kong than I had predicted! It may be well to ask how the people of Hong Kong could not be angry at their government!

The people of Hong Kong were even angrier about the particular steps that were taken to enforce the screening policy. Their anger can be summed up as stemming from not having the right to know the facts ahead of time, have any safeguards during the process, or be compensated afterward. In fact, they certainly did not know ahead of time where the Hong Kong Government was going to build or what steps it was going to take to equip the refugee camps or boat people detention centers, not to mention hearing any talk of taking part in the decisionmaking or being consulted in good faith! The Hong Kong Government simply followed its usual practice of officially notifying the concerned district legislatures at the last possible moment before each policy enforcement, without allowing them or the people the opportunity to discuss or familiarize themselves with the particular steps, not to mention the unknown number of minor mistakes that it made in vain on their behalf, that showed its bureaucratic style and reintensified the confrontation that could have been avoided. Since the Hong Kong Government was going to establish refugee camps and boat people detention centers in certain districts, the people of Hong Kong called for rational safeguards on their basic services and facilities, more managers to keep order, additional police to maintain public security, extra buses to maintain transportation services, and added environmental protection to prevent pollution, and so forth. Although the Hong Kong Government solemnly promised to respond to these minimum

requirements, developing circumstances showed that after the refugee camps and boat people detention centers were established and opened, the number of covert disturbances in these districts certainly multiplied. For instance, refugees were lying around drunk and Vietnamese prostitutes were loitering like fireflies at T'unmen; boat people were escaping and stealing in gangs at Yuanlang, urinating and defecating in the water and polluting the ecology at Shat'ien, coming and going at will and stealing produce and poultry at Hsikung, fighting and causing appalling disturbances at Shenshuipu, and rioting, raping, and killing at Tap'ienchou. Of course, probably only a few refugees or boat people were committing these lamentable acts, and it was completely understandable that "big trees would have some dead branches!" But despite repeated calls for understanding, the Hong Kong Government continued to fail to live up to its promises, its remedies were simply "armchair strategies," and the people of Hong Kong could see that their living environment was being wrecked, public security was deteriorating, traffic was blocked, and the ecology was being polluted. Moreover, although the people of Hong Kong not only did not "deserve" these things, but also had not even done anything wrong that could make them responsible for them. Since their actual life-styles were still being destroyed by them in a myriad ways, how do you think they felt!!

It was even more unfortunate that, since the Hong Kong Government's law enforcement agencies were showing the strain of being weighed down with too much work, the people of Hong Kong were left at an utter loss as to where to turn. Moreover, those who had sustained losses, such as the farmers who had produce and poultry stolen from them near Tap'utzu, Hsikung, the villagers who had been assailed with obscenities near Shihkang, Yuanlang, the people who had been disturbed near Chao-k'angyuan, T'unmen, and the villagers who had suffered near Paishih, Shat'ien, could only endure these things over and over... [passage omitted]

Although it may be asked, "How could these issues that affect the people of Hong Kong so personally not have angered them and deteriorated into a social crisis?" it has certainly not been so easy to try to resolve the boat people crisis. Conflicting tensions exist among the various people and organizations that are involved, such as the people of Hong Kong, the Vietnamese boat people, the Hong Kong Government, and Western organizations. [passage omitted] .

The major conflicts that exist in the boat people crisis can now be summed up in the following eight major categories: 1) Conflicts among boat people; 2) conflicts among the people of Hong Kong; 3) conflicts within the Hong Kong Government; 4) conflicts between boat people and the people of Hong Kong; 5) conflicts between boat people and the Hong Kong Government; 6) conflicts between the people and the government of

Hong Kong; 7) conflicts between the people of Hong Kong and the West; 8) conflicts between the Hong Kong Government and the West.

1. Conflicts among boat people: Since there are serious political and regional differences among Vietnamese boat people, there is naturally internal strife between those from the North and those from the South. Since the North Vietnamese boat people are divided into gangs, such as the "Haiphong Gang" and the "Quang Ngai Gang," the frequent disputes over minor matters and even gang wars between these factions have greatly added to the problems involved in running the boat people detention centers.

2. Conflicts among the people of Hong Kong: The people of Hong Kong have always been divided over how to deal with the boat people. Although the attitude toward boat people has obviously changed from sympathy to disgust among the masses of Hong Kong people, and, in particular, among those in districts that have suffered directly, a few extreme so-called humanitarians, and especially Hong Kong residents of foreign nationality who have certainly not suffered, have applied freezing irony and burning satire to the representatives of the popular will and the people of Hong Kong, who are striving for natural repatriation of boat people and elimination of Hong Kong as a primary refugee center, and have polarized the situation by constantly advocating in the media that "Hong Kong has still not done all that it could," and "the people of Hong Kong should continue to be kind and humane."

3. Conflicts within the Hong Kong Government: There are increasingly obvious splits between the Hong Kong Government's major officials and its law enforcement officers. While the major officials have pointed out that boat people must be treated well, law enforcement officers have shown their dissatisfaction either overtly or covertly. For instance, the police and education offices of correction departments are all understaffed, experience recruiting difficulties, and find it difficult to carry out even their basic duties, such as maintaining public order and running the prison system. This manpower shortage limits extremely their power to transfer many people to manage or maintain boat people centers. And, since they are tied up hand and foot and often suffer from nitpicking and obstacles put in their way by the UN Refugee Commission, their poor morale is understandable.

4. Conflicts between boat people and the people of Hong Kong: When boat people escape from the detention centers, they often violate the rights and interests of the people of Hong Kong, take liberties with women and children, loot crops, and steal fishing gear in nearby neighborhoods. Since the police are understaffed and often unable to fully maintain the peace in the neighborhood of detention centers, the people of Hong Kong have been forced to organize self-defense patrols, which have

been strongly opposed. Thus, mutual distrust, suspicion, and jealousy have arisen between boat people and the people of Hong Kong.

5. Conflicts between boat people and the Hong Kong Government: It is widely known that the boat people are being "supported" by the UN Refugee Commission. Although they have many times indicated their opposition to repatriation and resisted it violently, they have also expressed their dissatisfaction with the care, board, environment, and lodging that they receive from the Hong Kong Government, and have even attacked law enforcement officers in gangs and seem to have left the Hong Kong Government with no alternatives.

6. Conflicts between the people and government of Hong Kong: As stated above, since the people of Hong Kong generally feel that their government would rather maintain the humanitarian image of the British monarchy than consider their basic rights and interests, conflicts between the people and government of Hong Kong are rapidly turning into a continually intensifying confidence crisis.

7. Conflicts between the people of Hong Kong and the West: The people of Hong Kong are resentful of Western countries and organizations, and of Great Britain, the United States, and the UN Refugee Commission in particular. They feel that England has always been hypocritical, shirked its responsibility, and "made empty gestures." Although it claims "sovereignty" over Hong Kong, England has accepted far fewer of Hong Kong's refugees in the last decade than have other Western countries and, although it has dodged its own responsibility for Hong Kong's boat people, it has still refused to let Hong Kong take drastic steps to deal with them, and has sat by and watched the boat people crisis continue to grow. The people of Hong Kong resent the United States for starting the Vietnam war, being hypocritical all along, considering only the aims of its own diplomatic strategy and struggle for global supremacy, ignoring Hong Kong's difficulties, opposing even natural repatriation and the internationally approved custom of screening out non-political refugees, and not having come up with a plan to ease the pressure on Hong Kong. The people of Hong Kong criticize the UN Refugee Commission for siding with the boat people, nitpicking and putting up obstacles everywhere, having no real plans, and "being destructive instead of constructive."

8. Conflicts between the Hong Kong Government and the West: The Hong Kong Government is besieged on all sides and receiving no understanding from Western countries or the UN Refugee Commission. Although they are faced with the same problem of refugees and boat people, both sides frequently attack and criticize each others' faults, which is a great and pointless waste of Hong Kong's valuable resources.

These eight major conflicts show how serious the boat people crisis has become, and I believe that there is no practical way to completely resolve it. Since a heavy

price will have to be paid in any case, the only hope is for a way that will do the least harm to the fewest people. [passage omitted]

Mutual Distrust Characterizes Hong Kong-Mainland Relations

90ON0216A Hong Kong MING PAO in Chinese
9-10 Nov 89

[Article by Chen Wenhong (7115 2429 7703): "Viewing the Enacting of the Basic Law and Its Procedures—PRC's Hong Kong Policy and Its Impact"]

[9 Nov 89 p 30]

[Text] In the process of formulating the Basic Law, the Hong Kong policy of the Chinese Government has displayed its influence in two distinguishing ways.

Because There Is No Trust, Control Will Be Tightened

The first feature is that the Chinese Government has no confidence in the people of Hong Kong. This perhaps is also natural. Due to the fact that the people of Hong Kong have lived for such a long time under the British colonial system, their mentality and lifestyles are different from those of the rest of the mainland. In addition, Hong Kong's ties to British capitalism and international capitalism are so numerous and so deep that Chinese Communist Party leaders and cadres naturally are not confident that the people of Hong Kong will support socialism or the return of Hong Kong to control by the Chinese Government. During the Sino-British negotiations, it had already become evident that the people of Hong Kong showed little regard for the principles of nationalism, preferring to pursue their own personal interests. Large numbers of specialists emigrated, because for them there was no point in displaying a patriotic spirit of nationalism. Add to this the strong reaction of Hong Kong society to the student movement of April and May (1988) and the events of 4 June, and China's party leaders have even more reason to believe firmly that the people of Hong Kong can neither be trusted nor relied on to support the political power of the CPC or China's brand of socialism.

However, even if the people of Hong Kong cannot be trusted, China's unification must be pursued and the policy of one country, two systems must be implemented. The Chinese Government cannot deal with the people of Hong Kong as it does with its own citizens; it cannot "remold" the people of Hong Kong by tightening political control and strengthening political education. It is bound by international opinion and certain factors related to Taiwan, and it also wishes to avoid damaging the prosperity and stability of Hong Kong and thereby avoid placing a tremendous burden on the Chinese economy. Hence, China must tolerate a certain degree of democracy and freedom for Hong Kong, and preserve unchanged Hong Kong's capitalist system for 50 years.

In spite of these requirements, the Chinese Government has done what it can to place restrictions on Hong Kong's future political system, not only by placing limits on democracy and freedom, but also by preserving the latitude of the Central Committee to have final direct or indirect power of intervention in the political system. In terms of the legal system, the Chinese Government also wants to add a variety of provisions. At the least the Chinese Government cannot permit Hong Kong society to support and aid antigovernment forces within the country. The next step would be to place restrictions on Hong Kong's freedom of the press, freedom of speech, freedom of association, and freedom of political activity.

Following the events of 4 June, the traditional left in Hong Kong has displayed an independent political inclination, further strengthening the Chinese Government's distrust of the people of Hong Kong. Particularly in the aftermath of 4 June, China's leaders, already lacking in political self-confidence, refused to acknowledge the situation (and its mid- and long-term consequences for Hong Kong) and have become all the more determined to strengthen their ability to control the Basic Law system. Thus, with respect to Hong Kong's Basic Law, post-1997 Hong Kong has already lost its experimental significance as a testing ground for reform of China's economic and political systems.

Using Political Maneuvers To Deal With Change in Hong Kong

The second way in which the Chinese Government has displayed its influence is through the use of political maneuvers and not political principles to deal with political change in Hong Kong. Since the people of Hong Kong cannot be trusted and the Chinese Government cannot utilize such political principles as patriotism and nationalism in order to work with and form alliances with the political forces in Hong Kong, it can only resort to the use of maneuvers, wielding what political and economic resources that it possesses in order to engage in political maneuvers, in an unscrupulous quest to achieve domination and control over the forces of political change in Hong Kong. This practice very naturally follows the example of the method of domination—divide and rule—employed for more than 100 years by the British Government. It is also in accord with Chinese tradition since the Qing dynasty, that of playing one foreign power against another (for China's Communist Party leaders, the people of Hong Kong are at least partially "foreign").

Hence, outwardly there is a grand and solemn profession of the need to consider the interests of Hong Kong's various social strata, but in reality, there is an effort to obstruct the great efforts made by every strata of Hong Kong society in striving for "public knowledge"; and, in terms of the system, there is a hope of carrying out the policy of "divide and rule." Long-term, vested-interest separatist elements with mutually containing structures have formed within Hong Kong's political system. The "one congress, two houses(?)" system advanced by the

New Hong Kong Alliance is representative of these tactics. For China's leaders, who resort only to heavy-handed maneuvers and do not consider political principles, as long as Hong Kong's interest groups are willing to be used, these groups may be readily given political or economic benefits. In the future, after this "divide and rule" structure has been established, it will also be possible to throw them aside and change to other political interest groups. This is the kind of interest group that can easily change from devoted followers of the British Government to loyal friends of the Chinese Government, with the goal being only short-term benefit (interest) and not long-term political power or the overall interests of Hong Kong and China. (In fact, for them Hong Kong and China have no special meaning as such).

Such a Policy Is Harmful to Hong Kong and China

These two features are very important in terms of the individual goals of China's leaders and cadres. Because one thing that they have considered is how to safely and securely complete work on formulating Hong Kong's Basic Law, successfully completing their political mission of establishing control over the political development of post-1997 Hong Kong can win them high promotions, and can justify their work to the leadership. This also is obviously a typical manifestation of the short-term outlook associated with the behavior of Chinese leaders and cadres at this stage of economic reform. However, this type of approach, this feature, cannot be beneficial to Hong Kong, and for China, could be a situation where the Chinese Government has outsmarted itself, harming itself and others.

Above all, the people of Hong Kong are very realistic and shrewd, and are long on experience. They have a deep appreciation for the skills that emerged over the many years of domination by the British. Hong Kong's intimate international social and political ties of the last 20 years have also greatly increased the political abilities and political wisdom of the people of Hong Kong. Conversely, China's leaders and the cadres responsible for Hong Kong-related work, no matter what their abilities, their wisdom, or their debating skills, are all still inferior to the first and second generation of CPC leaders, and in resorting to maneuvers are really, in the minds of the people of Hong Kong, incomparably clumsy, merely doing a lot of talking but not speaking frankly.

As a result, no matter how China's leadership tries to conceal it, its common attitude of mistrust toward the people of Hong Kong is clearly evident. One direct reaction could be that the Basic Law and the one country, two systems policy will be considered a "fraud," and will be viewed merely as efforts to turn the people of Hong Kong into second-class citizens of China. Although this statement is perhaps somewhat too pointed, a comparison of China's 1982 Constitution with the Basic Law shows that the former clearly stipulates the many political rights and freedoms of Chinese citizens, while not many are to be found in the Basic Law, especially in

terms of the political system. Hence, isn't this a classification of the people of Hong Kong as second-class Chinese citizens? Of course, within China, the Constitution is not taken very seriously, but since it has already been established as the major law of the country, even if it is only a goal and for a time there is no change, an effort must still be made to implement its provisions. As for the Basic Law, from the start it has negated and cast aside many rights associated with a democratic system and local self-government, and for 50 years after 1997 the people of Hong Kong cannot enjoy these constitutional rights. Of course, political development must proceed in an orderly manner, step by step, although Hong Kong has only the interim period before 1997 with which to work, and can only be governed by a political program, and how can constitutional documents contain the principles of orderly development? Certainly, China's Constitution does not stipulate that in such-and-such a year all cadres can have a share of political power, in such-and-such a year all party members can have a share of political power, in such-and-such a year all workers can have a share of political power, and in such-and-such a year all peasants can have a share in political power. If it did, then this would be only a system of political tutelage, and not a constitutional system and it could not be part of a constitution.

In the End the People of Hong Kong Do Not Trust the Chinese Government

The result of the Chinese Government's lack of trust in the people of Hong Kong is that the people of Hong Kong do not trust the Chinese Government, especially since this government was not chosen by them and has no relation to them, but seems only to dictate to them. How does this differ from the nature of the British Government during the colonial period? The goal of the return of Hong Kong to China and the policy of one country, two systems is to abolish the colonial system. If the result of this is to change masters but not change the system, then the confidence and trust of the people of Hong Kong in the Chinese Government and toward relations with China will be progressively weakened. And in an atmosphere of mutual distrust between the Chinese Government and the people of Hong Kong, how can Hong Kong gradually make the transition to integration with China? How can the development of Hong Kong and China into an organic whole be advanced with progress and prosperity? Under a climate of mistrust, and a sense of political incapacity and alienation, the sense of belonging of the people of Hong Kong toward Hong Kong and toward China can only suffer serious damage, which, first, will increase along with the tide of emigrants, and which, second, will result in the daily deepening of the accumulation of social contradictions. While on the one hand there are those with the ability to become absorbed in the short term, unscrupulously plundering and profiting in Hong Kong and China in order to then emigrate, on the other hand the resentment of those lacking this ability grows with each passing day. With everyone focusing on the Chinese Government,

high-pressure political tactics may be able to control the contradictions for a time, but they cannot make the contradictions disappear. If there is a change in the domestic or external situation, such as the present situation in Eastern Europe, which includes a flood of East German emigrants (refugees), and mixtures of local separatist and democratic movements, then sooner or later such a phenomenon could emerge from a Hong Kong under Chinese sovereignty.

Hong Kong's return to China could be a historical turning point for eliminating the damage caused by more than 100 years of colonialism, a turning point in danger of being lost because of the mistaken understanding, the mistaken mentality, and the mistaken policies of China's leaders, who are sowing the seeds of future political unrest. Today's Chinese leaders and responsible cadres who are running the show will eventually be a group condemned by history. (to be continued)

[10 Nov 89 p 30]

[Text] Internal Contradictions and Antagonisms Not Beneficial for Development

Next, what sort of influence will the long-term internal contradictions and political divisions in Hong Kong society have on future government and economic development in Hong Kong?

In line with current international economic trends, and especially in view of the need to overcome the upheaval of the historic 1997 change, Hong Kong needs a highly effective government, one which in the economic sphere can take the initiative and adopt vigorous policies which will enable Hong Kong to maintain its export competitiveness and its position as an international and regional economic center. The economic environment in which Hong Kong must now operate is not that of the fifties and sixties which was characterized by a low level of competition, but one that requires active government and appropriate (rational) intervention to deal with the competition coming from all the countries of East and Southeast Asia, protectionism in international trade, the rapid advance of the Japanese-driven technological and industrial revolutions and structural changes in trade and production.

The political system that can emerge from a splittism using divide-and-rule policies such as "one congress, two houses," would not merely obstruct the development of internal political unity in Hong Kong, create long-term internal political contradictions, political antagonisms, and instability of the whole political structure, but could also hamper political work, impede the transformation of the Hong Kong Government's economic functioning, and affect Hong Kong's function and position in the international economic structure. This in turn would progressively exacerbate political contradictions within Hong Kong, so far as to direct political disaffection squarely on the Chinese Government and on the return of Hong Kong to China.

The Chinese Government could strengthen investment in Hong Kong, China could give special consideration to a small group of its political loyalists, and some Chinese leaders could also have close and beneficial relations with Overseas Chinese capitalists, hoping to draw support from them to shore up Hong Kong's economy. But the basis for the flourishing of Hong Kong's economy, no matter whether in light of past experience or the economic experience of other developed countries, is its loose and comfortable political environment, which allows capital and talented people to be brought into full play. Three items are essential; it is not simply a matter of investing capital, or unrestricted tolerance of capital that brings development. The economic experience of China has also denied a policy of economic development based on capitalism. And in a period featuring the ever-greater impact of management and technology, capital may be transcended with the combination of these three things, talented people, as well as a political and social environment that spurs talented people to exploit their strengths to the full, coupled with an atmosphere of stability. At the least, those with sufficient competitive capability will naturally be able to attract capital. But simply possessing capital and not accepting a democratic political system with capital restrained by social forces, can only drive away people of talent.

The biggest choice for China is to decide on what principle and for what purpose Hong Kong is being returned to China. I am convinced that the vast majority of the people of Hong Kong hope to see a continued prospering development of Hong Kong. They also know that China is not developed and that Hong Kong will find it difficult to have substantial development, while they also believe that China and Hong Kong are not only as close as flesh and blood but are also have common destinies. As long as the Chinese Government has trust in the people of Hong Kong, as it trusts its own people, then the disputes and conflicts of the present, which basically arise from mutual misunderstanding (though, of course, there are those on both sides who wish to sow discord and make trouble), can all be worked out, and under a climate of tolerance and accommodation, they can be finally resolved. Only in this way will the return of Hong Kong to China be beneficial to the people of Hong Kong and beneficial to the people of China, and only then will the true unification of China be achieved, providing the people of Taiwan with a good example, and a favorable model. This choice ultimately lies with the Chinese Government, with its historical merits and demerits. The other provisions of the Basic Law, even the major contents, are all secondary, and all can be gradually worked out in a satisfactory manner, and the ones that are not good can still be corrected.

Problems of Party Formation by Democratic Groups

90ON0216C Hong Kong MING PAO in Chinese
1 Dec 89 p 25

[Article by the New Hong Kong Study Group] concerning the problems faced by newly forming new parties]

[Text] Following the events of 4 June (1989), two major changes have emerged in connection with problems of party formation by "democratic groups": 1) The plan for merging the HK Association to Promote Democracy and People's Livelihood (HK Association), Meeting Point and the Taiping Shan Study Group into a new political party, which had been deliberated for a whole year, fizzled out. 2) A portion of the figures in the "democratic groups" (primarily the nucleus of the Democratic Promotion Association [DPA] and the Branch Association), are nearly prepared to form a new party, as it is reported that in October definite progress had been made, and it is tentatively to be called the Democratic League (at one point it was called the "New Party"). The party has drawn up a founding membership list of nearly 300 people, rented an office, raised a considerable amount of money, drafted a political program (platform), and sent its key members to the three associations mentioned above to promote the new party. Confronting this situation and the difficult situation faced by efforts to unite the DPA and the Branch Association and to promote a "confrontation" and "support democracy, resist communism" line, coupled with the tendency of China's overall national policy to become more hardline, for those people in Hong Kong who devote themselves to striving to bring about democratic politics and to giving consideration to the interests of the middle and lower classes, how should these problems be confronted? The following is directed toward problems dealing with the formation of parties by the groups mentioned above, and also included are some of our own suggestions...

The Three Major Problems Associated With Party Formation by "Democratic Groups"

1. The problem a new political party faces in choosing a social strata. The reason for the failure of the previously noted plan to merge three of the "democratic groups" to form a combined organization, for example, was that the HK Association and Meeting Point tilted toward interests of the middle and lower classes (strata), while the Taiping Shan Study Group tilted to the interests of the middle and upper classes. A new political party must also take a clear position concerning all classes, and, at first glance, we find that there are many figures who frequently advocate the interests of the middle and upper classes and even more who in terms of their public image tilt toward the middle and upper strata, who occupy important positions in the nuclei of groups preparing to form new parties. One should remember that several years ago when the HK Association was preparing to form an organization, at the time it was possible for them to clearly indicate, when making a choice between the

upper and lower classes, a tilt to the interests of the upper class, some even going so far as to suggest dissolving the group preparing to form the HK Association. Later, during the process of discussions on the merging of the three associations, the leading figures mentioned above had not changed their positions on these questions of social strata. There were people who believed that as long as many of those people tilting to the middle and lower classes joined the new parties, the class outlook of such parties could change, but when we consider that the funds of the new parties come mostly from the above-described figures and business circles, and that they possess a high proportion of public figures (who, we believe, would constitute the core of any future party), these types of statements have difficulty holding water. Moreover, key figures of the new parties proclaim the need to invite even more of those in business circles to join, in order to offset the influence of those within the party tilting toward the middle and lower strata. We must emphasize that we in no way oppose the cooperation of the middle class (bourgeoisie) and capitalists, nor do we oppose giving consideration to the interests of the whole society, but we must also find a standpoint that considers the position of the lower strata of society. This is due to the fact that the people of the lower strata lack to a very great degree an effective medium of communication to reflect their opinions as a group in society which especially requires concern, and especially requires that there be some who are willing to work for their interests.

2. The problems a new party faces in deciding how to deal with China. As an organization wishing to take part in Hong Kong government and political affairs, even if such a party is extremely dissatisfied with Chinese political power, it is still necessary to consider the political reality, as well as tactics directed to Hong Kong's special circumstances and to the formulation of its relations with China. If a party adopts completely confrontational tactics toward China, then its other work will encounter very substantial obstacles, and it will not be able to achieve the anticipated results. Some of the key leaders of the new parties have for many years proposed a "confrontational" and "support democracy, reject communism" line, and are already considered by the Chinese and a considerable number of urban dwellers to be figures who are totally antagonistic toward the Chinese mainland. This sharply clear-cut "reject communism" image, which makes the development of work by the new parties difficult in terms of the overall interests of Hong Kong itself and even in terms of putting into effect the positions of the "democratic groups" is wholly disadvantageous.

3. Problems related to democratic policies within the parties. We believe it is necessary consider whether a particular party group does or does not really favor democracy. Here one cannot simply look at the party's public statements, but, more important, one must look at whether genuine democratic principles are implemented

within the party. If outwardly a party demands democracy, while within the party they do not use democratic methods to handle matters, even going so far as to attack those offering differing opinions and views, then it is not possible to call such a party "democratic." The "democratic groups," after the appearance of the "politics of 1997," in terms of actions for Hong Kong which could clearly advance and promote political democratization, continuously ignore problems of internal democratization. The result is that views that are different from those of the mainstream group, and later prove to be the correct views, are stifled over the long-term, and some key figures wantonly attack those holding differing opinions, and are susceptible to the tactic of raising the discussion to a higher level of principle, through labeling all those with differing views as so-called "capitulators." While participating in the struggle for obtaining a democratic political system, we have become aware of this undemocratic style of work, which manifests itself in: 1) Organizational and personnel matters. For example, at meetings of the DPA secretariat there are often non-members of the secretariat who are in attendance and make policy decisions. These people should be elected as representative by the general assembly of the DPA. In addition, for example, the members of the negotiating delegation and the delegation that went to Beijing toward the end of 1988 were all decided on beforehand by the secretariat and the leading figures described above, who then demanded that the related groups support this decision at a meeting. These methods involving the election of persons at a higher level without announcing the choices is also seen in the election of leaders in the Branch Association. 2) Questions associated with handling differing opinions. For example, one year ago in the DPA there were those who advocated that the people of Hong Kong should unite in order to coordinate a single political program to present to the drafting committee to reflect the race against time, and they were denounced because "coordination is, in fact, compromise, and compromise is, in fact, capitulation." Those who advocated this policy were subject to a variety of personal attacks by some of the leading figures in the party (who were also the core people of the new party); but smear tactics are no longer accepted, and recently the leadership levels of the DPA, under outside pressure and pressure from members, agreed to cooperate with the Program of the 89 and the ZhongJian (?) Group, and accepted the "four-four-two" political system model. However, the proof is in the practice, and striving for a united "cooperation line" is correct, and is anything but a "capitulationist line." But the persons who arbitrarily made the above-described attacks are still the core figures in the new party, the mindset of their patriarchal system is still evident. For example, when the

above-mentioned figures of the new party went to the meeting where the HK Association publicized the new party for the first time, some members of the HK Association asked about the economic resources of the new party and these figures responded that this was confidential (I know myself!). Many friends in the "democratic groups" can make their opinions known concerning the resort to excessive secrecy when a new party is being planned.

We believe that before deciding whether to join a new party, one should give ample consideration to these three questions.

Many Political Parties and a Social Democratic Party

We believe that the present stage is, in fact, a moment for the "democratic groups" to conduct a general self-critique of their tactics. The "democratic groups," after summing up the successes and failures of the tactics of the previous stage, should seek out a rational and practical "moderate line," strive for an objective view of mainland China, unequivocally abandon the extremist "confrontational line," and criticize the internal patriarchal system and undemocratic working styles. And in dealing with questions of the interests of social strata and unification with China, they must adopt tactics involving both struggle and compromise, which both uphold principles and seek to achieve stage by stage cooperation. In addition, they must change the undue emphasis on morale, and the attitude of simplified thinking, ultimately establishing a practical democratic political theory for integrating China and Hong Kong, which will enable post-1997 Hong Kong under Chinese political rule to achieve a high degree of autonomy, will implement the principles of "one country, two systems" and "Hong Kong governed by the people of Hong Kong," while in the process preserving the continuing stability and prosperity of Hong Kong, pointing to an effective and rational allocation of the society's resources, and the protection of factors which increase and rationalize public welfare associated with the quality of life of the middle and lower classes; the "democratic groups" can have many political parties, with a "moderate democratic faction" which would follow a "coordinated line" (at the same time combining efforts), and a "social democratic faction," which would follow a middle and lower class line (at the same time emphasizing a consideration of the overall interests of society). They can establish some political parties which lean toward a social democratic party or socialist type party, working out all their differences with the "confrontational" line, and the political parties associated with the middle and upper class line and the big capitalist line, something which appears to be a necessity.