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SOVIET UNION

Commentary on 19th CPSU National Conference, Democratic Atmosphere

40050380 Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 14, 23 Jul 88 pp 3-6

[Article by Liu Guangqing 2692 0342 7230: "Soviet Party Conference Consolidates Gorbachev's Position"]

[Text] The 19th CPSU national conference, held in Moscow from 28 June to 1 July, had two major items on its agenda: review the progress of reform in the past 3 years and discuss the further democratization of party and social life, in other words, political restructuring or perestroika. The delegates expressed their views frankly and argued heatedly, criticizing individuals by name without mincing words. This sort of democratic atmosphere has no precedent in Soviet political life in the last 60 years. Seven resolutions were adopted at the closing session, which dealt with the intensification of perestroika, the democratization of Soviet society, the struggle with bureaucratism, ethnic relations, legal reforms, and urgent measures to implement the political restructuring plan. A decision was also made to build a memorial in Moscow to the victims of the Stalin era. All this suggests that the conference discussed the whole range of issues facing the party and state today. The 19th CPSU conference is no less important than its 27th Congress.

Background To the Conference: As Perestroika Takes Hold in the Hearts of the People, Resistance Also Grows by the Day

Over the past 3 years, economic reform in the Soviet Union has proceeded from the formulation of a coordinated program to implementation. Political structural reform, in contrast, involves the cadre, election, and legal systems and affects many areas, including science, the press, culture, education, and diplomacy. Particularly after the call for the rethinking of historical issues last October on the 70th anniversary of the October Revolution, an extensive debate has been unfolding in the country on the personality-cult era, the stagnation era, the political system, and the entire sweep of Soviet history. Now the Stalin model and Stalinism are being criticized and the origins of dogmatism being explored. However, as reform becomes more and more thoroughgoing, resistance also grows increasingly evident, with conservative forces even resisting perestroika openly, as demonstrated pointedly by the long letter from Nina Andreyeva, a female teacher from Leningrad, published in SOVETSKAYA ROSSIYA last March. An editorial in PRAVDA described it as "the ideological platform and declaration of anti-communist forces." This shows that although the guiding principle of comprehensive, fundamental reform decided upon at the 27th congress has penetrated public consciousness, the question whether there should be basic political reform has not been completely settled.

One month before the conference, a platform approved by a plenary session of the Central Committee of the CPSU was made public to be discussed by the whole party and the entire population. The platform covered 10 areas revolving around political structural reform. It affirmed the "diversification of socialist public opinion" put forward by Gorbachev at a plenary session of the Central Committee last February. It stressed that the "diversification of public opinion now taking place in reform compares the different ideologies and interests openly" and that the Central Committee supported the "diversification of public opinion." It was under the guidance of this principle that party members across the nation as well as the masses put forward many criticisms and proposals regarding the contents of the platform, giving the 19th conference broad-based support and a democratic atmosphere both inside and outside the conference that was mutually interactive. At the same time, the party decided against making personnel changes at the conference to ensure that the delegates would concentrate on the ideological discourse.

Major Topics at the Conference

How should we evaluate perestroika in the last 3 years? Gorbachev said at the opening of the conference that perestroika could not be described as irreversible. Delegates essentially agreed with this assessment and criticized the work in the past 3 years extensively. For instance, many departments failed to really implement the "State Enterprise Law," cooperatives were over-taxed, and the anti-alcoholism drive using administrative orders was a flop. Leonard Abalkin, the economist, argued that the Soviet economy had not yet freed itself from stagnation, as demonstrated mainly by the fact that national income and other indicators of socioeconomic development had been expanding even more slowly than in the stagnation era, that conservation of resources, a key barometer of efficiency, had not been reached, that the ratios between production, accumulation, and consumption in the two major sectors had not changed positively, that the consumption market was deteriorating, and that the USSR was increasingly falling behind the rest of the world in science and technology, with rising attendant danger. While all this is true, Gorbachev's relatively pessimistic assessment was objected to by some delegates.

Need for basic changes in the political structure. Past attempts to reform the economy failed largely because the political system remained intact. Gorbachev pointed out that the political system that took shape after the October Revolution was seriously distorted in the Stalin era as functions of economic management were more and more concentrated in the hands of the party-political leadership. Soviet life was organized not within the law, but through coercive orders and directions. Lip service was paid to democratic principles but in fact decisions were made arbitrarily and dictatorially. Right now the Soviet Union is running into obstacle after obstacle in economic reform, unable to put an end to command

methods of administration, a situation largely caused by the absence of changes in the political system. That is why Gorbachev stressed that should they delay reforming the political system and establishing democratic mechanisms in politics, the economy, and the spiritual sphere any longer, then everything else would go down the drain. Replacing a handful of bureaucrats, he said, is no solution. The key is democratic mechanisms that are in working order all the time. Once the masses truly throw themselves into reform, the bureaucrats will have no hiding place. In the end, the conference decided to reform the political system fundamentally as soon as possible.

Heated debates on proper limits on openness, or glasnost. Some delegates expressed concern about glasnost. Bang Da Lie Fu, a writer, said that some newspapers were using perestroika to destabilize all things and revise beliefs and morals and that some people called into question everything, even casting doubt on the great revolutionary ideology, thus many people, especially young people, to waver in their faith and trust in everything from the past. Other delegates even proposed that "demagogues" be punished according to law. However, the majority of delegates argued that since the press had been a driving force in reform, glasnost should not be rejected just because of certain problems. Afanasyev, PRAVDA's chief editor, said that the press should function as a "socialist opposition" in reform and be able to criticize party workers. In his closing address, Gorbachev on the one hand affirmed that everything must be done to support the mass media in expressing a full range of different opinions and in exposing and eradicating every negative phenomenon of the past. On the other hand, he called on the press to enhance its sense of responsibility and unburden itself of the biases of factionalism and self departmentalism. The Soviet Union, he said, must not replace one kind of monopoly with another.

Restoring full powers to the soviets of people's deputies. Another important discussion topic at the conference was strictly demarcating party and government functions and preventing the party from replacing the economic organs of the state. The conference decided to establish a 2,250-member Congress of the USSR People's Deputies to be the new highest organ of state power. Of its 2,250 deputies, 1,500 will be elected by local electoral districts and special ethnic regions in equal numbers. The remaining 750 deputies will be elected by the party, trade unions, cooperatives, and other social organizations including those for women, veterans, scientists, and writers. The Congress of the USSR People's Deputies, in turn, will elect 400 to 500 deputies to form the USSR Supreme Soviet, a permanent organization. As presently constituted, the Supreme Soviet consists of 1,500 deputies and includes the Soviet of the Union and Soviet of the Nationalities, with a good number of standing committees each. The presidium of the existing Supreme Soviet, made up of 39 people including the chairman, vice chairmen, secretary, and members,

serves as a collective head of state. Its chairman merely represents the collective head of state and has little real power. Gorbachev proposed that there should be a chairman of the Supreme Soviet who would be granted broad powers and preside over the work of the presidium. However, when Gorbachev suggested that first secretaries of CPSU committees concurrently serve as chairmen of local soviets, a round of heated discussion broke out. Gorbachev's rationale was to reinforce the soviet's prestige with that of the party. Besides, this would put party secretaries under dual supervision—supervision by the soviet deputies as well as supervision within the party. If the party secretary recommended is not elected chairman of the soviet, then the party committee and party members involved should reconsider his credentials to be party secretary. Gorbachev's proposal was opposed by some delegates on the ground that it contradicted the principle of separating party and state functions and might prevent non-party figures from being elected to the chairmanship of a soviet. Be that as it may, it was adopted by the conference in the end.

The term of office of party and government officials. This was another hotly debated topic at the conference. To the bulk of conference delegates, two terms, 5 years each, should be enough, even for leaders like Gorbachev. Georgy Arbatov even commented that had Stalin and Brezhnev stepped down in 1934 and 1974, respectively, after being the top leader for 10 years, many problems could have been avoided and the Soviet Union would not be in such a bad shape today. The 22d CPSU Congress in 1961 did amend the party constitution to limit officials to two terms, with this exception—a third term is allowed when three-quarters of the delegates approve. When the question whether or not to allow three consecutive terms was tabled as a separate resolution at the conference, 4,773 delegates out of a total of 4,991 rejected it, a clear sign that the people favored the abolition of life tenure for officials.

Intensifying party reform. Apart from discussing the separation of party and state functions and the term of office of leaders, the conference emphasized that the Marxist-Leninist principle of democratic centralism must first be revived in party life and that the prestige of elected party organs be restored. The standing committees and secretaries of party committees at all levels should report their work to their respective committees. An earnest effort must be made to put an end to such current anomalies as party secretaries and standing committees wielding too much power and workers of party organs giving orders to party committee members. In accordance with the suggestion of many party members, the conference decided to establish a CPSU central supervision and inspection committee which, like the CPSU Central Committee, would be directly elected by the party congress and would be responsible to the congress only. It was also decided to implement glasnost in party work to the greatest extent possible. This will include making public the texts of speeches delivered

before party committees meeting in plenary session at all levels and the division of labor among Politburo members and allowing the public to discuss party admission matters.

Boris Yeltsin, a former alternate member of the Politburo of the Central Committee and former first secretary of the Moscow party committee, asked the conference to revoke the resolution on him adopted by the Central Committee last October and restore his good name; at the time he was said to have committed "political mistakes." Neither Gorbachev nor Ligachev agreed to his demand. Also, Yeltsin explained why he talked to a foreign television reporter last May, claiming that his original intent had been distorted. His purpose, he said, was to declare that he saw eye to eye with Ligachev on the strategy of perestroika, despite their differences regarding tactics. He further claimed that Solomentsev, a Politburo member, wanted to find fault with him over this by using the party constitution, a practice reminiscent of dark shadows in the past. Gorbachev did not say anything further. Ligachev, however, categorically asserted that Yeltsin had breached party discipline by talking to the foreign bourgeois press without party approval and that Yeltsin's speech had cast doubt on the party's political principles. He also claimed that he differed from Yeltsin in strategy as well as tactics.

Yeltsin also argued that the earlier era of stagnation was not only Brezhnev's fault, but also that of other leaders at the time. A delegate called for the removal of individuals who actively pursued stagnation policies from the top echelons. Pressed by Gorbachev to name names, he cited four people, including Solomentsev and Gromyko. Ligachev replied that it was only because people like Chebrikov, Solomentsev, Gromyko, and himself as well as a large number of regional party secretaries stood firm in March 1985 that Gorbachev was elected general secretary. He also disclosed that Yeltsin was transferred in late 1985 to the secretariat of the CPSU Central Committee and subsequently elected an alternate Politburo member only on his recommendation. That Ligachev volunteered such information is intriguing.

A Long Road Ahead For Perestroika

The conference, proposed by Gorbachev a year and a half ago, basically achieved what he set out to accomplish. Not only did it review past issues, but it also laid bare the problems and mistakes that had appeared in the course of reform over the past 3 years. This shows that Gorbachev has consolidated his position and has the power and confidence to improve work and push ahead with perestroika. The full airing of different points of view at the conference testifies to the Soviet effort to combine one-party rule with democratization and establish functioning democratic mechanisms. The overall thrust of the conference was directed against the conservative forces, even though it also took pains to discourage "revolutionary adventurism." The various resolutions adopted at the conference constitute a guiding principle for political restructuring. However, detailed

measures must wait until the USSR Supreme Soviet meets this fall to amend the Soviet constitution and until the next CPSU congress amends the party constitution. The Soviet political system, therefore, will continue to be subject to a fierce ideological struggle.

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SHIJIE ZHISHI Interviews Primakov *40050412 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 14, 16 Jul 88 pp 2-5*

[Interview with Primakov, director of the Institute of World Economic and International Relations, by SHIJIE ZHISHI reporters Xiao Yang 5618 2799, Huang Shuhai 7806 2579 3189, and Wang Rongjiu 3769 2837 0036: "Interests of All Mankind Higher Than Class Interests"; on 23 June 1988, place of interview not given]

[Text] Primakov, the renowned Soviet expert in international affairs, is currently director of the World Economic and International Relations Institute of the Soviet Academy of Sciences. Because we carried an article by him on new political thinking in the Soviet Union in our first issue this year, he has become familiar to our readers. With the help of colleagues from the Soviet weekly, NOVY MIR, our special correspondents Xiao Yang, Huang Shudai, and Wang Rongjiu interviewed Primakov in his office on 23 June.

Xiao Yang: We notice that remarkable changes have occurred in Soviet foreign policy and that a lively debate is going on in Soviet academic circles on certain theoretical issues relating to Soviet foreign policy and the current international situation. Can you tell us something about the debate and comment on it?

Primakov: Clearly the reality of the nuclear century has compelled us to reconsider our attitudes toward many contemporary international issues. We must rethink certain theoretical formulations as well as work out new positions in practice. Let me make the following points on some of the theoretical issues that are now confronting us squarely.

Unity Of Opposites To Be Given Higher Priority

First, we are all Marxists. We all understand that the motive forces of history and development are the unity and struggle of opposites. As far as international relations are concerned, however, we over-stressed the struggle of opposites in the past, paying no or little attention to their unity. The result, by and large, was that we failed to see the dialectical picture. In more practical terms, it means that we harped on the struggle between the two opposing systems too much and saw everything through it, closing our eyes to the fact that the struggle and the confrontation took place in an interacting, interdependent world. First, there is the global economy operating by laws which are also applicable to us although we have

no part in shaping them. Let me cite this example. While the Soviet Union produces more oil than anybody else, it is not a major oil exporting nation on the free market. Consequently it cannot determine oil prices even though a decline in such prices is severely damaging to its interests. Then there are the questions of ecology and survival, which bring together every one of us. Thus the struggle between the socialist and capitalist systems today must be examined in the context of the dialectical interactions between it and the increasing oneness of the modern world.

Interests of All Mankind Take Precedence Over Class Interests

Another issue is the setting of priorities between the interests of all mankind and class interests. How do they interact with each other? Which of the two is more important? Lenin said that the interests of the development of the entire society were higher than those of the development of a class. Are there class interests? Of course. But there are also the interests of all mankind, the highest of which is mankind's survival. How will that affect the series of concepts in the realm of class interests, such as national liberation struggle, social progress, just wars, and unjust wars? If the interest of mankind is its survival, does it mean that we should not pay attention to things like social revolution and national liberation at all? Certainly not. Our sympathies are with such movements. We helped them in the past and will continue to help them in the future. At the same time, however, we are confronted with some related issues more urgently.

Rejecting the Export of Revolution

First of all, we must completely reject the idea of the export of revolution. What is the export of revolution? It is helping revolutionary forces and using revolutionary methods in the absence of an objective revolutionary situation. In fact this does not work. Lenin was most vehemently opposed to this approach. It was Trotsky's line, subsequently furthered by some activists within and outside the party. Today, the repudiation of the theory of the export of revolution has assumed additional urgency. Nevertheless, if a revolutionary situation exists, if the revolutionary situation demands change, and if change is taking shape, we will certainly give assistance to it. Thus our relationship with national liberation forces and social liberation forces will be determined by objective conditions and in a way consistent with the existence of all mankind. Socialist nations, national liberation forces, and social liberation forces have an increasing responsibility in this area today.

About our attitude to just wars and unjust wars. What kind of war can be regarded as just? As far as the country is concerned, we have now put forward some new theories on security matters and made a complete switch toward a defensive position. Clearly we can say defensive war is a just war.

Political Means as the Principal Means

Let's discuss security matters further. There was a time when we did our best to ensure our security through military superiority. Now we realize that approach does not give us real security. Under the present circumstances, we must achieve security primarily through political means. At the same time, we must take the necessary military measures and ensure that the military and political structure of security is on a proper and adequate basis. This is a matter of principle for us not only because we firmly and totally subscribe to the defensive theory but also because the optimal allocation of funds between the defense budget and social economic development depends on the solution to this problem. We are not responsible in any way for our entry into the arms race. However, the United States imposed the rules of the game on us. We went along and played by the rules. But that is not right as it will only exhaust our economy. Therefore, we need to take the political approach. It is a reliable way to help ensure security. We are now studying it and are doing many things in theory and practice.

Every Socialist Country Should Be Independent

There are many other issues, some of them having to do with the relations between socialist nations. We understand very well that every socialist nation should be independent in choosing its development model and policies. No country is closer to the truth than others. No socialist country should assume that it has grabbed God's beard. Is there such a saying in China? Naturally there are many similarities between socialist countries.

Discarding the Notion of "Always Right"

So now we are stressing new points of focus, conducting new analysis, and proposing new ideas. There is one other very important point that I would like you to take note of. In the past we always said that there were no mistakes and no shortcomings in our foreign policy. Everything we did, starting with Lenin's "peace decree" to the present day, was absolutely right. Today we have discarded this sacred halo of infallibility. I should say that this is a great help to us because by analyzing our past critically, we will find it easier not to repeat old mistakes. Moreover, public opinion has never accepted our claim to infallibility. What is widely supported in world opinion is always the policy of assessing oneself and one's position realistically and pragmatically.

I have said too much.

Xiao Yang: You said earlier that we must stress the unity of opposites, which is quite right. But the contradictions between the two systems are still there. How are they to be resolved in the end?

Primakov: Good question. Let us first try eliminating the idea that the contradictions should be resolved through war. That idea does not work today as there can be no winner in this kind of war; we will only end up destroying all mankind. If we eliminate that, what remains is essentially the power of emulation, all the more significant now that we have rejected the notion of exporting revolution. For instance, China's success story in economic development nowadays exerts much more influence in many nations in Asia than the despatch of military troops to a certain place.

Capitalism Is Repudiating Itself

Xiao Yang: I completely agree with your rejection of war as a method to solve problems. I think capitalism itself will continue to be around for a long time to come. But what will happen to it in the end?

Primakov: We must not help the shoots grow by pulling them upward, which is extremely dangerous. As the practice of history shows, that kind of action would not bring about positive results anywhere.

I do not want to underestimate this point: in the course of development, capitalism has been trying to repudiate its exploiting nature. A case in point is share capital, a special form of capital that cannot be equated with monopoly capital. We have not thought of the major impact we have had on capitalism. Not only have they influenced us, but we also have influenced them. For instance, I believe the socialist economy is the only planned economy. On the microeconomic level, though, any American company practices more meticulous planning than even our ministries and commissions. Anywhere in the West, anytime an item is sold, be it a pencil or some piece of equipment, a number will be entered in the computer. Why? I used to think that was done to make life easier for the cashier. In fact, the idea is to send a signal to the producers, telling them how many units of this particular kind of pencil have been sold and how many units of another type of pencil remain unsold. In other words, it tells them what to produce. This kind of linkage with consumers is much closer under capitalism. It must be understood that this is why they have planning.

I don't think capitalism is evolving into socialism. The question of political power is certainly immensely important. This is so because, as Lenin said back then, state capitalism has established a material and technical basis for socialism. Thus the question is entirely one of political power. On the other hand, we must not underestimate the following factors. First, the extent of production socialization. It is increasing and developing steadily under capitalism. Second, the significance of the development of democratic institutions. Its impact on the character of the political regime must not be underestimated. Nor can we overlook the fact that production relations, including ownership, are developing under capitalism. These issues cannot be ignored. We are

talking about a very complex question and must consider its overall complexity.

World Revolution Once Anticipated

Things have indeed turned out differently from what we expected. What were we thinking of at the time? During the civil war after the October Revolution, we expected a world proletarian revolution to break out and practiced war communism. Later Lenin and his comrades-in-arms concluded that no world proletarian revolution would occur in the near term, certainly not in the developed capitalist nations. This meant that we should secure our foothold, otherwise we would not be able to survive. Starting from that premise, we turned our attention to economics and devoted our energies to the development of commodity monetary relations. After Lenin died, there was a gradual switch back to the collection of surplus grain, albeit in a new form. Socialism by administrative fiat mold took shape, which resembled war communism closely; there might be differences in form, but the two were similar in substance. We, and you too, believed at the time that this was the only model for socialism. Actually socialism is entirely something else. I, for one, believe that not only can socialism in different molds coexist, but the command version of socialism is unacceptable under the present conditions. That is why you have rejected it. And that is why we too have rejected it. China, I believe, would not stage another "Great Leap Forward," would it? Certainly the question is a complex one. You will run into difficulties, and so will we. That is inevitable. For example, you have tapped agricultural potential to the utmost, boosting output by 100 million tons, only to run into a new problem of mechanization. Without mechanization, you cannot continue to increase output substantially. What is mechanization? In other words, you are now faced with a new cooperative assignment, a voluntary one, to be sure, and one to be established on a different basis, but a cooperative assignment nonetheless. No sooner have you tackled one set of problems than you are confronted with another.

Cannot Apply Lenin Mechanically

Xiao Yang: The debate in the Soviet theoretical community is not confined to the repudiation of Stalin but also touches upon some of Lenin's ideas. How do you tackle this issue in practice?

Primakov: We cannot apply Lenin mechanically today. Clearly some of the things he said 70 or 80 years ago cannot be applied mechanically today because the situation has changed. If we use other methods to bring Lenin back, as you did by distributing Mao Zedong's little red book so that everybody could study his quotations, we would become dogmatists. We cannot do that. So what we do now is to apply Lenin's methodology to the greatest extent possible. This is very important to us.

Xiao Yang: One tenet of Leninism is that we live in an age of imperialism and proletarian revolution. How would you sum up the characteristics of our times?

Primakov: I can tell you how I feel personally. We cannot say that our era is one of proletarian revolution. To begin with, the social policies of the bourgeoisie have created extra difficulties for the proletarian revolution. Secondly, through its struggle, and I mean struggle, the proletariat has secured many things. That too has presented a new situation. Moreover, the scientific and technological revolution has also changed the objective situation. With technology-intensive industries developing by leaps and bounds, the structure of the proletariat has been changed. All this is well known. As a result, I don't think we can characterize this era as the age of the proletarian revolution as traditionally defined. At the same time, in characterizing our age, I think we must point up a clear way ahead for the socialist world. As to how this is to be done, I think there can be different points of view, but all must take into account the present reality.

How To Interpret the General Crisis of Capitalism

Let me also say this. You all know the thesis of the general crisis of capitalism. Indeed, in its course of development, capitalism goes through structural crises as well as cyclical crises. It is in a state of crisis. Hence the internal mechanisms for the development of capitalism have been repudiating its exploiting nature because it is in a constant state of crisis. That much is clear. We cannot, therefore, conclude that productive forces cannot develop further. On the contrary, productive forces have been on the increase. In the past we divided the general crisis of capitalism into

clear-cut stages and assumed that every time it moved from one stage to the next, it took one step closer to destruction, almost measuring such movement in number of years. That is not right. At our institute, this viewpoint has come under severe criticism. To make such an assumption is to believe that capitalism will wither away on its own, which is not true.

I Have Not Decided How To Define Our Era

Huang Shuhai: Some people think that the present age is one of coexistence and competition. What do you think?

Primakov: You mean coexistence and competition between the two systems?

Huang Shuhai: Yes.

Primakov: This is one element, but I believe we should not stop at that. What you said is right, but it only describes one side. The other side is that capitalism cannot remain and survive in its original form. It was born as an exploiting system which later gave rise to imperialism and militarism worldwide. That kind of capitalism is no longer viable. That is why I think our definition must include a social dimension, not outright proletarian revolution as such, but some reference to social progress. I have not thought of a formulation and can only offer some general principles.

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Analysis of County Party Committee Functions Under New Political System

40050361 Beijing LILUN YUEKAN [THEORY MONTHLY] in Chinese No 4, 25 Apr 88 pp 43-47

[Article by He Lingzuo 0149 0109 4373, member of the Zuoyun County, Shanxi CPC Committee: "How Party Committees Should Function After Party and Government Are Separated"]

[Text] Following the 13th National Party Congress, political reform, the focus of attention of the entire country and the world, was placed on the agenda of the whole party and is the first thing party committees at all levels must confront. We must resolutely adhere to the plans set forth by the CPC Central Committee, actively throw ourselves into reform, be aggressive and enterprising, boldly explore new avenues and vigorously seek properly to resolve, by linking theory and practice, the concrete problems involved in our effort to separate party and government. Here I should like, in connection with conditions as they actually exist in Zuoyun County, Shanxi, to explore the issues related to party-government separation and to present some of my ideas and findings thereon.

I. The Significance and Advantages of Party-Government Separation

The effort to separate party and government, which is aimed at resolving the problems of overlap between party and government and the party's tendency to supplant the government, is an important reform in the party's leadership system and a fundamental way by which we can improve and strengthen the party's leadership function. To be more specific, we might ask what advantages this program produces at the county level. The answer, generally speaking, is that there are three major advantages, as follows.

1. Party-Government Separation Helps Strengthen the Political Leadership of the County Party Committee

The county links city and countryside, the county party committee follows the leadership and executes the policies of its superiors, leads and decides policy for its subordinates and thus has a dual role, so the committee's work belongs to the front line and has a direct impact on basic-level units. Therefore, the committee's policy making and implementation roles tend to get mixed together, and the committee is consistently involved in and thus has always found it difficult to extricate itself from concrete, routine work. Under these conditions, the practice of overlapping party and government tends to involve the committee in all types of concrete work; to lead the committee directly to monopolize all government, social and economic work; and to involve the committee in every affair—distributing money, allotting material, setting targets, approving projects, and writing instructions in all types of memos. The committee thus attends to everything, no matter how major or minor, even arranging food and lodging for meetings. This keeps

the committee up to ears in its work, makes it difficult for the committee to concentrate its energy on studying and deciding policy on the major issues affecting the entire county, and in fact reduces the committee to the role of implementer and follower in county work, relegating the committee to the front line of the front line. Only by effecting separation of party and government can we enable the committee properly to handle the relationship between its roles as implementer of policies set by its superiors and as policy maker for its subordinates, to extricate itself from its pile of routine work, to assume the political leadership role it is supposed to perform and, in accordance with conditions of the entire county, to study policy, decide major affairs, control the general direction, resolve contradictions, coordinate the efforts of all quarters and assume the political leadership role it is supposed to play.

2. Party-Government Separation Frees the County Party Committee From Its Previous Responsibilities and Thereby Enables It To Focus More Attention on the Self-Development of Party Organization Throughout the County

The county party committee is the leading agency of party organization throughout the county and thus must assume its leadership role in and properly emphasize the party's work, organization, ideology and discipline. But the overlap of party and government and the party's tendency to supplant the government for many years has made "the party ignore the party" and "led the government to supplant the party." In our county party committee, the party leadership has exclusively involved itself in administering and party development work has been treated as trivial. In our actual work, we have placed great emphasis on and devoted great effort to economic administrative work, acting as if such work were the primary task while treating party affairs work as a secondary task. We have stressed the importance of party affairs work in word but ignored it in deed; not put much effort into it; rarely underscored party development in terms of deployment, inspection and summarization of work experience; championed the leadership of the committee secretary over all work but never emphasized the importance of party building; and thus "planting other people's land while letting our own fields go to weed." When the party is separated from government, the county party committee can stop being so exclusively involved in administering; turn control of routine administrative, economic and social affairs back to the government; extricate itself from its pile of routine work; free up more of its time and energy to stress party work; truly achieve "control of the party by the party"; and firmly, effectively and completely grasp the various types of development work of the party throughout the county.

3. Party-Government Separation Will Help Strengthen the Functions of the Government and Mobilize the Initiative of All Quarters

An old saying used to be commonplace: "The county party committee signals a command, the government

sets to work, the people's congress raises its hands in approval, the political consultative conference applauds, and popular organizations do the work." Although this doggerel is a bit one-sided, it does have some truth to it and to a certain extent is vivid depiction of the shortcomings involved in the overlapping of party and government, the party's tendency to supplant the government and excessive concentration of power. The continuous emphasis over many years on "unified" leadership by the party has engendered the notions and habits of "monopolizing great power, distributing minor authority, the party committee makes the decisions, and all quarters go and do the work." And the county party committee has taken on some of the authority of the government, other groups and mass organizations; monopolized things it should not manage, cannot handle or does not run well; and issued orders on things that are not within its jurisdiction. This system has fostered a dependence mentality in the government, other bodies and mass organizations, under which mentality these entities dare not or are unwilling to decide matters that ought to be within their jurisdictions and instead ask the county party committee for instructions on everything, big or small, even for conferences of various sizes. If this situation persists for a long time, the government, the people's congress, the political consultative conference and mass organizations fail to perform their proper functions and to a certain extent are reduced to the status of "appendages" or "decorations," which development invariably engenders such tendencies as "hand raising," "applauding" and "working." By separating administration and government and clearly delineating function and responsibility, we can reorder the relationships between the county party committee, the people's congress, the government, the political consultative conference, discipline inspection organs and mass organizations; return power to the government and to popular groups; and enhance the authority of each body and group so that they all attend, with the support, assurance, supervision and coordination of the county party committee, to their own affairs; independently, boldly and effectively carry out their work; and fully perform their functions.

Since party-government separation is so important and has so many advantages, we should consciously, aggressively and cheerfully accept this major reform and support it and the Central Committee with real action, return power to the people and to the government; resolutely support the people's congress, the government and other organs of state power; and enable these bodies fully to exercise their lawful or constitutional powers and to perform their proper functions. And as party and government are gradually separated, as has been the case over the past several years, the people's congress, the government and other organs of state power must more aggressively, courageously and consciously shoulder their heavy administrative work; stop waiting for county party committee approval where it is not necessary, standing around and watching, and procrastinating; take charge and make decisions where such action is required;

march ahead where needed; and conscientiously take responsibility for cultivating their own "fields." And mass organizations and other social groups must independently and at their own initiative carry out the work that is properly theirs, so that every "piece" on the county "chessboard" is truly mobilized.

II. The County Party Committee's Principal Duties and Leadership Methods after Party-Government Separation

In his report to the 13th Congress, Comrade Zhao Ziyang stated that party-government separation is the delineation of the functions of each body. Party leadership, he said, is political leadership, that is, leadership in such areas as establishing political principles, charting political direction, deciding major policies and recommending important cadres for appointment to the organs of state power. And he prescribed five clear responsibilities for local party committees in their political leadership functions—"implementation," "guaranteeing," "decision-making," "recommendation" and "coordination." These pronouncements clearly indicate the principles of and direction in which the county party committee's work should go once party and government are separated. Specifically, the committee's five responsibilities should include the following major elements.

1. Carrying Out the Instructions of the Central Committee and Other Superior Party Organizations

The chief tasks of the county party committee, which is one of the party's local leadership organs, are being responsible to the Central Committee and to the provincial and prefectural party committees; carrying out the party's lines, general principles, policies and directives in basic-level party organizations and among the broad masses of party members and cadres; and fighting to accomplish the party's tasks. To achieve these desiderata, the county committee first of all must conscientiously study and master the spirit and essence of the important documents issued by the Central Committee and other superior party organizations and the important speeches delivered by party leaders. The county committee must also use a variety of approaches and widely and deeply publicize and implement the spirit of the party directives so that the latter are consciously put into action by the broad masses of party members and cadres throughout the county. Even more importantly, the committee must resolutely uphold the party's ideological line of seeking truth from facts, rooting ourselves in reality in all affairs and linking theory and actuality; creatively carry out its work; raise specific ideas on how to implement instructions from the Central Committee and superior party organizations; formulate specific principles and policies for the county; and mobilize all quarters to bring the work to a successful conclusion.

2. Guaranteeing Implementation in the County of the Directives Issued by the State Council and Other Superior Governments

Once party and government are separated, the county party committee and government must gradually develop into two discrete work systems; directives of the

State Council and other superior government organizations must be transmitted directly to government work systems through the issuance of documents, the convening of conferences or speeches by leaders; and it is primarily the government that is to be responsible for implementing these instructions. Under this system, the county party committee must ensure that the directives are implemented across the county through the following five major ways. First, to understand the spirit of the directives, the committee, in addition to reading relevant documents, must have the county government report the gist of all important conferences of superior government bodies and of the oral directives issued by leaders. Second, the committee must review the major ideas proposed by the government as to how the latter intends to implement the directives. Third, the committee must support the government's effort to implement the directives and to carry out its own measures. Fourth, the committee must supervise and keep pressure on the work of the government and stay abreast at all times of progress in the implementation of the directives. Fifth, to ensure control over the final results of the implementation of the directives, the government must submit reports on its work to the committee, as well as to superior governments and the county people's congress.

3. Making Policy Proposals on the Major Problems Affecting the County

An important aspect of the county party committee's function of exercising political leadership over the work of the entire county is to provide leadership in the making of important policy. This work involves making policy, in line with the big picture and in accordance with general policy direction, on the major problems in the politics, economy, society and other areas of the county. In the area of politics, the committee must formulate and carry out policies, policy implementation programs, arrangements and concrete measures on the party's line, general principles, policies, political reform, party building, ideological-political work, spiritual culture, the development of political power, and the like. In the area of the economy and society, the committee must do the following major things: (1) devise economic and social development strategies and specific policies relating thereto; (2) review the economic and social development plans proposed by the county government, draw up outlines for 5-year plans, make suggestions on annual-plan targets and on budgets, decide major capital construction projects, draw up important measures for the development of education, science and technology, culture, physical education, public health, and urban and rural areas and for the improvement of the people's standard of living; (3) draw up, in accordance with the directives issued by the Central Committee and other superior agencies, specific policies, and propose ideas on how to implement economic reform; (4) properly stress key issues related to the overall economic picture; (5) decide on and organize important economic and social activities. Basically, the economic decision-making work of the county committee should consist of proposing, in

accordance with the big picture in economic development and reform, strategic programs and suggestions with which to guide government work, which should be submitted to the government via lawful procedures so as to transform the programs and suggestions into the will of the state. On the other hand, decisions, arrangements, and ideas on how to implement plans should be drawn up by the people's congress and the county government, and the latter should undertake to organize, lead and concretely implement economic activities.

4. Recommending Important Cadres for Appointment to Organs of State Power

Recommending cadres provides an organizational guarantee for the county party committee's political leadership role. The important cadres recommended by the committee to the county people's congress, government or other organs of state power are either elected or appointed in accordance with lawful procedures or with relevant organs' authority over personnel administration. In view of the facts that the cadre personnel system is still being reformed and that many procedures have yet to be systematized, for a while appointment of cadres to assistant bureau chief posts and above should be decided jointly by the county committee and government, with the latter making the actual appointments. We must gradually delegate control over personnel to lower levels, county committee members must no longer take up full-time secretary positions, responsible members of party organizations within organs of state power must be elected in accordance with procedures set forth in the party constitution, and we must gradually unify control over personnel and administrative affairs and strengthen government authority to control cadres.

5. Coordinating the Activities of All Organizations in the County

As party and government functions are separated and power is delegated to lower levels, the various organizations of Zuoyun County will obtain greater independence in their work, and party and government leadership organs, especially, will come to differ in nature, function, organizational form and work type. Under these conditions, to ensure that the work of the entire county is set up and implemented properly, the county party committee, as the agency that effects the party's political leadership and oversees the big picture, must serve to "coordinate the various quarters." First, the committee must properly order the relationships between itself and the people's congress, the government, the political consultative conference, discipline inspection commissions, judicial organs, mass organizations, enterprises, public institutions and other social organizations; respect the authority of all bodies; and ensure that each fulfills its functions. Second, the committee must properly handle the relationship between bodies' work and the central tasks of the county and mobilize all bodies to perform their work properly and to coordinate their efforts with the central tasks so that

progress in all work is harmonized. Third, the committee must properly handle the relationship between party affairs, administrative, mass organization, ideological-political, economic, the development of material and spiritual culture, and other types of work and ensure that all relevant organizations and agencies work together and cooperate so as to ensure coordinated development. Fourth, the committee must establish leading groups to coordinate and unify work on major problems or major activities affecting the entire county or several bodies. Fifth, the committee must mediate any contradictions, clashes, conflict, friction or splits that occur between various systems and seek to get these systems to understand, communicate and cooperate with each other. Sixth, the major leaders of all agencies must exchange ideas regularly and keep each other posted on their work by sending each other documents, by exchanging information or through joint conferences convened by the county committee, so as to keep abreast of the overall situation in the county's work and to coordinate ideas and action.

III. A Number of Problems to Which We Must Be Attentive and Resolve As Party and Government Are Separated

Advancing from "unified leadership" to party-government separation constitutes a major reform. The first challenge that will arise from the reform is updating people's ideas, for cadres in and outside the party, especially party and government leaders at all levels, will have to improve their understanding and change their thinking. Thus outmoded ideas and erroneous new ones are bound to crop up as party-government separation advances, and the intermingling of old and new contradictions in this process are bound to lead to interference in and obstruction of reform. These challenges require cooperation between the county party committee, the county government and the various organizations within the county; conscientious and meticulous implementation of ideological and educational work; active and careful resolution of all contradictions and problems; and special effort to properly handle the relationship between county committee organizations and government agencies.

Well then, how should our county committee and government resolve the contradictions and problems involved in party-government separation? The answer is that they must be attentive to and resolve the problems in the following four areas.

1. Correctly Understanding the Scientific Meaning of Party-Government Separation, and Properly Resolving the Problem of "Ideology Does Not Keep Pace"

The basic meaning and purpose of party-government separation were clearly set forth in the 13th Congress report, which stated that the functions of the party and government are to be delineated in order to improve and strengthen the political leadership of the party and, of course, the administrative leadership of the government.

But even though these things have, in principle, been clarified, a number of our comrades, long influenced by the traditional notion of "unified leadership," tend to misinterpret the reform, mistakenly believing that it entails "redistribution of power," that it means that the "ruling party will not rule any more," and that the reform will "emasculate the leadership of the party." Other comrades believe that the separation cannot successfully be effected, for party committees will never lightly turn over real power to the government, etc., etc. Confronted with these problems of "ideology not keeping pace," we must combine study of the documents of the 13th Congress; conscientious study of the relevant tenets of Marxism; and review of the party constitution, the [government] constitution and relevant laws and regulations governing the people's congress system and strive to ascertain the intrinsic meaning and actual significance, in terms of theoretical principles, of party-government separation, fundamentally improve our ideological understanding, and answer the problem of "why." When we improve our understanding of party-government separation by linking the theoretical heights with reality, we will be able, in terms of ideology and action, to strengthen our consciousness, serve the big picture, respond to reform and keep in step with this historic change.

2. Correctly Approaching Functional Separation, and Solving the Problems of "Don't Interfere" and "Can't Manage"

Once party and government are separated, county party committee and government organs will come to occupy different positions, and their functions will change, so new biases are bound to occur in people's thinking, as people move from one extreme to the other. The government, for its part, may come to think that "now that the government is in charge, the county party committee should not interfere in anything." The committee, on the other hand, may come to believe that "the government is independent here on out, so we cannot manage government agencies." These two ideological deviations, though proceeding from different sides of the issue, do have one thing in common, namely, that they both misinterpret the meaning of party-government separation. We believe the separation by no means implies a weakening of party leadership, much less dispensing with that leadership altogether, and that all ideological deviations envisioning an escape from party leadership, "a test of power" and "an assertion of independence" are erroneous and harmful. All party and government cadres must prevent and eradicate the mistaken notions of "don't interfere" and "can't manage" and unify understanding in terms of the basic meaning of party-government separation so that we can integrate strengthening of the political leadership of the county party committee with enhancement of government functions.

3. Correctly Approaching the Political Leadership Role of the County Party Committee, and Properly Resolving the Problem that "Committee Organs Lack Prestige"

Once party-government separation is effected and the county party committee hands back to the county government the authority to manage the routine administrative, economic and social affairs that the committee should not have arrogated to itself, committee organ cadres may come to believe that their agencies have given up "real power" to the government and therefore have become "bare skeletons," that "the loss of power will inevitably lead to a loss of prestige," and thus that the agencies are "unprestigious," which will lead to "centrifugal forces." Here, we must stress that everyone must correctly recognize the important position party organizations will occupy and the important responsibilities they will bear, even after party and government functions are separated. Although separation will change the functions of each unit, the county party committee's political leadership will not be weakened but rather further strengthened, and the committee will continue to serve as the highest decision-making organ in county work. Both leadership and regular cadres must clearly understand the important responsibilities they will bear, fully perform their proper functions, absolutely not feel that "loss of power" will lead to "decline in prestige," and must not be depressed about their status and even think of resigning their posts. For in fact there are no status grades among leadership organs, work departments and work leaders; nobody should measure people by their power or prestige, seek to "differentiate the noble and base in terms of real power" or to "determine prestige by real benefit." For endless engagement in one-upsmanship in this area amounts to a deprecation of oneself and ultimately to a loss of "prestige," for the people will despise us for doing that. The proper attitude should be to be responsible to the party, the government and the people so that the county party committee, people's congress and government all become authoritative leadership organs.

4. Correctly Handling the Relationship between Managing Politics and Stressing Economics, and Properly Resolving the Problem of Having Two Overlapping Supervisory Bodies

As party and government are separated, the county party committee will hand over a number of the routine economic affairs that it has monopolized to the government to manage, and the county government's functional control over economic work will gradually grow stronger. Does that mean, then, that the county party committee, which is responsible for exercising political leadership, should not stress or manage economic work? No. As party and government are separated, the committee must strengthen its political leadership, and an important element of this work is strengthening leadership over economic work, for if the party becomes divorced from this work, its effort to enhance its leadership role will lose its focus. The key to the county party

committee's leadership in economic work lies in changing the form in which this leadership is exercised, from an implementer of to a leader and decision-maker in economic development. The government, on the other hand, should assume control over the execution of economic plans, implementation of economic measures, organization of economic activities and management of routine economic affairs. Once the responsibilities over economic work are clarified, we must properly handle the relationship between managing politics and stressing the economy, properly resolve the problem of the having two supervisory bodies overlapping each other and, in our actual work, assiduously explore ways by which to integrate these two duties. The county party committee must introduce its political leadership and ideological-political work into economic work, have a firm grasp of the directions of economic development and reform, and use policy to give people incentive for production. In stressing economic development, government departments must also be attentive to ideological-political work, and economic departments that wield great authority over personnel, finances and materials, in particular, must make sure to correct all unhealthy tendencies. We want units in charge of political affairs and those in charge of economic affairs to understand each other and to coordinate their efforts closely, so that ideological-political work and economic development advance together.

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Goals for Government Structural Reform 40050338 Shanghai SHIJIE JINGJI DAobao in Chinese 27 Jun 88 p 13

[Article by Wu Peilun 0702 0160 0243, edited Xu Peijun 1776 0160 0689: "China's Current Government Structure and Policy for Objectives of Reform"]

[Text] Three Structural Reforms and Three Reversals

China's governmental structure was originally set up for a highly centralized production economy. Although it has undergone several reforms, and did play certain roles under the historical conditions, the effects produced were not ideal.

1. There was no separation between government and enterprise; direct control was mainly used; and the mechanism of macroeconomic control was inadequate. The number of economic control departments exceeded two-thirds of the total number of government departments.
2. There was no separation between party and government. The party organs undertook many tasks that belong to the government. For example, it has long been the practice for the control over judicial and cultural matters of the government to be exercised directly by some party organ of the same level. The party organs

were overwhelmed with administrative and routine jobs so that its functions of studying and formulating the lines, principles, and policies and consolidating themselves were weakened.

3. The excessive concentration of control power in the central organs hampered the initiative and enthusiasm of the localities and basic-level units. Furthermore, the emphasis on the vertical relations of organs has created departmental and regional barriers, and each organ had to go its own way.

4. The structure of government organs is irrational because of their overlapping and their multilayer departments. There are also too many special economic control departments, but not enough departments for macroeconomic regulation, and comprehensive supervision.

5. Personnel competence is inadequate, and the personnel structure is unsuitable for indirect economic and legal control. There is over-staffing on the one hand and shortage of competent cadres for many specific jobs on the other.

History has witnessed several government structural reforms. Although the government structure did play certain roles under the historical conditions, the effects produced were not ideal.

The structure of China's government has been gradually improved since the founding of the People's Republic. During the First 5-Year Plan, we copied wholesale from the Soviet system of highly centralized economic control. In 1965, the State Council had 48 ministries and commissions, 24 directly subordinate agencies, 8 staff offices, and 1 secretariat, totaling 81 units, the first peak figure since the founding of the People's Republic. This was followed by three structural reforms of a fairly large scale.

1. The first reform took place from 1957 to 1959. When the defects of over-lapping organs and highly centralized control were increasingly apparent, the State Council formally proclaimed the regulations concerning the improvement of control in the industrial, commercial and financial structures. By the end of 1959, it had 39 ministries and commissions, 14 directly affiliated agencies, 6 staff offices, and 1 secretariat, totaling 60 units. The Great Leap Forward movement made it impossible for the streamlining of organs to produce the desired result. During this movement, some authority which should remain at the higher levels was delegated to the lower levels with chaos as the result. In the winter of 1960, the central authorities decided to implement the policy of "readjustment, consolidation, filling in, and raising standards," and in 1961, the power of control returned to the higher levels along with a number of enterprises. In 1956, there were 9,300 enterprises and agencies directly under the central government. After the decentralization of power in 1958, the number was reduced to 2,400. In 1961, it was increased to 10,533. A

highly centralized system of economic control was again enforced, and the government organs once again overlapped. By the end of 1965, the State Council had 79 units, nearly the same as in 1956.

2. The number of government organs were drastically reduced during the cultural revolution. In 1970, many enterprises were down-graded, and only some 500 enterprises and agencies remained directly under the central government. After some reductions and merging, the State Council had only 32 units, and some of them were under the leadership of the Military Commission Staff Group or the Central Cultural Revolution Group. In fact, the units directly under the State Council numbered only 19, the smallest number since the founding of the People's Republic. All these reductions and down-gradings, carried out under abnormal circumstances, caused a great deal of damage and chaos to government and economic work.

The organs and their structures were gradually readjusted after the end of 1971. The number of units under the State Council was increased to 52 by the end of 1973, and to 100 by the end of 1981, the highest since the founding of the People's Republic.

An economic structural reform began after the 3rd Plenary Session of 11th CPC Central Committee. The third structural reform was carried out in 1982 of the new age, and in 1983, the State Council had only 63 units under it.

Since then, however, the number of State Council organs increased, and before the current structural reform began, it had 72 subordinate units with the addition of 14 state bureaus under different ministries and commissions. The number of nonpermanent organs was also greatly increased. These organs were decreased from 44 to 30 in 1982, but shortly before the current reform, they had increased to 77.

Thus we can see that the three structural reforms actually mean three reductions and three increases. The main causes of the "streamlining-swelling-restreamlining" in the past were as follows:

1. The old structure was left untouched, and the reform did not go hand in hand with the reforms of economic and political structures. The economic structural reform had already begun during the structural reform of 1982, but it was then only at its initial stage.

2. The structural reforms did not begin with the change of functions. The "reduction of personnel and the abolition and merging of organs" and the down-grading of enterprises only changed the enterprises' affiliations.

3. There were no corresponding reforms of the cadre system. The cadres were not accepted in a scientific way: They can only come in, but not go out; and can only be promoted, but not demoted. The system of promotion,

penalty, resignation, and retirement was not based on the principle of choosing the good and eliminating the bad. As a result, the ranks of cadres continued to swell.

4. The organs were established or readjusted according to people's subjective will and without any scientific basis. We must pay attention to the science of administrative management, formulate a set of administrative statutes, and consolidate the fruits of structural reform in the name of law so that the government's work can be institutionalized. This point was ignored in the past.

The current structural reform is conducted under better conditions. We have the theory of planned commodity economy as a scientific basis for the reform and the change in functions. The enterprises have greater decision-making power, and the development of a socialist marketing system have provided the necessary conditions for the government to change its role from direct into indirect control. It also clearly reveals the contradiction resulting from the incompatibility of the existing organs. Therefore, we should say that now is the suitable time to begin the reform of the government structure, and that this reform is necessary.

Change in Functions as the Key Factor

The objective of structural reform is to streamline various relations, and to set up a highly flexible and efficient administrative management system with Chinese characteristics, a complete range of functions, a rational structure, and coordinated operations to meet the requirements of modernization.

We must streamline the following four relations: 1) relations between party and government organs; 2) relations between the government on the one hand and the enterprises and government agencies on the other; 3) relations between the central and the local governments; and 4) relations among various central departments.

Priorities in structural reform: 1) Priority should be given to reform of the economic administration departments for coordination with the economic reform. 2) Among the economic administration departments, the departments for specialized management of enterprises and the specialized sections in these departments that are charged with overall responsibilities should be the first to be reduced or merged. 3) We should strengthen the organs responsible for policy-decisions, consultations, and macroeconomic regulation. 4) The more we try to open to the outside world and to invigorate the domestic economy, the more should we strengthen management and supervision.

The internal foundation of structural reform is the change in government functions.

The essence of structural reform consists of four parts: 1) reassignment of duties; 2) rational establishment of organs; 3) a minute breakdown of duties even for individual posts; and 4) improving the procedures of administrative operations and introducing administrative statutes and the mechanism of budget limitation. All these four parts boil down to a change in functions. This is the difference between the current and the previous reforms.

Specifically, there should be five changes:

1) Change from microeconomic to macroeconomic control; 2) change from direct to indirect control; 3) change from control by departments to control by trades; 4) change from emphasis on "control" to emphasis on service and supervision; and 5) change from government management of society to government's supply of rear-area service which should be separated from government administration and will gradually take the form of community-oriented enterprises under contracted management.

Structural reform is a kind of complex systems engineering. Therefore, we should fully assess its difficulties, namely:

1. The difficulty of handling the relationship of its synchronization with the economic structural reform and the one-step attainment of its objective. According to the innate law of government structural reform, its objective should be attained in a one-step operation in order that the structure can remain stable. However, it must also maintain a suitable distance from the economic structural reform. At present, because of the slow market growth, the irrational pricing system, and the unsound mechanism of enterprise management, the change in the functions of economic administration departments is somewhat hampered and the attainment of the reform's objective cannot be a one-step process. How to handle the relationship between the government structural and the economic structural reform is a major problem.

2. The difficulty of handling the relationship between decentralization of power and strengthening of macroeconomic control. Decentralization of power is a prerequisite of structural reform. However, it must be subject to macroeconomic control in order to avoid the possibility of "decentralization immediately followed by disorder, and then centralization immediately following disorder." How to handle this relationship is also a problem.

3. The difficulty of handling the relationship between readjustment of the personnel structure and stabilization of the cadre ranks. The progress of government structural reform requires corresponding readjustments of the personnel structure. However, we must also have appropriate plans for the cadres' future in order to avoid chaos and losses.

The acceleration of government structural reform should begin at the lower level and gradually gather momentum. Last year, 16 medium-size cities have played important roles in experimental government structural reforms. They have provided the experiences, but it is very difficult for an all-out reform of this kind to be conducted at the lower levels. This year, the central government will take an earlier step in the structural reform, to be followed by the provincial, autonomous regional, and the municipal governments in 1989. The reform in various central departments will also be conducted step by step.

The reform can begin either with a readjustment of the setup of organs or with a change in their functions. The reforms now going on in various departments of the State Council are actually of two types. The nine newly organized organs began their reform with a readjustment of their setup. First, they formulated the "three-fixed"—fixed functions, fixed organs, and fixed sizes—plans. At the initial stage, however, their work was focused on the readjustment of their setup. The other departments which are maintaining their original systems of organization also had to change their functions, decentralize their power, readjust their setups and reduce their personnel, beginning with the change of functions.

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Article Stresses Importance of Establishing NPC Committee Hearings

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[Article by Cao Siyuan 2580 1835 3293, edited by Lin Guobao 2651 0948 1405: "Great Significance of Establishment of NPC Committee Hearings System"]

[Text] A spokesman of an authoritative department announced on 24 June that the establishment of a system of NPC Committee hearings has been decided. This will mark a great step forward in the institutionalization of social consultation and dialogue and in the political structural reform.

The significance of establishing such a system is as follows:

First, in terms of building socialist democracy, the NPC is of a democratic form founded under the leadership of the CPC. Regrettably, this democratic form has not been sufficiently applied and not even sufficiently understood. This is a deplorable waste of our creativity. The Resolution of the Sixth Session of the CPC Central Committee pointed out: One of the two major historical lessons to be drawn from China's socialist development is that we have not substantially extended democracy. Many comrades now desire to accelerate the political structural reform. Their enthusiasm is, in my opinion, gratifying and should be cherished. We must hold the initiative in the political structural reform. By holding

the initiative, we mean that we must quickly advance our democratic life and at the same time avoid political and social upheaval. No responsible reformer would like to see any upheaval, because it would cause a back-slide of the society with the reformers and the reformed institutions as the primary targets. The system of NPC committee hearings would, on the other hand, expand the scope of democratic building and at the same time prevent possible disorders.

Second, speaking of the relationship between citizens and the NPC, the present system is an effective means to get the citizens and the NPC better acquainted.

The voters should have the opportunity to know more about the NPC deputies or the deputy candidates. What shall I do, if someone I do not know is elected NPC deputy? I recognize you as a deputy, and I do not know you, although others do. Now that you are a deputy, it is only fair that I should know you and hear what you say! According to a press report, a certain municipal people's congress deputy later became an NPC Standing Committee member. He never raised his voice in 3 years. The title of this report read: "Mute for 3 Years!" If there is a system whereby people can watch the proceedings of the People's Congress or the NPC Standing Committee from the gallery, they will be able to see clearly who usually remains mum, whose speech is usually not to the point, who has the courage to champion worthy causes, and who is better in rhetoric. Then in the next election, people will have some basis for their choice. There are many ways to promote democracy in China; contested elections and reform of the election system are only one of them. In my opinion, this is the way, aside from others, for NPC deputies to be better known to the people after their election, and for the voters to have some basis for their choice in the second or third election.

Third, the presence of the gallery would be conducive to the use of more debates to prove a point, when policy decisions are made at the NPC. We always say that people at the lower level reporting to the higher level must present many arguments to prove their point. Is it not only fair that the public servants should do the same for the masters of society? Publicizing the NPC discussions and letting people know about the debates are also a means to encourage the use of more debates, because both the seconders and the opponents of a motion must present their arguments. Thus the citizens at the gallery will be able to listen to their views in the course of debates, and then conduct their comparisons and analyses before deciding.

Fourth, as participants in government and political affairs, citizens should never be satisfied with only being informed afterwards of what a wise, correct, and great policy decision has been made; they must know how the decision was reached, what were the factors considered, and what opposing views were noted or satisfactorily addressed. The system of NPC committee hearings will

open a new channel for citizens to participate in government and political affairs and in political deliberations in good time.

Furthermore, this system will provide an effective means of supervision over the NPC as the supreme power organ. Some people have the mistaken idea that the function of this supreme power organ is only to supervise the State Council, the Supreme People's Court, and the Supreme People's Procuratorate, without being supervised by others. This is actually untrue. The NPC should also be subject to supervision, namely, the supervision of the people and public opinion.

Of course, after the establishment of the system of NPC committee hearings, the reform of NPC system will have been further deepened. For example, there may also be

the system of testimony sessions. At present, the term "testimony session" can be seen only in press reports on meetings in foreign countries, but this system may soon appear in China. Nowadays, many well educated people would like to offer suggestions for the benefits of the nation and the people, and they must have some way to air their views, including the way of directly addressing the NPC or the NPC Standing Committee. After the establishment of the testimony session system, whenever the NPC has some difficult problem to discuss, some citizen, who is not an NPC deputy or a Standing Committee member, but possesses abundant data for intensive study in the problem, may be invited to present his views without reservation.

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PROVINCIAL

Liaoning Statistics Bureau Reports on Economic Development

40060455 Shenyang LIAONING JINGJI BAO
in Chinese 2, 7 Jul 88

[2 Jul 88 p 1]

[Excerpt]

The rate of growth in industrial production is basically normalized, the increase in marketable commodities has been great and economic efficiency has been raised.

In the past five months Liaoning's industry has overcome the problems of energy shortages, decreases in materials allocated by the government, and severe shortages and price increases for raw materials. Industry has adapted to market demand, actively adjusted the product structure and energetically increased production of commodities that satisfy people's needs, causing a steady rate of growth for industrial production, and improving efficiency. By the end of May the total value of industrial output in Liaoning was 33.89 billion yuan, an increase of 11.9 percent over the same period in 1987; including rural industry at the village level and below, the total value of industrial output was 39.19 billion yuan, an increase of 15.2 percent.

The special features of industrial production are: First, looking at it monthly, the rate of growth has been steady. Especially after the Spring Festival, the months of March, April and May represented 10 percent, 12 percent and 12.1 percent respectively. Second, heavy industry once again displayed its dominance. After the fairly rapid growth in recent years for light industry, this year things took a favorable turn, the increase in output value for heavy industry (12.4 percent) exceeded the increase in output value of light industry (10.3 percent). Third: the two "Fists" are extremely powerful. One is that the output value of large and medium-sized enterprises, which account for 65 percent of industry, increased 12.4 percent. The other is that the output value of township industry increased 23 percent. The output value of the two fists accounted for 76 percent of the increase in output value for the province. Fourth: the value of exports increased rapidly. The proportion accounting for the total value of provincial industrial production increased from 5.8 percent in 1987 to 7.6 percent, an increase of 45.7 percent over the same period last year. The total output value of exports from Liaodong peninsula accounted for 75 percent of the total export value of the province. Fifth: marketable commodities increased. Sixth: economic efficiency improved. Industrial consumption declined in the province. Energy consumption for production fell from 8.6 tons during the same period last year to 8.27 tons, dropping 3.8 percent and saving 600,000 tons. The market mechanism and law of value played important roles. The old pattern of ignoring market supply and demand, and economic efficiency was replaced by organizational coordination between enterprise contracts and government macroeconomic controls.

Agricultural Investment Increased, Crop Distribution Improved, and Animal Husbandry Developed

Since the first of the year, agricultural investment has increased in Liaoning. In the past five months, agricultural loans totaled 2.97 billion yuan, an increase of 20.2 percent over the same period in 1987. Peasants purchased 1.53 yuan worth of production materials, a 26.4 percent increase. Of this, plastic film increased 63.8 percent, pesticides increased 32.3 percent, fertilizer 16.9 percent, small four wheel tractors 13.7 percent, and agricultural power machinery 71.7 percent. This year the special feature of crop structure adjustments was high output and high-priced crops increased. The crop area for Liaoning was 53.41 million mu, a 1.7 percent decrease from 1987. The grain and soybean area was 46.05 million mu, a 1.9 percent decrease from 1987. The area planted with other crops was 4.15 million mu, a 4.7 percent decrease from 1987. Cash crops covered 3.2 million mu, a 7.3 percent increase over last year. The trends in animal husbandry are increased hog production, draught animals and sheep. Projections for June show that the number of hogs on hand could reach 9.2 million, an increase 945,000 hogs over the end of March. Breedable sows numbered 610,000, an increase of 47,000 over the end of March. Since the pregnancy rate and the live piglet rate have been raised, the number of prepared female hogs has also increased. Before the end of the year we could basically assure the demand for hogs. The increase in draught animals was 3.5 percent and sheep on hand increased 5.9 percent.

The gross value of output for town and township industry from January to May was 7.28 billion yuan, a 37.6 percent increase over the same period in 1987.

Construction projects have been reduced, the investment structure improved and investment returns have taken a good turn.

From January to May, there were 974 capital construction projects underway in Liaoning Province, 61 less than 1987. The area covered by housing construction was 6.879 million square meters, a decrease of 11.9 percent from 1987. Completed capital construction investment was 2.05 billion yuan, a 42.1 percent increase over the same period last year. The proportion of productive construction investment continued to grow, increasing 46.1 percent over the same period last year, and accounted for 72.5 percent of total investment compared to 70.5 percent in 1987. To improve the investment climate, city construction bureaus increased completed investment 60.3 percent. Of total investment, investment for equipment purchases increased 95.9 percent.

Investment for technical renovation was 1.35 billion yuan, a 15.4 percent increase over the same period last year. Of this, the raw materials industry increased 5.9 percent and metallurgy increased 30 percent. This will

strengthen the economic power, develop the infrastructure and alleviate contradictions between supply and demand in Liaoning.

[7 Jul 88 p 1]

[Text] In these five months, while maintaining healthy economic development in the province, we have experienced price inflation, shortages of materials, and export losses, etc. To overcome destabilizing factors on economic development, we must investigate ways to solve the problems facing opening up and allow Liaodong Peninsula to take even greater steps forward.

1. The range of increase in market prices is great

Price increases have been large. Because of the rapid development of the nation's processing industry and raw material shortages, prices have increased 20 to 50 percent, causing the cost of industrial products to increase. Second, prices for agricultural production materials have increased 11.7 percent over the same period in 1987. Third, the retail price index that the citizens of cities and townships pay attention to, rose each month this year, and in five months recorded an average that for the first time exceeded two digits, reaching 10.2 percent. The worker cost of living price index was 9.9 percent. Prices cause market tremors. Following the release of some commodity prices in March and April, all areas exhibited different degrees of panic buying. In the past three months, currency circulation in the province increased. From January to May, bank expenses for wages increased 20.4 percent over the same period in 1987, and purchases by social groups increased 17.1 percent over the same period in 1987.

2. The appearance of problems with raw materials and energy shortages.

Liaoning is a heavy industrial base for the nation. Even though raw materials and energy should be more plentiful than in other provinces, because the government's planning responsibilities are heavy, and the production materials market was deregulated and a large quantity was sold independently by enterprises, there was a severe shortage of raw materials. For example, the machine industry lacks steel and silicon steel plates, the textile industry lacks chemical fibers, the printing and dyeing industry lacks grey cloth. In a survey of 110 specialized export manufacturers, 52 percent still have shortages of 20-50 percent of needed raw materials. Thirty-seven percent of the enterprises were lacking 20 percent or more of needed fuel. Also, the old call for more electricity has grown louder.

3. For export products, selling domestically is superior to exporting.

A recent survey of 110 specialized industrial export manufacturers shows that 73 percent of them report that domestic sales are superior to export. Fifty-four percent reported that because of the price differences between

domestic sales and exports, retained profits have decreased. Because the domestic price has increased while the export price has decreased for export products, costs in terms of foreign exchange have increased. At present the policy of opening up Liaoning's markets has entered a critical turning point, and we face a serious challenge. There are many problems and difficult tasks to develop Liaoning's comparative advantage.

A Look at the Future of Liaoning's Economic Development

1. Pay attention to the problem of slowing down of industry

We predict that in the first half of 1988 the value of industrial output (excluding industry at the village level and below) will reach 41.8 billion yuan, an increase of 11.8 percent over the same period last year. After entering the second half of the year, shortages of raw materials, power, transportation and capital will start to become apparent. Therefore, starting in July, the rate of growth for industry throughout the province will begin to fall. We must pay attention to slowing down light industry. For example in the two textile and light industry towns of Zhoudong and Yingkou, from January to May heavy industrial output increased by 30.6 percent in Zhoudong while light industry only increased by 5.5 percent. The second town was protected by the washing machine market, in the first five months industrial growth was only 6.2 percent, the slowest in the province. We can see that light industry must develop a new approach, Liaoning's market will be taken over by provinces that have more products. We should quickly correct the pattern of light industry. All we need to do is concentrate on the "Two Fists" and push light industry back up, we can still expect industrial production growth to exceed 10 percent, and realize stable and smooth growth.

2. Continue to implement agricultural policies, strengthen agricultural investment, assure the supply of products for farm use, and honor advance purchase to stabilize profits, and encourage farmers' incentive and enthusiasm for planting.

We must solve the problems that are important for grain, cotton, oil, pork and vegetable production and the livelihood of the people. We must quickly turn around the trend of last year when the self-sufficiency rate fell off. The area planted with grain and soybeans this year is more than 46 million mu, which basically assures the level of the great harvest of 1984. According to meteorological predictions, the natural conditions for agriculture indicate a bumper harvest. We predict that grain output will reach 14 million tons. However, some districts are reporting insect damage, which is hazardous for grain production.

3. Emphasize the policy to open up Liaodong Peninsula, and pay attention to the realization of key links.

Because of the special dual structure of Liaoning's economy, even if agriculture and light industry are not developed, heavy industry is still strong, but our external

capabilities are low. At present our import and export levels are far removed from the required levels. We should increase exports, develop the processing industry, manufacture more products, and export less raw materials. We must establish effective economic regulatory policies, financial and tax policies, and give export industry preferential treatment. And change price policies to correct the situation where exporting is not as attractive as selling domestically. Foreign exchange policy should encourage enterprises that earn foreign exchange to use that foreign exchange. We should speed up foreign trade structural reforms. And arouse the enthusiasm of export producers and traders.

4. We must solve the problem of excessive price increases.

Price increases inevitably follow the development of commodity economics. We should take the road of Guangdong Province "Decontrol—Enliven—Expensive—More—Drop—Stabilize." At present we must research methods to assure that the range of wage increases does not fall behind the range of price increases, and solve the contradiction between inflation and consumers capacity to accept the inflation. This is dependent on how market demand develops, and only when supplies are adequate will prices stabilize. Second, we must strictly control excess currency supply and overly rapid growth in consumer funds. Third, we must gradually institute a link between worker salaries and price increases. Fourth, we should improve market management, limiting the number of middlemen for necessity products leaving the factory, and strictly punish speculators who drive up prices.

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FINANCE, BANKING

Problems in Specialized Banks' Implementation of Contract System

40060497 Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese
No 7, 12 Jul 88 pp 21-24

[Article by Yi Ming 0122 2494 at the headquarters of the Chinese Agricultural Bank: "Problems To Be Resolved in the Specialized Banks' Adoption of the Contract Responsibility System"]

[Text]

I

At a recent national symposium on the enterprise contracted management responsibility system, Comrade Zhao Ziyang pointed out that this year we hope to further complement, perfect, deepen, and develop the enterprise contract system. Under this guiding principle, we can expect remarkable results within the next few years. This effort will have significant effect on China's economic

development and on the entire reform process. The contracted management responsibility system, however, which aims to amplify the enterprise operating mechanisms, so far has not touched the specialized banks which are still hesitant about the system, and in at least three ways, this has adversely affected the restructuring of the financial system and of the entire economic system. First, it prevents the specialized banks from operating with greater enthusiasm and limits their role as banks. As financial enterprises, the banks' lack of internal vitality undermines the normal functions of the national economy which is based on money and credit. In recent years, the acute shortage of funds in many regions and businesses has been primarily responsible for slowing economic development, and yet at the same time, funds are being idled and wasted. In 1987, credit funds per 100 yuan of national income has increased by 50 yuan compared to 1980, and about 15 percent of the total credit funds are idle funds. In a commodity economy, what naturally accompanies the inefficient and unprofitable banks is the diminishing rate of efficient use of society's resources. Second, it makes the establishment of an indirect macroeconomic control system difficult. Indirect control measures are based on the law of value and are put into effect by way of adjusting the material benefits of the economic entities. If the specialized banks are to adjust their business scale and structure, one condition must be met—they must be given relatively independent economic gains before they can react quickly to the various macroeconomic control measures. Third, it prevents the further development and the perfection of the fund markets. The rapid development of the fund markets in recent years, especially the short-term interbank loan market, cannot conceal the fact that most decisions for gathering funds in the market are made by the higher level banks, at the headquarters or the main branches. Primary-level banks cannot participate in credit fund operations, and thus, the separatist control over funds which has blocked the formation of market mechanisms prevails. The main players in the fund market—the specialized banks, in particular, lack internal driving force, and as a result there is but one fund gathering method in the market, and short-term loans tend to serve all purposes. After a superficial and short-lived boom, the fund markets will slump.

Operating specialized banks as enterprises is a major part of the financial structural reform. Its significance and its ability to condition other reforms in the financial system have become increasingly obvious. Although efforts to operate specialized banks as enterprises have achieved some success in recent years, because so far the pattern of distribution of economic gains among the specialized banks of different levels and in different regions has not changed, we have not yet eliminated the practice of "eating out of the same big pot" in profit distribution. In 1986, some theoreticians and practitioners have suggested the introduction of the contract system into the specialized banks, hoping to revitalize banking. Bounded by various traditional concepts, this reform concept which could have preceeded the contract

system adopted by the state-run enterprises was abandoned, and as a result, financial structural reform has lagged behind the restructuring of the economic system.

II

Before we explore the feasibility of the introduction of the contract system into the specialized banks, it is necessary to first compare the many different reform concepts, including the contract responsibility system, and analyze the several viewpoints which oppose the adoption of the contract responsibility system in the specialized banks. Only in this way can we promote the contract responsibility system in the specialized banks with confidence.

At present, there are three different views of how to operate specialized banks as enterprises. One concept begins with the clarification of the asset relationships of the specialized banks by converting the credit funds appropriated by the state and the funds accumulated by enterprises out of their retained profits into shares of state-owned and industry-owned stocks. In addition, other departments and enterprises are encouraged to purchase shares, thus changing the specialized banks into financial enterprises under a stock ownership system. In this way, the specialized banks' proprietary right and operation right can be separated, and the present condition where government and enterprises are inseparable, and responsibilities, rights, and privileges are out of line will be changed. The basic point of departure is to remodel the present specialized banks after the commercial banks, and create a new "central bank plus commercial bank" system. As the final goal of the restructuring of the financial system, that is, as a mode of financial structure which suits the new economic functions to the reformed economic system. This may be a workable concept, because by that time the industrial structure and the price system will be fairly rational, and the market system itself will be perfected and will become the center of enterprise production and business activities. By then, enterprises' economic performance will determine their own fate. The banks will no longer have the extra administrative duties which interfere with how they set up their organs and whom they lend money to, and all credit activities will be assessed according to the law of value. But, to make this the starting point of the present reform of specialized banks, no doubt will encounter insurmountable problems. In particular, before we have a new and improved industrial and commercial enterprise structure, hastily changing the present specialized banks' ownership system, their functions and their division of labor will inevitably exacerbate the already tense macroeconomic control and credit balance situations. The second concept preserves the basic form of the unique specialized bank system and tries to turn the whole system into an enterprise-like system. As basic accounting units, primary level banks will have the right to make their own business decisions. The higher level banks determine the amount of welfare and bonus funds out of the retained profits mainly by

assessing the lower level banks' operating norms. This, no doubt, is a step forward from the highly centralized management system of the past, but it is not drastic enough, and in practice, it too will encounter substantial resistance. This is because the effort to simplify administration and delegate power begins at the top level, and as long as the new functions and the new structure of the higher level administrative banks are not fully in place, reform efforts will be blocked at every level, and measures to delegate power and yield the control over profits will not benefit the primary-level banks. Meanwhile, because the norms for assessing primary-level bank performance are constantly being revised, the primary banks will remain under pressure. Furthermore, the incentive fund is the only link between the primary-level banks and their staff and workers, but the bonuses are strictly limited to no more than 3 months' pay. Because benefits are not linked to the final business results, the well-managed and the poorly-managed banks will continue to "eat out of the same big pot." The third concept is to steadfastly introduce the contract system into the specialized banks. This concept starts with changing the internal distribution relations in order to establish the perfect internal management mechanisms. The system relies on the responsibility contract to define the distribution of rights and privileges between the primary-level banks and the higher level banks so as to solidify the primary level banks' right to make business decisions and also to link the primary-level banks to the material gains of the workers and the management results. When most of the business income are controlled by the primary-level banks themselves, no doubt the well-managed banks will have added incentive and the poorly-managed banks will have added pressure. At the same time, it will force the administrative banks to delineate rights and obligations, specify duties, streamline operation, and eliminate extra hands. More importantly, the primary-level banks will have a clear goal to strive for. They will learn to increase income and reduce expenditure. Because both enterprises and workers will be better off, we must change the situation where primary banks only have responsibility but neither rights nor privileges. Both theory and practice clearly show that implementing the contract responsibility system is the best reform choice for the specialized banks in the near term.

There are two viewpoints which are opposed to the primary banks' implementing the contract responsibility system. One viewpoint maintains that banks are not a part of the material-producing sector; they cannot directly create materials and wealth. Banks generate profit by taking away some of the profits created by the material-producing sectors; and, therefore, we must not adopt the contract responsibility system to link the bank workers' income to bank profits. Furthermore, the specialized banks' credit scale and their basic interest rates on loans and deposits are controlled by the state at the macroeconomic level. Higher profit resulting from the state's adjustments is not the result of the banks' own efforts. Even though specialized banks are not in the material-producing sector and cannot directly create

materials and wealth, nevertheless, along with information, services, and some other trades, they make up society's indispensable tertiary industry and are an important part of society's reproduction process. More and more people have come to recognize the role banks play in the allocation of social funds, in macroeconomic controls, and in the smooth and steady development of the national economy. Bank profits turned over to the government already account for about 8 percent of the state's revenue. As financial enterprises engaging in the money and credit business, banks too have to expend substantial amounts of active and materialized labor in the course of gathering and utilizing funds, and it is only natural that they want to make a profit. People who think that banks should not be profit-oriented, that the income of bank workers should not be linked to the banks' profitability, in fact, still regard banks as government organs. No doubt, a part of the banks' profit is not the result of their own efforts. For example, in order to maintain macroeconomic balance, the state may increase or decrease the credit volume, or adjust the basic rate of interest on loans and deposits, or adjust the renminbi exchange rate, and these factors make the meaning of bank profits much more complicated than profits generated by the industrial and commercial enterprises, and they make the determination of profit quotas in the banks' contracts even more difficult. But to deny the role and the function of profit in the management and administration of financial enterprises because of this, and further to deny the feasibility and necessity of implementing the contract system in banks, is no doubt an unwise choice because we will be paying the price of sacrificing the banks' and society's economic performance.

Another viewpoint maintains that as the main body of China's banking system, specialized banks, like the central bank, also have macroeconomic control and adjustment functions, and introducing the contract system into the specialized banks may impair those functions. The specialized banks' adjustment of the credit structure facilitates better balance of society's total supply and demand by creating a more rational industrial structure. The central bank's macroeconomic control measures regulate the credit operations through the specialized banks, and in this sense, the specialized banks also have macroeconomic control functions. But it should also be pointed out that specialized banks only adjust their credit structure and redirect their funds according to the nation's economic development program and industrial policy, and they also have to comply with the total credit volume limit set by the central bank for the individual industries in the national economy. According to the division of labor in China's banking system, the primary duty of the specialized banks is to implement the state's guiding principle, policy, and program on economic development, to gather more funds, to accelerate fund turnover, and to put the funds to more effective use. In this respect, the specialized banks are basically no different from the industrial and commercial enterprises. As the economic structure and the price system become

more equitable, the specialized banks will come to rely mainly on enterprise economic performance, that is, the amount of actual profit, when deciding what enterprises to fund. Furthermore, as far as the specialized bank system itself is concerned, different levels of banks should have different principal functions. County-level banks are mainly responsible for implementing the specific principles and policies of the higher level banks, and their basic duty is to operate the credit business and improve economic performance. If we stipulate that the primary duty of the central bank and the specialized banks, including the higher level banks and the primary level banks, without exception, is to regulate the economy at the macroeconomic level, we will be mixing up their proper functions. If the credit business is failing and economic performance is terrible, how can we ensure effective macroeconomic controls and adjustments? Clear definition of the primary functions of the specialized banks and banks at all levels is crucial, and it is also an ideological issue which must be resolved if the specialized banks are to implement the contract responsibility system.

III

Because of the unique characteristics of their clients and their organization, in promoting the contract responsibility system among the specialized banks, we must resolve the following problems:

1. Determining the contract management units. Specialized banks are national financial enterprises with branches and sub-branches throughout the provinces, prefectures, and counties. The Agricultural Bank has many primary level business offices at the village level. Naturally, designating the proper contract management unit in this huge organization which extend five levels is much more complicated than in the industrial and commercial enterprise units or groups. Some people have suggested that specialized banks should adopt a format whereby contract responsibility is assumed at successive levels, that means banks of one level are responsible to banks of a higher level. But this format has the following defects. One, specialized banks at each level, in order to ensure fulfillment of contract quotas, will raise their insurance coefficient, and this means the primary level banks, the actual moneymakers, will be faced with an inflated contract quota which is impossible to fulfill. Two, as long as the specialized bank system remains riddled with duplicative organizations and excess management levels, contract responsibility at successive levels will only reinforce the organs or their functions instead of consolidating them, and it may create a chaotic situation where several branches within the same region are responsible to each other and they fight over the same business. Therefore, in determining the basic contract management unit, we should consider each specialized bank's characteristics. The bulk of the Agricultural Bank's business comes from villages at below the county-level, and so the county sub-branches should be the Agricultural Bank's basic contract units. At

the prefectural-city level, we have two situations. In one case, the prefectural center sub-branches and the city sub-branches have been combined to form a city branch; they are administered at the city level. The business office of the city branch takes care of credit transactions in the rural villages and with peasant households in the city. In another case, we have both prefectural-center sub-branches and city sub-branches. The city sub-branch takes care of business in the suburban areas and the prefectural-center sub-branch is purely an administrative organ and does not handle outside business. In the former case, the city branches can be contract units at one level and can also represent the provincial branch to enter into contract with the county sub-branches under their jurisdiction and supervise the fulfillment of the contract quotas. Direct contract between the county sub-branch and the provincial branch eliminates the intermediate administrative level to truly give the primary-level banks their right to make independent decisions and expedite the enterprise-like operation of the prefectural-city banks. In the latter case, the prefectural-center sub-branches can only serve as agencies for the provincial branches and carry out the supervisory duties, and instead of becoming a separate level of contract units, they should try to streamline organization and reduce personnel.

2. Determining the contract quota. The contract quota has to do with whether the integration of responsibilities, rights, and privileges and whether the distribution of profits can arouse the enthusiasm of the primary-level banks and their staff and workers. The specialized banks' present profit retention percentage determined by the financial ministry and is converted from the average per capita retained profit which is obtained by first balancing the differences among all industries and sectors. Despite the fact that the specialized banks are generating higher profits, their percentage of retained profit, which is changed annually, continues to decline. Meanwhile, because the profit retention percentage is based on the current year's profit level which can only be calculated at the end of the year or during the next year, it not only separates the specialized banks' economic results from their management and administration improvement efforts and from their economic benefits, it also affects the timely distribution of benefits within the banks. In the future, the specialized banks' profit retention percentage should be determined by an overall financial contract which is fixed for several years or by a fixed profit base plus an incremental percentage. Only in this way can we create the necessary conditions for promoting the contract system within specialized banks.

When profit is designated to be the norm of the specialized banks' internal contract responsibility, we still have to resolve the issues concerning the banks' passive income and the adjustment of profit disparities among banks of different levels. The first issue includes both increase and decrease in profits.

Factors responsible for the banks' passive profit increase: (1) Higher interest rate and penalty interest

levied on overdue loans are important economic measures which give play to the banks' credit and interest rate levers and help enterprises accelerate fund turnover. The situation where bank profits tend to increase when enterprise and society's economic performance declines can be eliminated by auditing the credit fund turnover and the percentage of bad loans in the contract to remove the pseudo-profits. (2) The banks' higher interest income resulting from the hoarding of loan funds by the industrial and commercial enterprises is the result of improper industrial structure and inadequate circulation channels rather than poor enterprise economic performance. For example, a few years ago, the commercial departments in northwest Shandong Province had an excess stockpile of cotton which resulted in a huge profit for the banks, but it also adversely affected the banks' credit fund circulation. To resolve this kind of problem, first, the state should set up a special fund for procuring and stockpiling agricultural and sideline products, with the specialized banks acting as agencies. Second, the higher level banks should make allowance for the extra interest on loans resulting from enterprises' excess stock.

Factors contributing to passive loss of profit. Specialized banks in the "old, young, and remote" and other poverty-stricken regions are losing money primarily because of the government's policy of preferential low-interest loans. Therefore, a prerequisite to the adoption of contract system by the specialized banks in those regions is the subsidizing of low-interest loans by the state financial ministry or the central bank. Before we have a proper source for subsidizing the low-interest loans, preferential loans may be limited to a certain volume, and loss-reduction may be treated as higher profit.

The state of the economy determines how well banks fare. Regional economic structure and the level of economic development have a significant effect on the credit operation of the specialized banks in such areas as the structure of fund sources, the cost of funds, and the scale, velocity, and profitability of fund utilization, and as a result, there is a substantial difference in the profit levels of the specialized banks in different regions. The proper adjustment of the profit disparities is another important issue in determining the contract quotas of specialized banks in different regions.

As far as the Agricultural Bank is concerned, rapid development of the non-agricultural sector in the rural areas of the economically developed coastal regions and the large and mid-sized cities has changed the traditional, predominantly agricultural, credit structure. Credit fund transactions now involve huge volumes, the turnover rate is high, and the profit is substantial. Therefore, these regions have attracted a lot of funds from other areas. A substantial part of the Agricultural Bank's profit is generated by their operations in these rapid growth regions. Besides this first kind of profit disparity which is a product of economic conditions, we should also note that the change in the credit structure and the clients has set higher standards for the banks and

demands better management and administration, more modern facilities, and better personnel training and nurturing. In response to this kind of need, local banks have invested in better fund information for enterprises, in equipment and facilities, and in personnel training, and this is the main reason for the second kind of profit disparity. Past distribution methods ignored both kinds of profit disparities when appropriating profits and shared "the same big pot" among all regions, and as a result, regional banks have no incentive to strive for further development. Therefore, when we determine the contract quotas for the specialized banks in economically disparate regions, we should emphasize efficiency and duly enlarge the distribution gap.

3. Designating the contractors. We are certain that competitive mechanisms can be introduced into the specialized banks' contract system. And this is also a good opportunity to reform the banks' old personnel system. Contract quotas for the county sub-branches and business offices can be put up for bid to select the right contractors. For now, bidders should be limited to members of the specialized bank system. High level banks and banks at the same level as primary level banks may also take part in the bidding. Because operating financial enterprises requires more advanced policy standards and specialized business knowledge, at present, banking contracts should not be open to society in general.

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Investment Bank, Government Functions
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[Article by He Wei 0149 0251 of Department of Economics, China People's University, in March 1988: "Establish the System of Trust Investment Banks to Completely Separate the Functions of Government From Enterprises"]

[Text]

First, the Key Section of Contemporary Economic Structural Reform Is Separation of Functions of Government From Enterprises

In the theoretical circle, there are mainly three kinds of opinions on the focal point of our contemporary economic structural reform. The first one holds that the overall economy should be tightened and a relaxed economic environment should be developed before we lift controls over pricing and develop the market. Therefore, we may rationalize the relations among various sectors, provide a rather relaxed environment for enlivening enterprises, and promptly help the economic operational mechanism of "readjustment of the market by the state, and guidance of enterprises by the market" play its role. At the same time, we may solve the conflicts, disadvantages caused by the coexistence of the two systems, alleviate the side-effects brought about by

reforming, and establish at an earlier time a framework for the new economic structure. The second one holds that we should start our reforms with the system of ownership, and realize an appropriate separation of the two rights by means of a contract system, leasing system or shareholding system. Therefore, we may change the operational mechanism of enterprises, boost their vitality, and promote the development of our economic reform as a whole. The third one holds that the above are inseparable, and pricing reform should be integrated with the market development and reform of the ownership system. The market cannot be developed without reforming the ownership system, which cannot be realized without market development. Hence, there is no focal point in our reform. Rather, it should be carried out in a coordinated manner. In fact, all these opinions have grasped in one way or another the crux of our contemporary economic structural reform, and each of the problems has a great bearing on the overall situation of reform. However, these problems are not the crucial ones of our contemporary economic structural reform. If we select the focal points of our reform based on these opinions, we shall either intensify the contradictions or not thoroughly settle the original problems.

With respect to the first opinion, to tighten the economy before taking any other measures may bring about a reduction in production, which cannot create the necessary conditions for lifting the control over pricing. If we abruptly lift the control and develop the market without assurance, prices will inevitably increase, so will the wages; and the spiral increase of prices and wages will shock society.

Comrades holding the second opinion do not realize that the current measures for reforming the ownership system are by no means thorough. First, an appropriate separation of the two rights is a flexible proposal in itself and there is no required extent of separation. Second, the separation symbolizes that the two cannot be totally separated. In fact, the current state ownership is the ownership by government departments at various levels. These government departments play three different roles at the same time, and the government administration is not separated from enterprise supervision. First, they, representing the owner of the means of production, must protect the public property of enterprises from sustaining any loss and make their rate of increase continue to grow. To perform their role of being the owner, they will inevitably interfere with the operations of enterprises. Otherwise, they will become negligent and bear administrative responsibilities. Second, these government departments are also responsible for formulating the composition of enterprises and supervising the fulfillment of state plans. In order to realize the plans, they must meddle in the operations of enterprises, while providing supports to them in terms of manpower, material resources and capital. This thus enhances the enterprises' dependence on the government, and provides grounds for government intervention into enterprises. Third, these departments continue to perform

other governmental functions. They will inevitably supervise enterprises by means of laws, decrees and regulations, and impose restrictions on enterprises in accordance with their governmental ranks. To merge the administrative right over enterprises with the right of operation and management by enterprises will inevitably bring about a blurred boundary between government administration and enterprise supervision. Under these circumstances, it is impossible for us to rationally separate the two. Therefore, it will be impossible to continue the separation of the two rights if the extent of separation of the two rights reaches beyond the above mentioned three tasks performed by the government.

The third one is not a novel idea but just a combination and compromise of the previous two.

I hold that the crucial problem of our contemporary economic structural reform is that the government administration is not separated from enterprise supervision. Only when we take the separation of government administration from enterprise supervision as the key sector of our contemporary economic structural reform can we further separate the two rights, gradually lift control over pricing, and gradually develop the market. The separation of government administration from enterprise supervision also provides conditions for reforming the political system and reduces the governmental affairs with drastic measures, thereby streamlining the organization, boosting the efficiency and overcoming malpractices.

Second, the Way of Separating Government Administration From Enterprise Supervision Is the Establishment of a Trust Investment Bank

In order to further separate the two rights, we must thoroughly separate the government administration from enterprise supervision. Proceeding from the current situation, this can be realized in two steps. First, we should establish a state property administration responsible for the management of state properties. Its tasks are: First, it, being the owner, protects the safety of state properties, and assigns the right to operate enterprises by acting as a contractor or lessor. Second, it enters into contracts with business operators by means of public invitation for tenders or appointment, and supervises the performance of contracts. Third, it collects the due profits or rentals payable by the contracting party. The advantages of establishing the state property administration are: First, there is an organization specially responsible for the state properties; and this gets rid of the phenomenon where the properties are administered by various departments but nobody takes responsibility. Second, the state property bureau, being the contractor or lessor, enters into contracts with the business operator, which promotes standardization in the contract system and leasing system, thereby curtailing the complicated relations among various departments that act as the signatory parties to a contract. Third, it is favorable to the separation of government administration from

enterprise supervision, and centralizes the leadership of enterprises, which prevents other departments from interfering in the operations and management of enterprises, thereby being favorable to weakening the property right and boosting the right of operation.

Nevertheless, the establishment of a state property administration is not an omnipotent method. It does not thoroughly settle the problem that government administration is not separated from enterprise supervision. First, the state property administration is still a government department, and the enterprises would still be subordinates. The only difference is that the numerous "grandmas" are replaced by another "grandma." The relations between the two ranks remain unchanged. Second, the administration can only administer state properties but not properties owned by the local governments and the second light industry bureaus. Therefore, this still cannot solve problems concerning the separation of government administration from enterprise supervision, as well as the standardization of the contract system and leasing system, in those enterprises. Third, the state property administration only administers the current state properties but not the merging of enterprises, or the transfer of capital in terms of optimizing the means of production. In other words, it only has the right to administer state properties but not the right of operation. Fourth, despite supervision by the state property administration, enterprises still cannot assume sole responsibility for their profits and losses, and the state is still responsible for their losses and bankruptcy. All these show that the state property administration should not be a long-term solution. This is because it does not conform to the requirement of turning the means of production into commodities.

In order to make state properties circulate as commodities, the one responsible for their administration should be a business organization rather than a government department. Therefore, we should turn the state property administration into an organization such as a trust investment bank (some localities may even directly set up a trust investment bank instead of a state property administration), and take it as the second stage of separating the government administration from enterprise supervision.

The second stage may be divided into three phases.

The first phase is to commission the trust investment bank to, acting as a state agent, perform the functions of the owner. As it is a trust investment bank, it may be commissioned by the state, as well as local governments and the second light industry bureaus; and, acting as a state agent, perform the functions of the owner of non-state-owned local public enterprises. Through legislation, we should stipulate that all enterprises under the jurisdiction of governments at various levels must appoint the trust investment bank as their management agents. The tasks of the trust investment bank are: first, to prevent the public assets from being infringed upon,

and to improve their rate of increase as much as possible; second, to recruit on behalf of the owners contracting parties and lessees in society, to enter into contracts with them, and to supervise their performance; and third, to collect due profits and rentals on behalf of the owners, and to transfer the balance to the owners after retaining a certain amount of handling charges. Though the trust investment bank performs the functions of the owners, the relations between it and the enterprises are marked by non-subordination and equality because it only acts on commission and its nature is more of an enterprise rather than a government department. It cannot interfere with enterprises by means of administrative measures; and enterprises do not treat it as another "grandma." Only thus can we really totally separate the government administration from, as well as completely sever the lateral economic links between it and, enterprise supervision. Therefore, we can provide conditions for setting up lateral economic links among enterprises. Only thus can we really separate the two rights, in respect of which the owners only get a share of dividends from enterprises but do not interfere with the operation and management of enterprises, thereby weakening the property right, boosting the right of operation, and strengthening the operation mechanism of enterprises.

That the trust investment bank administers the means of production on behalf of the state is one step further than the establishment of state property administration. Nonetheless, some problems are left unsettled. First, because of this and that, the book value of assets owned by enterprises differs from their actual value. For example, if we take the book value as the basis for the delivery of profits, some enterprises will obviously be subject to biased treatment while some will not. Second, the trust investment bank can only administer but not operate the commissioned properties. There will be no merging of enterprises or free transfer of capital, which is unfavorable to optimizing the combination of factors of production and rationally readjusting the industrial structure. Third, the participation of a trust investment bank in the business neither turns it into a genuine enterprise nor makes it become a bank providing banking services. Also, it still cannot assume sole responsibility for its own profits and losses.

The second phase is to replace the separation of the two rights with credit relations. All investment in enterprises by both the state and governments at all levels should be regarded as their deposits at the trust investment bank; whereas all funds of the state and governmental funds utilized by enterprises should be regarded as loans granted by the trust investment bank. The difference between the interest rate on deposits and that on loans will be the profit of the trust investment bank, so that the bank will assume sole responsibility for its profits and losses. In order to achieve this, we should first audit, examine and reassess the current value of the enterprises' properties; and use the figures as loans granted by the trust investment bank, on which a corresponding interest rate will be levied. Any difference between the

actual value and book value will be written off in the form of devaluation or depreciation; and the assessed figures will be regarded as funds deposited at the trust investment bank by the government. The substitution of investment by loans may promote a thorough separation of the two rights, so that the government is no longer directly or indirectly linked to enterprises as the owner. The trust investment bank thus becomes a creditor rather than the previous position of being a commissioned owner. Its relations with enterprises are simply the one of creditor and debtor, who are equal in terms of rights and obligations. When the capital of all enterprises becomes loans granted by the trust investment bank, they will pay interest at a stipulated interval, so that no enterprises enjoy terms more favorable than others, which helps competition. Though the trust investment bank is still not a commissioned owner of the means of production invested in enterprises, it legally possesses the capital invested in them. In order to make the capital yield profits in a not so risky way, it will inevitably be concerned about the operation of enterprises, and their utilization of capital and the orientation of such utilization; and pursue a rational combination of factors of production. Where loans are granted by the trust investment bank, enterprises may assume sole responsibility for their own profits and losses, and it is the trust investment bank, rather than the state, that shoulders their losses or bankruptcy. Only then can we take it as a thorough separation of government administration from enterprise supervision, a complete separation of the two rights, and that enterprises are genuine economic entities who are commodity producers and business operators.

The third phase is the repayment of loans granted by the trust investment bank to enterprises, the internal integration of the two rights within enterprises, and the establishment of ownership by legal persons. As the capital of enterprises is loans granted by the trust investment bank, it should be repaid within a prescribed period. An enterprise may impress others that it has better management skills and that it can achieve better economic results when it can use its own capital to repay the loans granted by the trust investment bank. We should encourage others to learn from this enterprise. This thus put an invisible pressure on other enterprises, urging them to improve their operations and management. For some enterprises which are not yet ready to repay their loans by using their capital, we may allow them to make such repayment by issuing shares, joint ventures or other forms of financing. The repayment of loans granted by the bank equals the recouping of investment by the state, thereby increasing the fiscal revenue and accelerating the circulation of capital. Even though only one-quarter of and not all enterprises are capable of repaying the loans, the total will be a considerable figure, as high as 200 billion yuan or China's fiscal revenue in a single year. After an enterprise has repaid its loans granted by the bank, it assumes sole responsibility for its profits and losses, as well as its bankruptcy; whereas the bank no longer has any commitment. The merging, joint venture, contract and leasing of, and

issuance of shares by, enterprises will be exclusively determined by themselves. Except for supervision exercised in the form of formulated industrial policies, there will be no intervention in enterprises by the government.

Enterprises will become its owner as well as its operator following the repayment of loans granted by the trust investment bank. The two rights are therefore integrated within enterprises, and the focal point of ownership system is switched from the ownership by the state to that by enterprises. Property right is therefore no longer alienated from enterprises, and its definitions are very clear. The nature of this kind of ownership by enterprises is under the socialist ownership system, and is adopted under the socialist ownership system subject to the present conditions of our productive forces. In order to prevent the public properties from being infringed upon or the ownership from existing only in name, we should popularize among this type of enterprises the ownership by legal persons, that is, to establish, through certain legal procedures, in enterprises an organization, such as a board of directors or management committee, responsible the ownership by legal persons. It performs all the functions of owners; and takes full responsibility for the properties of enterprises, and safeguards the long-term interests of enterprises. Its tasks are: first, to prevent the public properties from being infringed upon and to constantly improve their rate of increase; second, to recruit and enter into contracts with the business operators of enterprises, and supervise the fulfillment of the contracts; third, to determine the principle and form of management; and fourth, to determine the general principle of profit distribution. The winning tenderer or applicant selected by the board of directors through social competition is the official director (manager) of an enterprise, and the legal representative of such enterprise, who possesses full autonomy of operation and is held responsible to the board. His task is to maximize the profits of the enterprise. The trade union in the enterprise, representing the interests of producers or the whole staff, enters into a labor contract with the business operator, and handles affairs as the master by appointing a representative to the board. This thus brings about a situation where the two rights are separated and the three powers interact with each other. Being the representative of the property right, the board of directors safeguards the long-term interests of the owner. Hence, the business operator possesses the right to operate, representing the maximization of the enterprise's interests. The trade union represents the interests of producers. The interaction of these interests may cause it to reach an equilibrium, and prevent the enterprise from switching its actions in an incorrect direction. Representing the economic interests of society, the enterprise and individuals, each of the parties appoints its specific representative, thereby overcoming the subjective and arbitrary act of "only taking care of one party" in terms of distribution.

The ultimate ownership of capital of any solely owned public enterprises, except for those under the shareholding system or joint venture, goes to society and may be

managed by the trust investment bank on commission. If an enterprise is merged or offered for sale, the revenue therefrom should be transferred in full to the trust investment bank for management on behalf of the state and should be reinvested as funds owned by society, rather than transferred to the government as fiscal revenue. The government should use taxation rather than the capital of enterprises, as its source of revenue. Only thus can we guarantee a continuous growth in the production capital of society.

Some people often take this kind of enterprise ownership as the ownership by collectives. ¹ Indeed, it is similar to the ownership by collectives in some aspects. For example, they represent the economic interests of collectives, and assume sole responsibility for their profits and losses. However, they are different in nature. ²

Only when the state enterprises undergo this stage of development can we thoroughly separate the function of government from that of enterprises. Governments at various levels are neither the owner nor the one who directly drafts and supervises planning. Only thus can an enterprise become a genuine commodity producer and operator, and become an independent economic entity with the status of a legal person.

Third, To Carry Out Coordinated Reforms by Reforming the Key Sector

In order to carry out reforms by grasping the key sector, there must be coordinated reforms in other areas. The so-called coordinated reforms in various areas mainly include the following:

Taxation and profit delivery reform

When establishing the state property administration or the trust investment bank to perform the ownership functions on behalf of the government, we may gradually separate taxation from profit delivery, perfect the taxes and tax rates, deliver taxes to the taxation organs at the upper level, and deliver all profits or rentals to the representatives of owners.

After reaching the second stage of reforming the key sector, we should, on the basis of assessing and examining the assets, substitute the assets with loans granted by the trust investment bank according to the current value; and the enterprises should pay interest thereon according to the stipulated interest rates.

We should, after the separation of taxation from profit delivery, embody the role of readjustment in the national economic development when determining taxation categories, tax rates and interest rates. We should encourage and support the development of departments whose supply of products fail to meet their demand by fixing a lower interest rate and tax rate for loans granted to them;

whereas we should check the development of departments whose supply of products exceed their demand by fixing higher interest and tax rates.

Fiscal structural reform

When the trust investment bank performs the functions of owner on behalf of the government, various enterprises are no longer subordinate to the government. This correspondingly changes the financial relations of governments at various levels, which are classified as allocation expenditure and revenue from taxation and profit delivery. Instead, it should adopt the system of taxation by categories. The central and local governments should share the special tax revenue for the central government and the local taxes in accordance with certain principles and standards. The separation of departments and regions should be totally smashed so as to realize the thorough separation of functions of government from that of enterprises.

Profits received by the trust investment bank on behalf of the owner should be transferred in full to the owner of the capital after retaining a certain amount of handling fees. When reform of the key sector reaches the second phase, in which investment is replaced by loans, the owner of funds in the hands of governments at various levels will receive interest rather than profits. It no longer has any financial exchange with enterprises. Its revenue no longer depends on profits realized by enterprises. Instead, such profits are replaced by interests on loans granted by the trust investment bank. The repayment of deposits at the trust investment bank by the governments should be in proportion to the repayment of loans granted by the trust investment bank by enterprises. Only thus can we guarantee the normal operation of the trust investment bank. When all loans are repaid at the third phase of reform, the trust investment bank is no longer required to pay interest to the governments.

Price reform

Price reform is closely related to reform of the key sector. It will be very risky if we disregard reform of the key sector and simply carry out price reform.

On lifting the control over the pricing of the means of production, we may draw a lesson from Shijiazhuang City, in which the city, under the circumstances of "remaining unchanged at the upper level despite changes at the lower one,"³ lifted the control over the market of the means of production, offered all additional and planned goods and materials for sale at the same price, and allowed enterprises to make their own selection. The supply of raw materials needed by enterprises is not covered by the planned supply. It is simply resold to enterprises by special companies at a difference between the price of products subject to planned supply and the market price. Enterprises are linked to the planned supply only in terms of compensation in value. In other

words, what enterprises receive will be the value compensation rather than the means of production at a low price. Through this, enterprises are free from the unified control of the state in terms of materials supply, and possess the procurement autonomy. Therefore, we can promote the development of turning products into commodities, separate the function of government from that of enterprises, and make enterprises become market-oriented. This thus puts all enterprises on an equal footing in the raw material market, is favorable to competition, and urges enterprises to change their development focus from production to operation.

When reforming the key sector in the first phase, that is, to allow the trust investment bank to perform functions of the owner on behalf of the state, we should popularize nationwide the experience of Shijiazhuang City in opening the market of means of production.

When we reform the key sector at the second phase, that is, to substitute all investment in enterprises by loans, the enterprises possess full autonomy of operation, are able to bear a heavy burden, and can adapt to changes in the market. We should at this stage abolish nationwide the mandatory planning, open the means of production at all levels to the market, eliminate the system of dual pricing, develop a nationwide market of means of production, and let the state readjust enterprises at the macroscopic level through the market. Price reform is coordinated with reform of the key sector. The mutual promotion between them will alleviate the impact brought about by the price reform, thereby making our reform of the economic structure less risky.

The most difficult task at present is reform of the pricing of agricultural products. On the one hand, it is closely related to reform of the key sector and involves a greater degree of administrative intervention; and on the other, agriculture is relatively independent. Its situation of combining the function of government with that of enterprises differs greatly from that among state enterprises. However, reform of the pricing of agricultural products has an important bearing on the people's living and society. We should therefore take reform of the pricing of agricultural products as a single problem, which involves reform of the pricing itself, as well as the development of various agricultural policies such as the contract system with payment linked to output, the definition of the right to use land, the application of the economy of scale to the use of land, and the realization of modernized agriculture. All these will affect the output of agriculture, thereby affecting the prices of agricultural products. On pricing, we should gradually open it to readjustment by the law of value. We should abolish the practice of linking a product to different pricing methods and fixing a low selling price for products purchased at a higher price, let all purchase and selling prices be subject to the market, and prevent the state from making any unified formulation on pricing. Only thus can it be favorable to the development of agricultural production.

Reform of wages system

When the trust investment bank performs the functions of owner on behalf of the government, we should popularize the establishment of a labor market, promote the labor contract system, establish and perfect the labor safety system, and make arrangements for labor insurance and retirement funds. Once we have replaced all investment by loans, the state no longer formulates a unified standard for wages payable by enterprises throughout China. Instead, the level of wages will be determined by the market in accordance with the supply and demand of the labor force. The state will simply be in charge of the total income of individuals in society as a whole, and will control the consumption fund, as well as readjust the income of various social strata, by means of individual income tax. We should also envision the social problems, such as unemployment, that will be brought about by these reforms.

Full-scale opening of the market

The working concerning the market is how to further open it up rather than reforming it. The so-called full-scale opening means everything which can be purchased, sold and assigned as a commodity, be it visible or invisible, should be exchanged within the scope permitted by the state's policies; and markets, particularly the financial market, real estate market, securities market and contracting and leasing market, should be opened up. The opening of these markets should also be linked to reform of the key sector. When the assets of enterprises still owned by the state in the form of investment, enterprises in general have no right to dispose of or assign their properties. After the capital of enterprises is totally replaced by loans, the relations of subordination is replaced by that of creditor and debtor. Hence, enterprises have their right to assign their property right in the form of a commodity. Only thus can the factors of production circulate around, and it is thus necessary for us to open this market, which will promote an optimized combination of factors of production, as well as a rational readjustment of the product structure.

The opening of a market requires us to consider both its advantages and disadvantages. In particular, in order to gradually and orderly open these markets, we should make preparations for, formulate measures for and regulations on avoiding and checking, the disadvantages.

Numerous areas, such as the banking system, also need to be reformed in a coordinated way. Nevertheless, the general principle of reform should be closely linked to the pace of reform of the key sector, so that an integrated system of reform plans will be developed in which reform of the key sector will be the focal point and will be assisted by reform in other areas. This will promote the whole economic structural reform in a systematic and coordinated manner, so that a new economic structure will be established at an earlier time.

Footnotes

1. See the article by Comrade Jiang Xuemo [5592 1331 2875], JINGJI YANJIU, Vol 3, 1988
2. I discussed in detail the differences between ownership by enterprises and that by collectives in an article published in JINGJI YANJIU No. 9, 1986, and am not going to repeat it in this article.
3. (This means that the state did not change the supply of materials though the city abolished plans of material supply.)

SMALL-SCALE ENTERPRISES

Editorial Urges Increased Exports

40060446 Beijing ZHONGGUO XIANGZHEN QIYE
BAO in Chinese 15 Jul 88 p 1

[Editorial: "Begin a New Phase in Raising Foreign Exchange Through Exports."]

[Text] During the current national activities concerning township enterprises which have attained levels of excellence in earning foreign exchange through exports, representatives of 167 enterprises will be awarded the "Flying Dragon Award" for amassing foreign exchange, the "Gold Dragon Award" for product excellence, and the "Green Dragon Award" for new product development. Filled with feelings of immeasurable joy, they will convene in Beijing starting tomorrow for the National Township Enterprise Export Foreign Exchange Experience Conference, to report and to share what they have learned and experienced. Leading comrades will present them with medals and certificates. We extend to the award-winning enterprises our warmest and most sincere congratulations.

A new technological revolution is now sweeping the world. As this revolution suddenly burst upon the scene, it forced change in the world economic structure, and economic competition and cooperation among the various nations of the world. It has become a worldwide economic trend to open to the outside by participating in international competition and exchange, and by doing so advance the process of modernization in one's own country or locality. China's township enterprises are a newly emerging, rapidly developing force. And since they are a result of reform, they conform to and are a result of world economic trends and movements. In just a very few years, groups of enterprises have moved out from their rural areas into the world, ascended into international markets and rapidly emerged as a new force in China's earning foreign exchange through exports. At present, there are more than 20,000 township enterprises engaged in earning foreign exchange through exports. They turn out several thousand export products ranging from chemical, electrical and mineral products to food, clothing and arts and crafts products. The annual volume of foreign exchange earned in this way

could reach as much as \$5 billion. The CPC Central Committee's strategic decision to set up export-oriented coastal zones for accelerated development, places a heavy responsibility upon the township enterprises. This has aroused widespread enthusiasm among frontline cadres, staff and workers, firing them with a sense of historical mission. Governmental departments at all levels, responsible departments of the township enterprises and the staffs of these enterprises, are planning methods, formulating programs, laying groundwork, raising funds, organizing materials, working to broaden their scope, setting priorities and raising standards. "Dragon boats leap like tigers over the Zhujiang River, and the Changjiang delta bustles with activity." Across the length and breadth of China's rural areas the development of export-oriented economies is booming, and these have but one goal, that of increasing foreign exchange by increasing exports.

Hopes are always accompanied by difficulties. Because there is so much work involved in developing an export-oriented economy, and over so wide a scale, it is necessary to build a highly efficient transport mechanism and an excellent external environment. China is now in a transitional stage between new and old systems, with the new system not yet established in a dominant position. Neither the present system of rules and regulations nor the general trend of thought in this country are appropriate to the needs of an export-oriented economy. This presents some difficulties to our task.

The history of township enterprises is a history of unceasing struggle to overcome difficulties. This kind of spirit is especially needed in developing an export-oriented economy. We cannot let slip our opportunity; it will not wait for us. The conditions are such that we can rely only on our own efforts to produce; the environment is such that we can rely only on reform to improve development. If we are to begin a new phase of earning foreign exchange through exports, the following several problems must be resolved.

We must study our policies, and make the best use of them. In implementing reform and opening to the world, the CPC Central Committee and the State Council formulated economic policy regulations. In turn, every province, municipality and autonomous region, as well as every department, formulated corresponding ideas and methods for implementing these policies. Policy is the life's blood of economic work. The facts demonstrate that those provinces, municipalities and autonomous regions which have developed to the outside promptly and well had all studied policies and applied those policies to important agendas. Guangdong, through making the "best, fullest and liveliest use" of policies, cut down on the work time required, and moved ahead by leaps and bounds to a position of national leadership. Guangdong's experiences in this regard are worthy of study and emulation.

Those which are superior must be preserved and brought into full play, overcoming those which are inferior. The life force of township enterprises lies in mechanical dexterity,

small but highly capable organizations, low labor costs, a high rate of work efficiency and the provision of good service. Outmoded facilities, backward craftsmanship and substandard personnel seem to be innate with those in an inferior position. Although there certainly have been reforms in recent years, there have been no fundamental changes. Those in a superior position must first of all not be complacent and unrealistically optimistic; second, they must keep a cool head. Reforms definitely will invigorate large and medium-sized enterprises which are oriented to the world, strengthening the township enterprises' competitive power. The international marketplace is fast changing, and will shock and test the township enterprises. Superiority is not something on which township enterprises have a "patent;" one can only rise as one disappears. Regarding their superiority, township enterprises must keep in mind a sense of crisis and of urgency. It is not enough to go slowly, it is not enough to go unchanged. They must definitely seize the moment to speed up the re-equipping of their facilities, with prompt importation of technology and advanced management experience, accelerating manpower training, importing and renewing knowledge. This is a mission which demands immediate attention.

They must be adept at learning. In order to develop an export-oriented economy, produce commodities for export and make a great leap with great output, they must have direct contact with domestic and foreign plants and businesses: negotiating, conducting business, securing joint funding, importing technology, equipment and material, etc. They will require personnel who are foreign nationals and enterprise staff members who are conversant with foreign economics and foreign trade, who understand international market information, are capable of utilizing modernized communications equipment, who have mastery of advanced scientific and technical knowledge and of foreign languages. When we look at these things in regard to the departments responsible for township enterprises and the great majority of enterprises, we still see nothing but a void. This suggests a learning mission for frontline township enterprises. There must be encouragement to learn from those comrades on the frontline who have substantial experience with foreign economics and trade; learn from the "elder brothers," those large and medium-sized state-run enterprises engaged in foreign economic affairs; learn from the academic community, the educational community, the research units and all persons who have knowledge and experience. They will then turn themselves into experts in the fastest possible time.

We are positive that we are on the threshold of a new phase in the vigorous development of an export-oriented economy. We look forward to next year when the second national conference is held honoring enterprises which have reached levels of excellence in raising foreign exchange through exports.

Work hard for it, comrades!

12625

Analysis of Township Enterprise Administrative System

40060450 Beijing ZHONGGUO NONGCUN JINGJI in Chinese No 5, May 88 pp 36-45

[Article by Du Haiyan 2629 3189 3601: "An Analysis of the Chinese Town and Township Enterprise Administrative System"]¹

[Text] Township enterprises are new things that have appeared in China's recent economic development and reform. As of 1986, there were 15,151,300 such firms employing 79,391,400 people and having a total production valued at 354.087 billion yuan, for an increase of 8.98-, 1.81- and 6.18-fold, respectively, over 1978 levels. Township enterprises now account for 19.1 percent of gross national output value and for 47.7 percent of gross rural output value. The development of these enterprises represents yet another profound economic reform that has followed the production-linked responsibility system and constitutes a force for the development and structural reform of the entire national economy that should not be ignored. Thus advancing study of these enterprises is of important, practical significance for the continued development and reform of China's rural economy and even of her entire economy.

This article will attempt to illuminate the basic operating mechanisms of China's township enterprises, the principal characteristics of township enterprise participants, the motives behind and activity involved in township enterprise establishment, the structural distribution of township enterprise decision-making, and township enterprise behavioral mechanisms and control systems. The focus of the analysis will be on enterprises run by townships and villages.

I. The Basic Characteristics of Township Enterprise Owners, Managers and Producers

A. The Traits of Township Enterprise Owners

Township enterprise owners can be divided into two general categories: town and village governments, which are the organs of community political power; and private entrepreneurs. Communities, by their very existence, constitute the basic organizational environment wherein China's industrialization takes place, so the positive role of township and village governments in the development and support of township enterprises is important both for collective enterprises and for private firms. As the basic-level governments of China's countryside, township and village governments, like governments at other levels, perform a dual function as agents both of political power and of ownership. What distinguishes township and village governments from other governments is that the property they administer is not state property, which

is owned by all the people, but rather community collective property. Confronted with rigid budgetary constraints, township and village governments, which are powerless to change the tax system, often resort to the establishment and development of township enterprises to increase revenues.

Our survey found that, township and village governments, as the owners of community collective enterprises, typically induce township and village enterprises, indeed all township enterprises, to become dependent on township and village governments and to serve the community goals. Of the township government leaders surveyed, 66.7 percent believe that one of the primary duties of township enterprise is to ensure fulfillment of township revenue targets, 49.2 percent believe that township enterprises should help resolve local employment problems, and 50.8 percent believe township enterprises should support local agricultural development. In fact, all township and village governments treat township enterprises as a major source of revenue and use the enterprises to generate the capital needed to fund various community projects. To exploit township enterprise economic strength, township and village governments have adopted a series of organizational measures, as follows.

First, these governments have vigorously aided and supported township enterprises. Data obtained from enterprises in the four counties surveyed indicate that the principal problems of most firms are clustered in three areas—finance, marketing and technology, precisely the areas on which assistance has been focused. Of the township governments surveyed, 73.0 percent have helped enterprises resolve problems with finances, 49.2 percent have opened a variety of marketing channels for enterprises, and 58.7 percent have provided firms with technological consulting and training. Township and village government-run firms are the major targets of assistance, most of which has occurred through resource distribution. Township governments give their enterprises priority in distributing the funds, energy, electricity, raw materials and the like the governments receive from superior agencies at concessional prices or obtain by pulling strings, and allot some of these resources to village firms via their respective governments.

Second, the governments have established solid organizational and personnel bases. Most township and village governments are highly involved in the selection of township enterprise managers (see Table 1), which involvement undoubtedly has a direct effect on the quality and behavioral traits of township enterprise leaders. For identification with community goals is an important standard by which township and village governments evaluate managers (see Table 2), a factor for which the convergence of community and enterprise goals (discussed below) provides powerful support.

Table 1. The Role of Township and Village Governments in the Selection of Township Enterprise Leaders

	Enterprise Chief Appointed by Government Organizes Own Staff	All Leaders Directly Appointed by Government
Wuxi	0.0	63.2
Jieshou	70.4	11.1
Nanhai	75.0	37.5
Shangrao	66.7	11.1

Table 2. Standards Employed for the Evaluation of Township Enterprise Leaders (Frequency Distribution)

	Wuxi		Jieshou		Nanhai		Shangrao	
	1	2	1	2	1	2	1	2
Remitting a Large Amount of Profits to the Township Government	5.3	-	18.5	-	6.3	25.0	5.6	22.2
Sharing the Concerns of the Township Government	5.3	-	3.7	-	0	12.5	0	0
Obedience to the Township Government	5.3	-	7.4	-	0	12.5	0	5.6
Ability To Expand Enterprise Operations	94.7	-	88.9	-	43.8	0	38.9	11.1
Supported by Enterprise Employees	31.6	-	14.8	-	6.3	12.5	11.1	27.8
Diligence, Conscientiousness, Honesty and Respect for the Law	42.1	-	14.8	-	18.8	12.5	22.2	5.6

Table 3. The Principal Areas in Which Township Governments Participate in Enterprise Management

	Wuxi	Jieshou	Nanhai	Shangrao
Appointment of Enterprise Leaders	-	14.8	100.0	77.8
Investment for Expansion of Reproduction	-	3.7	62.5	55.5
Replacement and Upgrading of Fixed Capital	-	3.7	50.0	22.2
Boosting Wages	57.9	66.7	12.5	0.0
Setting Production Plans	-	-	62.5	88.9
Requiring That Enterprises Regularly Remit Profits to the Township Government	-	-	12.5	33.9

Third, the governments are directly involved in township enterprise management. Our survey revealed that there is a significant, positive correlation between the foci of township government involvement in enterprise management and the community goals the governments stress (see Table 3, above). Besides appointing township enterprises leaders, the areas in which the governments are most commonly involved are investment, planning, wage levels and the like, which areas reflect the governments' function as owners, in undertaking to maximize returns on capital (of enterprises), and as governments, in providing for comprehensive community development.

Even though private investors, who are not owners of township and village enterprises, are not directly affected by these government controls, and though the investors are motivated primarily by profit, they, too, exhibit a high degree of identification with community goals. Our survey showed that their support for the goal of providing employment, for example, stemmed from the normative effect of community social pressure on individual behavior, which is distinct from government regulative controls. This type of nonmarket control retains unusual vitality in China's rural areas, which, having only just escaped the fetters of natural economy, retain their traditional respect for simplicity and lack of ostentation.

Another typical behavioral trait of private owners is that they all depend on government to various degrees. For example, maintaining good private relations with officials in higher-level governments is often important to the success of private enterprises. This trait probably stems from the fact that private firms face certain environmental constraints and experience psychological crises due to the lack of stability and clarity in government policy concerning their development.

B. The Traits of Township Enterprise Managers

Ultimately, the behavioral norms of an enterprise are those of its managers, and even owners can influence the performance of their enterprises only by controlling manager behavior. And, generally speaking, there are three factors that affect manager behavior, namely, the methods by which managers are selected, their qualities, and the interests that motivate them.

The most common method employed in the selection of township enterprise leaders is direct appointment by community governments. Almost all enterprises in the survey sample exhibited this statistical characteristic (see Table 4), which fact suggests that most company leaders so identify with community goals that considerable goal convergence occurs. So there is a strong correlation between goal convergence and the channels by which enterprise leaders are selected. In the enterprises

surveyed, managers were recruited from three major sources. The first was commune-brigade cadres. 69 percent of the managers in the sample had been commune and/or brigade cadres for an average of 14 years. This type of leader has accumulated much political experience and developed a dependence mentality as a result of having struggled up the ladder in the rural basic-level administrative network. The second source, employees who have risen through enterprise ranks, accounted for

58 percent of the total sample. These leaders have been socialized within and are comfortable with the existing leadership system, and their promotions have served to reinforce their identification with the system. And the third source was peasants, who comprised 53 percent of the total sample. The promotion of peasants reflects two types of social mobility, the shift of farm labor into nonagricultural employment, and change in social stratum and status. These three channels of leader selection are strongly influenced by community governments.

Table 4. Methods By Which Township Enterprise Leaders Are Selected

	Wuxi	Jieshou	Nanhai	Shangrao
Appointed by Township Government, Employees Collectively Undertake To Effect Democracy	97.0	30.6	77.3	68.4
Elected	3.0	16.7	-	26.3
Signing of Individual Responsibility Contracts	0	5.6	18.2	5.3
Self-Recommendation	0	8.3	-	-
Make Investment and Appoint Themselves	0	22.2	-	-
Elected by Stockholders	0	11.1	4.5	-

The particular ways and channels by which managers are selected induce them to identify with community goals. Thus even though there is much township and village government administrative interference and managerial participation in enterprises, most managers feel these practices are normal. In choosing locations for their enterprises, for example, most managers believe it is more advantageous than harmful to site the plants in the local township or village and that the greatest advantage of that is that the firm will receive protection from the community government. And almost no manager believes township and village government interference is injurious to enterprise operations.

Nevertheless, it is important to note that this personnel system does affect the quality of township enterprises leaders. Our sample shows no significant difference between the educational attainment of enterprise managers and employees (see Table 5). And comparison of cadres alone suggests an inverse relationship between position and education. There are probably two reasons for this. The first is an objective factor. In situations where non-price competitiveness and the quality of leaders' interpersonal relationships and the like are crucial to enterprise success, education and specialized expertise are of secondary importance. The second is a subjective factor. In selecting managers, township and village governments probably attach greater importance to "reliability" and identification with community goals than to expertise and education.

Table 5. Comparison of the Educational Attainment of Enterprise Chiefs and Employees

	Wuxi		Jieshou		Nanhai		Shangrao	
	Chiefs	Employees	Chiefs	Employees	Chiefs	Employees	Chiefs	Employees
College and Above	6.1	3.0	5.4	1.7	0	1.2	0	-
Senior Middle School (Polytechnic)	33.3	2.55	56.8	31.4	18.2	16.0	27.8	-
Junior Middle School	51.5	42.3	29.7	51.4	45.5	36.6	50.0	-
Primary School	9.1	18.9	8.1	15.0	36.4	40.3	22.2	-
Illiterate	0	0	0	0	0	0	0	-

This latter, subjective consideration in enterprise leader selection shows that management ability is commonly emphasized as most crucial, with sense of responsibility and dedication next in importance. And these qualities clearly are related to township and village governments' approval of enterprise establishment and to enterprise ability to complete government-assigned tasks. Conversely, important qualities for firms operating in market economies—such as understanding markets, creativity, decision-making ability, resourcefulness and competitiveness—are treated as secondary. This value hierarchy is reflected in the tendency of plant managers to overlook, and indeed suggests that managers may actually lack, these qualities. And, in fact, the township

enterprise leadership system has yet to develop formalized entrepreneurial practices. Whether in economically advanced Wuxi and Nanhai or in underdeveloped Jieshou and Shangrao, the primary reasons enterprise leaders cite for accepting their positions are obeying orders a sense of social responsibility. The noneconomic nature of and lack of independent thinking reflected in these motives suggest that township enterprise managers have not yet developed into a distinct pressure group articulating its own unique interests.

Our survey indicates that managers of non-township and village government enterprises seem to have a greater sense of independence in their perception of their roles.

People who invest larger shares of capital generally become enterprise leaders, and these peoples' consciousness of their ownership rights is displayed most strongly in the area of decision-making authority. They would rather relinquish authority to decide profit distribution than to sacrifice control over production management. For example, a plant manager, the principal owner of his firm, in Jieshou County receives the same share of profits as other managers of the firm, but he is the one who makes all the major decisions. Almost none of the non-township and village government enterprises in our sample employed nonowners as managers, and the small number of technicians and management personnel who were promoted to these positions were usually made owners "with empty shares and no dividends." This great overlap ownership rights and management authority, which typifies small-scale modes of production, is indicative of the primitive state of China's township enterprise entrepreneurs.

C. The Traits of Township Enterprise Producers

While township enterprise producers are farm labor that has shifted into the nonagricultural sector, to call these workers peasants clearly is overly simplistic, because most enterprise employees in developed regions have long worked outside of agriculture. For example, employees interviewed in Wuxi had worked an average of as much as 8.92 years in nonagricultural sectors and thus cannot truly be characterized as labor that has just shifted out of agriculture. Their stable employment, stable incomes, involvement in stable organizations and participation in stable occupations have engendered change in their cultural attitudes and made them much more adapted to modern industry, which developments tend to have a direct effect on the employees' attitudes toward participation in management, receptivity to wage systems, employment expectations, behavioral motivations and inclination to find new jobs.

However, in regions where township enterprises are underdeveloped, labor markets are still dominated by agricultural workers. For example, workers with an average of less than 7 years of employment comprise 78.3 percent of total township enterprise staff in Jieshou, 83.8

percent in Nanhai and 71.2 percent in Shangrao. This type of labor is typically characterized by low educational attainment, mainly primary and junior middle school. Among the employees surveyed, these educational levels accounted for 71.2 percent of the total in Wuxi, 67.0 percent in Jieshou, 82.9 percent in Nanhai and 90.1 percent in Shangrao, and the employees on average had received less than 2 months of on-the-job training. And when we take into account the poor educational levels of economically backward regions, the low educational attainment of enterprise employees overall becomes even more pronounced.

Another trait of township enterprise employees is their low inclination to change jobs, a characteristic that is more salient in regions where township enterprises are well developed. The vast majority of employees are unwilling to leave their current companies (see Table 6), and most—64.7 percent in Wuxi, 83.7 percent in Jieshou, 46.8 percent in Nanhai, and 58.2 percent in Shangrao—would still be unwilling to do so even if their companies were to reduce wages by half in the event of a business slump. There are three important reasons for this tendency. First, in economically developed regions, township enterprise operations are stabilizing and township enterprise earnings are becoming more equal, which developments reduce employee desire to change jobs. Second, in underdeveloped regions, job opportunities in township enterprises are very scarce, making mobility virtually impossible. Third, most initial placement in nonagricultural employment is arranged by township and village governments, so refusing such assignments is tantamount to rejecting nonagricultural employment in the local community, which is not an acceptable choice for most peasants, who are loath to leave their native villages. In addition, many employees are satisfied with their current employment conditions. For example, the percentage of employees we interviewed who said they were satisfied or very satisfied with their wages was 77.9 percent in Wuxi, 96.6 percent in Jieshou, 72.5 percent in Nanhai and 69.5 percent in Shangrao. And the vast majority of the employees believed their own enterprises have the best managements and the best prospects for growth. Thus strong sense of enterprise identification and low mobility are often causally interrelated.

Table 6. Township Enterprise Employee Inclination To Change Jobs (% of Total)

	Wuxi	Jieshou	Nanhai	Shangrao
Do Not Desire To Leave Current Enterprise	92.3	97.3	90.8	78.0
Willing To Work in Current Enterprise at Least 3 Years	86.4	94.8	73.0	75.9
Do Not Plan or Not Strongly Inclined To Invest and Establish Own Firm	97.7	85.7	92.4	94.3
Willing To Remain Enterprise Employee, Even If Farm Income Is High	86.9	76.7	77.4	79.6
Unwilling To Accept Work in State Enterprises Even If Current Employer Reduces Wages from Present Levels	74.0	91.2	84.4	49.0

The most significant characteristic of township enterprise employees is the incompleteness of their sectoral shift of occupation. For many workers are still engaged in agricultural production, and farm income remains an

important source of their family incomes (see Table 7). Significantly, the incompleteness of occupational shift tends to be directly related to the level of town and township industrial development, that is, the more

developed a region is, the more commonly its enterprise employees engage in agricultural production and the more equal the amount time of time they engage in farming. This is probably due to the fact that the rapid advance of rural industrialization has already come into conflict with the mode in which farmland is managed, creating localized

labor shortages and preventing completion of occupational shift, which developments naturally have induced almost all workers employed in higher-income jobs equally to take on second, lower-paying jobs, and only thus has balanced economic development been maintained. Competition for labor between agriculture and industry has already begun.

Table 7. Township Enterprise Employee Ties to Traditional Agriculture (% of Total)

	Wuxi	Jieshou	Nanhai	Shangrao
Involvement in Agriculture				
Engaged in Agricultural Production				
Frequent	39.7	10.0	10.0	17.9
Infrequent	52.5	54.8	50.6	50.7
Total	92.2	64.8	60.6	68.6
Role of Farm Income in Total Family Income				
Primary Importance	29.2	3.0	9.8	17.4
Secondary Importance	29.5	79.6	58.5	61.1
Total	58.7	82.6	68.3	78.5
Amount of Land Households Have Contracted To Farm (Mu)	2.96	2.84	3.7	27.2
Of Which, Totally Self-Farmed (%)	94.7	61.8	87.1	81.0

Moreover, attachment to the soil is prevalent in both advanced and underdeveloped regions. The primary reason for this tendency is the fact that enterprise employees lack social and job security and thus view land as the "root of their livelihoods," so the more business conditions fluctuate, the more pronounced is the tendency of employees to refuse to transfer their land contracts. But this phenomenon adversely affects long-term employee behavior, enterprise microscopic returns, and the effort to consolidate land holdings and thus agricultural returns to scale.

II. Township Enterprise Establishment and Deployment of Start-Up Production Factors

A. Motives for the Establishment of Township Enterprises

As stated above, high degree of identification with community goals is shared by the three major participants in township enterprise operations, which means that the motives for the establishment of these enterprises are to a large degree reflective of community goals (see Table 8).

Table 8. Motives for the Establishment of Township Enterprises (Frequency Distribution, % of Total)

	Wuxi	Jieshou	Nanhai	Shangrao
Providing Employment and Opportunities for Agricultural Labor To Shift to Other Sectors	96.9	89.1	70.8	77.5
Increasing Incomes and Improving Local Living Standards	97.0	86.4	74.0	73.8
Increasing Township and Village Governments Revenues	88.0	45.9	16.7	25.0
Exploiting Untapped Resources and Transforming the Locality	12.1	56.2	2.1	6.3
Increasing Output and Quadrupling It Ahead of Schedule	78.8	54.0	22.9	18.8
Alleviating Energy Shortages for Local Agricultural Production	5.0	8.1	36.5	37.5

After the contract responsibility system was implemented in the countryside, agriculture took the lead in raising productivity, which made the problem of surplus farm labor even more acute, and the readjustment of agricultural policy prompted a change in the traditional structural mix of this sector, in which one-crop cultivation predominated. As a result, the problem of providing nonagricultural employment for farm workers who had been released from the land was for all practical purposes dumped into the laps of community governments. This was an important factor that prompted township and village governments to set up township enterprises. And as our survey data show, responding to pressure to provide employment was the chief motivation named by respondents for enterprise establishment. Many township and village governments have resorted to administrative interference to get township enterprises to help communities provide employment. Jieshou County, for

example, required that township enterprises, when established, help place a certain share (usually more than 30 percent) of people seeking work. So providing employment was the primary motive for the establishment not only of township and village enterprises but also of multiple-household and individual firms.

The desire to increase employment naturally also involves boosting resident incomes. Since contract responsibility was instituted, peasant incomes have skyrocketed due to expansion in output and to price hikes for farm produce. Still, the material desires of peasants, who have been infected by the widespread, prematurely developed craze for consumerism and by the commercialization and monetarization of consumption, have vastly outstripped the capacity of farm incomes to increase. Thus the cry "if you want to get rich, get into industry" has arisen throughout the countryside, and

increasing incomes has become a major motive of township and village governments and private investors in establishing township enterprises and the major reason why enterprise leaders and employees take the jobs they do. And, in fact, industrial income has become an important source of peasant income. For example, in Wuxi wages from township enterprise employment account for 44.6 percent of net peasant income and exceed the total wage bill for workers employed in state and collective enterprises in that county.²

In addition to increasing wages, expanding community government revenues is also an important motivation for township enterprise establishment. As the basic-level governments of China's countryside, township and village governments have seen their functions proliferate, vastly outstripping the expenditure levels their traditional sources of revenue can bear. Township and village government functions are no longer limited to regulating local affairs but now also include assuming responsibility for the comprehensive development, urban development and social welfare of their communities. For example, in the past most township and village governments never had to balance industrial development or improve economic structural mix, but now township and village governments in both developed and underdeveloped regions have to support agricultural work while accelerating township enterprise development, currently the chief issue in community economic work in areas like Wuxi. Yet as the types and levels of budgetary expenditures rise, subsidies from superior governments, the traditional source of community government revenues, have not only failed to keep pace but actually declined. It is against this backdrop that increasing township and village government revenues has become an important motive in township enterprise establishment.

There are both economic and noneconomic aspects to community motives, and multiplying output value, for example, has an even greater administrative hue to it. Under the traditional economic system, the administrative and personnel systems made increasing output the primary concern of administrators at all levels, which tendency inevitably affected the leaders of basic-level rural governments and of township enterprises. Although markedly diminished as a result of economic reform, this motivation remains important, especially when lower levels are instructed to multiply output, and invariably is manifested in the behavior of township and village government leaders, who have now assumed the role of administrators, and of township enterprise chiefs, who are mainly appointed by and responsible to township and village governments. And some regions, such as Jieshou County, have even specifically ordered that developing township enterprises be made the principal standard for the evaluation of township and village governments cadre and of enterprise leader competence and that those cadres found incompetent be forced to take responsibility for their failures and resign. Under this kind of pressure, township and village government

and township enterprise leaders generally desire to transform, and to improve the social prestige and status of, their localities and units, which motives naturally tend to coincide with the desire to expand output.

B. The Process by Which Township Enterprises Are Established

Investigations of enterprise establishment must also examine the kinds of policies that govern the process, the kinds of institutions that implement these policies, and the variety that occurs in these two areas. Our study revealed that even the countryside has agencies specializing in the review and approval of enterprise establishment. Differences, where they exist, lie in the fact that some regions, such as Jieshou County, provide for finer division of labor in this work. But, generally speaking, county industry and commerce administrative bureaus deal with township enterprises established by private individuals, and county township enterprise bureaus oversee township and village enterprises. Multiple-household firms are handled in some localities by industry-commerce departments and in others by township enterprise agencies. But in some areas, such as Wuxi County, the approval process is much more complicated.

The importance of local government approval varies for different types of enterprises. For township and village firms, which are established by basic-level governments, the approval process is a foregone conclusion and thus virtually meaningless. But the situation for individual and multiple-household firms is something else again, for receipt of approval represents the minimum requirement for these entities' existence. This is especially so for enterprises that use a lot of land. For land distribution is controlled by village governments, without whose approval even peasants find it difficult to farm or invest in their responsibility fields. Thus obtaining village-government approval is of great practical importance for this type of enterprise. Nevertheless, approval generally is by no means hard to obtain in most underdeveloped regions, whose township and village governments, to increase revenues, will accept any firm that does not pose a competitive threat to government enterprises.

The approval process at the county level varies greatly between locality. In Wuxi, for example, virtually every township enterprises has to be approved by county industry-commerce departments, and 70.5 percent of all enterprises surveyed had to obtain the approval of three or more county agencies, so township enterprise establishment is strictly controlled in Wuxi. This is due primarily to the fact that the county already has a high density of enterprises, which therefore face greater risk, so the entry of any new company poses a threat to existing firms. Thus governments at all levels in this county practice protectionism and restrain competition, especially within the same community. The situation in backward regions such as Jieshou, however, is the

reverse. Most of these areas suffer from a lack of enterprise development, so relaxing approval procedures is a wise move for these counties.

Second, the county approval process highlights the different attitudes regions adopt toward private enterprises. In Jieshou, for example, encouraging the development of the individual economy has become the county government's basic policy for invigorating the local economy. Consequently, other than collecting administrative fees, the government subjects firms to almost no interference at all, has lifted all approval restrictions and simplified approval procedures, and generally processes applications within one week. Thus multiple-household and individual enterprises have blossomed and now comprise 85 percent of the total number of firms in the county. But the county has no policy to guide enterprise approval and basically lets firms sink or swim within the marketplace, so firms come and go frequently and have a high turnover rate. As a result, the county's total township enterprise output rose 7.28-fold in 1984 but declined by 2 percent in 1985, a considerable range of fluctuation that is closely related to the frequent rise and fall of private enterprises. But if Jieshou has decentralized and liberalized its approval process, Wuxi has taken the opposite route—erected barriers at every level. This county's Industry and Commerce Bureau has banned fierce competition threatening state and collective firms

by private enterprises for raw materials, energy and technical personnel; forbids private transport companies to hire labor; prohibits private construction firms from bidding on contracts; and stipulates that individual industrial and commercial households may hire only 1-2 helpers or take on 3-5 apprentices and that such firms will not be approved if they have more than 7 persons. Thus Wuxi restricts more than it supports enterprise establishment, so private firms contribute less than 5 percent of the county's total enterprise output. Clearly, county government policy is a major factor stabilizing the rural economy.

On the whole, the township enterprise approval process lacks clear regulations, explicit delineation of agency authority, and uniform standards of strictness. And except for a small number of specialized departments in charge of resource management, whose goal is to protect resources, there is no economic basis to the approval processes practiced by most agencies.

C. The Sources and Deployment of Township Enterprise Start-Up Production Factors

Our survey data indicate that the environments in which township enterprises exist is much more complex than those of state firms and that there are a great variety of channels by which production factors flow to township enterprises (see Table 9).

Table 9. Breakdown of the Sources of Township Enterprise Start-Up Production Factors

	Wuxi		Jieshou		Nanhai		Shangrao	
	Frequency	Rank	Frequency	Rank	Frequency	Rank	Frequency	Rank
Capital								
Allocations From Governments at the County Level and Above	6.0	7	27.0	3	8.3	6	28.8	4
Township and Village Governments Allocations	84.9	1	13.5	5	23.9	3	55.0	2
Loans From Local Banks or Credit Cooperatives	66.7	2	78.3	1	72.9	1	72.5	1
Raising Capital From the Private Sector	9.0	6	72.9	2	25.0	2	32.5	3
Investment by Other Enterprises	9.1	5	10.8	7	9.4	5	13.8	5
Borrowing From Banks and Enterprises of Other Localities	18.2	4	10.8	6	2.1	7	7.5	7
Other	24.3	3	27.0	4	15.6	4	13.8	6
Land								
Government Requisition	60.6	1	13.9	3	40.6	1	6.13	1
Direct Purchase by Enterprise	21.5	3	59.5	1	17.7	4	21.3	3
Obtained in Exchange for Share of Ownership of Enterprise	0	7	5.4	6	12.5	5	0	-
Leased	12.1	5	21.6	2	27.1	2	7.5	5
Uncompensated Use	15.1	4	13.5	4	22.9	3	48.8	2
Obtained in Return for Employing Local or Attached Labor	51.6	2	10.8	5	7.3	6	15.0	4
Other	6.1	6	5.4	6	4.2	7	0	-
Labor								
Assigned by Township and Village Governments	78.8	1	27.0	2	52.1	2	56.3	2
Accompanies Capital or Land	42.5	2	32.4	3	9.4	5	22.5	4
Hired Through Government Agencies	33.4	4	32.4	4	20.8	3	28.8	3
Directly Hired	39.4	3	64.8	1	66.7	1	66.3	1
Help of Relatives and Friends	0	6	21.6	5	10.4	4	3.8	5
Other	6.0	5	16.2	6	9.4	5	1.3	6

In the area of resources, township enterprises commonly "operate in debt," obtaining loans from local banks or credit cooperatives, so credit money has become an important source of township enterprise capitalization, and in backward regions meeting credit targets is often the only qualification required for enterprise establishment. Under these conditions, improving the credit ratings of and assuming financial risk for enterprises have become the principal means by which community governments assist and protect township enterprises, especially private firms. In some regions, such as Jieshou, banks, to reduce the risk of investing in private firms, require that the firms get two well-run enterprises to serve as their guarantors, so obtaining basic-level government approval has become crucial to firms' efforts to obtain start-up capital, because these governments often help firms find guarantors. But conditions are different in regions where township enterprises are well developed, such as in Wuxi. The rapid development of this county's rural economy has greatly increased township enterprise profit remittances, so that township and village governments here have amassed considerable financial resources. This fact, together with highly concentrated and strict control over investment in new enterprises, has made township and village government allocations the leading source of enterprise start-up capital in this county. And these allocations are the basic means by which the county strengthens its rural economy.

Another tremendous difference in funding is that enterprises in both Jieshou and Nanhai raise a lot of money from individuals. But there are differences in the way the process works in the two counties. In Jieshou, this approach is seen as an easy means by which to establish enterprises, and firms started by individuals, multiple-households and township and village governments, and even hotels built by the county government are funded with private capital. The advantages of this method of funding are that it is convenient and cheap. Generally speaking, when governments are involved or the individuals starting firms have good reputations, the needed capital can be raised in a single day. These funds carry no interest; some give dividends, but usually only when there are profits to distribute; and some firms issue stock to raise capital from the community or from their employees, sometimes continuing to distribute dividends to people holding empty shares even after the principal and interest are paid off, which practice makes this type of funding very attractive to peasants. In addition, these funds carry flexible use periods, a feature that is advantageous to township enterprises that are unstable or uncertain as to when they might start turning profits. Meanwhile, as a result of the contract responsibility system, peasants' income has risen throughout the country, but their consumption has lagged, as they prefer to save their earnings. Yet the practice of depositing savings in banks has also lagged in most regions, especially backward ones, such as Jieshou, where rural per capita savings deposits averaged just 4.1 yuan in 1985, so there is much idle capital lying around. For example, a

survey conducted by Fuyang Prefecture, in which Jieshou County is located, revealed that peasants in that region held approximately 15 million yuan in idle funds at the end of 1985. These moneys can be tapped to fund township enterprise establishment, for by happy coincidence many peasants believe that providing enterprises with money is a convenient way by which to secure jobs for their children or even themselves. Backwardness in township enterprise development in such areas as Jieshou makes employment opportunities scarce, so pressure to find jobs and to increase incomes has prompted peasants to come up with the idea of investing money in exchange for jobs. The situation in Nanhai, however, is different. This is the only one of the four sample counties that did not list lack of capital as the principal problem in its township enterprise development. For Nanhai's capital markets are well financed, and a considerable amount of idle capital in this county needs outlets for investment, which has made capital raising by private individuals increasingly common and private capital a major source of enterprise start-up funding there.

Generally speaking, a wide variety of funds is used to establish township enterprises—county government and township and village government allocations, loans from banks and credit cooperatives, advances from partners in cooperative ventures, share capital invested by a variety of entities, and borrowing from the people. The most important of these sources of funding, however, is credit capital. Use of this form of funding reduces the difficulties and delays involved in primitive accumulation for enterprise establishment but also has a big impact on the macroscopic economy and is greatly affected by macroscopic control programs. Thus the recent credit crunch, for example, has made it much more difficult to establish new firms and produced a similar impact on each of the four counties we surveyed. Besides getting the approval of industry and commerce departments, the most difficult hurdles enterprises have to get over are banks. And except for Nanhai, each county reports a lack of funds. So tight money has accelerated use of private capital, but there still is not enough money available to satisfy enterprise need.

As for the factor of land, the four counties surveyed reported that they did not have any problem in this area, primarily because the household contract responsibility system has helped decentralize control over and markedly improved supply of land. Community governments and peasants both have exhibited strong tendencies to compare economic returns and to shift land use accordingly, and though governments maintain certain restrictions on such shifts, no interest mechanism presents any real obstacle. Nevertheless, government interference is greater in this area. Except for Jieshou, the leading means by which sample enterprises obtained their land at the time of establishment was through government requisition. This tendency is due mainly to the facts that the ultimate authority to distribute land still formally resides in village governments, that township enterprises

pay preferential prices when they obtain land through government requisition, and that this approach is in fact the only way by which private firms can legally use land. Thus even though there is nominally a variety of channels for land acquisition, in actual fact each of these channels requires the approval of village governments, and the chief thing township and village governments decide in approving enterprise establishment is firms' right to use land. This is the general situation in the area of land use.

The land acquisition process in Jieshou, however, is very different. An embryonic land market arose in this county before its land system was reformed, and because infrastructural facilities are concentrated in one area of the county, 60 percent of the county's enterprises have moved to that area, the county seat, Jieshou town, where land prices have been pulled upward by rising demand. Data obtained from sample enterprises show that land sales prices have reached 7,930 yuan a mu and rents, 1,962 yuan a mu in this area of the county, so the primary means by which enterprises obtain land here is through direct purchase and leasing. This practice undoubtedly reduces impediments to the establishment of nongovernment firms. By contrast, in Wuxi, where land is much more scarce, sales prices are only 2,539 yuan a mu and rents, 444 yuan, only one-third and one-fifth of the levels in Jieshou, respectively. These low prices obviously are closely related to the direct involvement of the county government in land distribution. But in return for low prices, land usually carries labor with it, which means that enterprises have to employ the residents of the local village or the labor that had originally contracted to farm the land.

Of all the start-up factors employed by township enterprises, labor is least subject to government interference. With the exception of Wuxi, the primary means by which enterprises obtained their labor in the counties we surveyed was through direct hiring. In the early stage of their development, township enterprises confronted a labor market that had great elasticity of supply and whose sectoral-shift opportunity costs were close to zero, which situation did not change until the later stages of township enterprise development.

A salient feature of township enterprise start-up labor is the striking lack of labor recruitment across community lines, and the "leave the soil but not the village" model, namely, the localized shift of agricultural labor into other sectors, is very prevalent. With the exception of Jieshou, where the ratio of employees from nonlocal townships has risen as a result of the congregation of enterprises near the county seat, labor employment in the other counties surveyed basically showed the same characteristics identified for township enterprises. The bulk of enterprise employees come from the local township, which accounts for 80.5 percent of total employment in Wuxi, 70.8 percent in Nanhai and 90.0 percent in Shangrao. And the "white collar stratum" is frequently

recruited from local labor that has shifted out of agriculture. This "localist" recruitment mechanism demonstrates, from yet another angle, that township enterprises confront a labor market that is heavily community-oriented and that does not possess much subjective or objective incentive for movement to new jobs.

Related to the localization of labor sectoral shift is the fact that obtaining jobs in enterprises often carries certain amount of *quid pro quo*. In most regions, the number of employment opportunities enterprises are able to provide is much less than the amount of surplus agricultural labor that is seeking jobs in other sectors, so these opportunities are a scarce resource, one that in the early days used to be scarce in aggregate terms but later took the form of structural scarcity in developed regions. And it is precisely because of the lack of opportunities that peasants commonly have to bring funds with them if they wish to land jobs in enterprises, especially in regions like Jieshou and Shangrao, which lack start-up capital. But the situation is different in Wuxi, where the above practice is rare. Here it is enterprises that must be flexible, typically having to employ the labor that comes with the land they acquire.

Generally speaking, there are a variety of channels through which township enterprises obtain their start-up production factors, and their employment of these factors is influenced by a variety of complex things. For the most part, enterprises confront markets that are not perfectly competitive, and in both developed and underdeveloped regions the processes by which enterprises obtain their production factors are subject to varying degrees of community government interference, but the amount of interference is much greater in developed than in underdeveloped regions. In addition, enterprises face both shortages and oversupply of the production factors they need. Fund scarcity is very serious, especially in undeveloped regions, but the oversupply of labor is also serious. These things have a direct effect on the ways enterprises obtain production factors. (To Be Continued)

Footnotes

1. This article, a revised version of a paper delivered to the International Symposium on Chinese Town and Township Enterprises, is based on data and representative cases compiled in a field survey conducted, in cooperation with the World Bank, by the Economics Institute of the Chinese Academy of Social Sciences of town and township enterprises in four counties, Wuxi, in Jiangsu; Jieshou, Anhui; Shangrao, Jiangxi; and Nanhai, Guangdong.

2. "Wuxi Xian Jingji Tongji Nianjian" [Wuxi County Economic Statistical Yearbook], 1986.

COMMERCE

Minister Hu Ping on Commercial Legislation *40060464a Beijing ZHONGGUO SHANGYE BAO in Chinese 5 Jul 88 p 1*

[By Cui (?Yanyu) 1508 (?3768)]

[Text] We cannot wait until the reform is complete and then make legislation; commercial laws cannot be made into departmental laws, they should stand a little higher. Commercial laws should take the circulation of commodities as their main line; when the commercial legal system is established, it would be best to start first with the sub-laws and separate regulations.

On 22 June when the Minister of Commerce, Hu Ping [5170 1627], listened to the report concerning work on the legal system given by those comrades responsible in the General Office. He issued the viewpoint that we should put commercial legislation on the highest agenda, and quicken the pace of making commercial legislation.

Hu Ping feels that in these last few years a lot of work has been done in respect to the commercial legal system. This has a great function in opening and enlivening the country and the development of a commodity economy. But Hu Ping points out that comparing the commercial legislation to the industrial and agricultural branches, there is a disparity. From theory down to practice there is always a gap. In the field of commerce circulation there has been some practice, but some problems have not yet undergone systematic study. The popular research in theoretical circles is in industry and agriculture, commerce circulation has been studied less. In developing the commodity economy according to plan, it is not good to lack a legal system to give a guarantee, and it is detrimental to the market flourishing and economic stability. Only when you have law are you then able to promote and guarantee the opening up and reform of the economy, to develop a commodity economy, and to safeguard the interests of the consumers.

Hu Ping said, "The comrades from the central authorities responsible talked about the new economic order, and how it has to be built on the foundation of a legal system. The way I see it, each kind of relationship, including the relationship between government and government, and that between the government and the enterprises, all must take the law as their norm. The law should normalize every action. We should make the most of this favorable situation, take advantage of the opportune moment, and seize the task of commercial legislation."

Hu Ping suggested that, in making laws, to merely depend on a minority is not good enough, everyone should be aroused to action, to jointly give service to setting up a new economic system. In this task, we should feel a sense of urgency.

When talking about establishing a system of commercial laws, Hu Ping asks that attention be paid to four problems. The first is that we cannot wait until the old system breaks down or say that we will wait until the reform is completed and then finally start making laws. On one side we should be doing reform, on the other side we should be making laws. In the future, if through practice we discover areas of imperfection, we can revise. The second is that commercial law cannot become branch laws, it should stand at a somewhat higher level. After the law comes out, it should guide the whole domain of circulation. The third is that commercial law should not take the enterprise as its core, it should take the course of occurrences in the circulation of commodities as its core. It should take circulation of commodities as its main line. The fourth is whether the establishment of system of commercial laws should start with the main law of the sub-law? Looking at it now, it is better to begin with sub-law or separate regulations. Of course, close attention must be paid to making the basic commercial legislation, but we must have a foothold in society, we must promote the reform and the development of the commodity economy.

Hu Ping pointed out that to do commercial legislation well, we must organize a contingent. The legal system organizations and the business offices must combine to appoint a group of people to make legislation. Also we can mobilize comrades in institutes and colleges and comrades in each province to jointly work on this. We must set up a legislative contingent of a couple hundred people; and of course some can hold two posts concurrently. We can also organize some people to translate some materials from foreign commercial legal systems, to use as reference materials when making legislation.

Hu Ping also pointed out that we must do the job of propagating the legal system. Propagation of the legal system must be stressed continuously and often. It must be conducted through many mediums of communication, to create a formidable public opinion force. This year we can hold a working conference on a national commercial legal system. At the meeting, the program of legislation for this year and next year can be the important content of discussion.

13418/9274

Shanghai Official on City Becoming National Commercial Center *40060464b Beijing ZHONGGUO SHANGYE BAO in Chinese 2 Jul 88 p 1*

[Discussion with Zhuang Xiaotian 8369 2556 1131, vice-mayor of Shanghai: "Shanghai Ought To Serve the Role of National Commercial Center"]

[Text] On the morning of 15 June, "dong dong dong" the clock on the customhouse strikes 9:00. In the city government building at the office of the new Vice Mayor,

Zuang Xiaotian, we raise this topic of conversation with the man who occupies this office—in the whole nation, Shanghai's commerce holds what position and what function? Zhuang Xiaotian self-confidently says, "Looking at the position that Shanghai holds in the nation, it should serve the function as the national commercial center. Statistical data proves that a fair portion of our manufactured goods produced by Shanghai are, through commercial channels, transferred to brother provinces and cities around the nation. But the agricultural and other farm products needed by Shanghai, mainly depends on transferring them in from other parts of the country. Seventy-five percent of the pork sold in Shanghai and about 30 percent of the poultry and eggs are brought in from other regions. Most of the fruit and 20 percent of the vegetables must be brought in. It is thus evident that edibles and industrial raw materials mainly depend on being supplied from other parts of the country. Looking at things from history up to the present situation, from geographical conditions to developed transportation, we should fully utilize the advantageous conditions in Shanghai to change the practice of making purchases mainly according to the needs of the Shanghai market. We should through different kinds of commercial centers and business markets, attract products from all regions of the nation to come to Shanghai; and create in Shanghai the largest national commercial center, which can purchase the products of each region."

After Vice Mayor Zhuang talked about the function of Shanghai in the domestic market, he changed the topic of conversation to the overseas markets. He first gave us an opinion. He said that it is undoubtedly correct that our business must work for the domestic economy, but our country has many traditional trade products that have been welcomed in the international marketplace. Counting on his fingers he said, "For example there are processed items such as the four treasures of study (writing brush, ink stick, ink slab and paper), Tiger Head leather shoes, fur skin clothing, famous pastries (quick-frozen and packaged), food condiments, vegetables and aquatic products, and small antique items that have special character. In regions abroad and in Hong Kong they are much favored by consumers. From now on, along with the development of our country's export-oriented economy, besides trying hard to work on the domestic market, we should organize and develop traditional manufactured goods that are welcomed in the international marketplace, in order for foreign economic trade to function in making good on omissions and supplying deficiencies. This to make our channels of commerce more numerous and more extensive, to give a renewed appearance to Shanghai's commerce."

Listening to Vice Mayor Zhuang's briefing, we could not but ask him, how can these tasks be done? Vice Mayor Zhuang replied with a well thought-out plan: "The crucial problem is to continue to carry out reform of the commercial system. At present, all the city's large and medium type commercial enterprises have basically completed the task of contracting. For arousing the

enthusiasm of the employees, for ensuring the steady growth in public finance revenues, and for improving the management mechanisms of enterprises, this system will achieve clearer and clearer results. In order to further enhance the vigour of enterprises, the city government just recently has approved the City Office of Finance and Commerce giving its power over to the district branches responsible for commerce. This is in line with the principled implementation of reform by 'passing on power and making responsibility clear, graded supervision; reducing administrative levels, creating enterprises; loosening up on the microeconomic level, control through adjustment of the macroeconomic level' and consistency of power, responsibility and benefit. This is in order to arouse enthusiasm on all sides, and promote the development of commerce, and promote the flourishing and stability of the market."

13418/9274

Hefei Seeks Role as 'Relay Post' Between Shanghai, Interior

40060464c Shanghai JIEFANG RIBAO in Chinese
3 Jul 88 p 1

[Interview with Yang Yongliang, member of Standing Committee of the Anhui Provincial Communist Party Committee and Secretary of the Hefei Municipal Party Committee, by Zhang Yeping 1728 0048 1627: "Hefei Hopes To Further Expand Its Alliance With Shanghai"]

[Text] Yesterday Huang Ju [7806 5468] met with an economic delegation from the city of Hefei.

Yesterday, upon granting an interview to this newspaper's reporters, Yang Yongliang [2799 3057 5328], a member of the Standing Committee of the Anhui Provincial Communist Party Committee and Secretary of the Hefei Municipal Party Committee said, "The city of Hefei wishes to become a 'relay post' for economic exchanges between the developed coastal areas and the interior, and during the reform and opening, quicken the pace of development construction.

Yang Yongliang is leading the Hefei city economic delegation which arrived in Shanghai the day before yesterday. He told the reporters that the economic relationship between Shanghai and Hefei has a long history. As early as the 50's, Shanghai had moved over 30 enterprises to Hefei, and established an important foundation for the start up of Hefei's industries and later development. In the last few years, along with the deepening reform and opening up, and along with the developing trend towards economic integration, contact between the two cities has been even more frequent and cooperation is constantly expanding. At present, Hefei city has 67 industrial and commercial enterprises that have established cooperative relationships with 76 Shanghai work units. Through joint operations, the

value of Hefei's new increase in production is 0.56 billion yuan, the new increase in profits and taxes is 0.13 billion yuan. The Shanghai enterprises also achieved beneficial results from this.

Yang Yongliang said that the area of the city of Hefei, in China's hinterland between the Yangtze and Huai Rivers, is a region between the coast and the interior. Its transportation is convenient, it is rich in natural resources, and possesses a definite industrial base and quite a good contingent of employees. The science and technology forces are especially strong, it being one of the four scientific research education centers in the nation.

We have already set about preparations to establish a Hefei Industrial Park, to carry out the exploitation of advanced technology, to provide an experimental district for the transformation of the achievements of scientific research into products.

Yang Yongliang hopes that Shanghai and Hefei will further strengthen and expand economic and technological cooperation; besides consolidating and developing alliances in light industries, electronics, and other industries, we should also open up the cooperative spheres in metallurgy, machinery, chemical industries, automobile manufacturing, village industries and other areas. He wholeheartedly welcomed Shanghai's industrial and commercial enterprises, scientific research organizations, institutes of higher learning, and individuals, to come to Hefei to set up enterprises, develop products, unite operations, and contract and lease businesses.

Yesterday afternoon, the vice mayor of Shanghai, Huang Ju, met with the Hefei city economic delegation, both sides exchanged views on expanding and developing economic cooperation.

13418/9274

FOREIGN TRADE, INVESTMENT

Guidelines for Pricing Technology Exports *40060472a Beijing GUOJI SHANGBAO in Chinese* *9 Jul 88 p 3*

[Article by Zhong Shulin 6988 2885 2651: "How To Price Export Technology?"]

[Text] In technological exports, setting an accurate price for the technology to be exported not only can increase foreign exchange earnings for the state but also can arouse the enthusiasm of units exporting technology and quicken the tempo in China's technological exports. Since technological export has just begun to make its first step in China and putting technology on the market as a commodity is a new thing that emerged in the past few years after reform, pricing export technology remains a fairly knotty new problem. At present, a frequently used pricing method is analogy, which is setting prices

for our export technologies according to the prices of similar technologies in foreign trade. This is a relatively simple method of pricing. However, due to our limited understanding of foreign trade in technology and a lack of relevant information and data, we are often unable to find the target of analogy. Another pricing method is based on the degree of difficulty of technology. However, to use this method, one must have some experience. So it is also difficult to comrades who have just entered the international technological trade and market. Moreover, some low-level and simple technologies are not necessarily low in value. Therefore, this pricing method is also one-sided. The biggest defect of the above two methods is that due to the lack of data analysis, the price tends to deviate from the true value of technology.

Since technology is considered a commodity, we must price it according to the law of commodity value. At the same time, we should consider the fact that technology as a commodity is different from the commodity in the form of goods. So we also need to consider its particularity when we price it according to the law of commodity value. In my opinion, a relatively accurate and rational technological price must consist of the following three elements:

1. Production Cost for the Development of the Technology

This cost includes expenditures for technological investigation, research, and experiment and value created by S&T personnel for themselves (wage). It also includes expenditures for providing various technological data. In addition to the above cash expenditures, the cost should also include expenditures for the consumption of materials and the utilization of natural resources.

2. The Use Value of the Technology

The value of technology is demonstrated mainly in the result of practical application. It is directly proportional to the economic returns of its practical application. The greater the economic and social returns technology produces in practical application, the higher its value. Otherwise, its value will be lower. So when setting this part of the technological price during the exportation of technology, a relatively practical way is to see how much production capacity can the buyer gain by using the technology or how much can society benefit from it. The amount of returns is determined by the speed at which a technology is transformed into production. If the buyer is a technologically advanced country, this process of transformation will be faster and the relevant returns will be thus higher. If the buyer is a technologically backward country, this process of transformation will be slower and the relative returns will thus be lower. Therefore, when fixing this aspect of pricing, we should take into consideration the disparity between countries. This

aspect of value content is the main consideration for the pricing of export technology. Generally, this aspect of price is fixed in accordance with a given ratio of profits earned by the buyer.

3. Added Expenses

This refers mainly to expenses for technological service, including expenses related to technological specialists providing necessary guidance for the buyer in the use of the technology, production demonstration and vocational training. This part of price should be fixed in accordance with the specific content of technological service.

To explain the price of export technology in a simple formula, we come up with the following. The price of export technology equals the development cost plus the use value plus the added expenses of the technology.

12302

Heilongjiang Governor Talks to Enterprise Managers

40060472b Beijing GUOJI SHANGBAO in Chinese
9 Jul 88 p 3

[Report by staff reporter Zhao Yingqi 6392 5391 3823: "Governor Hou Jie Holds A Direct Dialogue With Managers of Enterprises of Three Capital Sources To Heed Their Voices and Help Them Solve Problems"]

[Text] To solve the problems of enterprises of three capital sources and further improve Heilongjiang's investment environment, the Heilongjiang Provincial Government recently invited the Chinese managers of 44 enterprises of three capital sources to a forum to heed the voices of enterprises. It was the first direct dialogue between governors and "bosses" in Heilongjiang Province.

Attending the forum were Hou Jie, Governor; Chen Yunlin [7115 0061 2651] and Du Xianzhong [2629 7359 1813], Deputy Governors; He Shoulun [0149 7445 0243], Vice Chairman of the Standing Committee of the Provincial People's Congress; and officials of 16 departments and bureaus.

Many enterprise managers participating at the forum reflected that the relations between Chinese investors in joint ventures and the departments previously in charge of such enterprises is difficult to handle. To this, Governor Hou Jie gave a prompt and clear answer: Enterprises of three capital sources now are equal to, not affiliated with, the departments previously in charge of such enterprises. Enterprises of three capital sources should abide by the joint-venture law, the organ of the highest power is the board of directors, and other departments and individuals have no right to interfere.

When some enterprise managers complained that over-laborate exit examination and approval procedure

messed up their schedule and business, Hou Jie said that enterprises of three capital sources have to compete on the international market. How can they do this if Chinese managers cannot go out and find out what is going on on the international market? From now on, all government officials going abroad must be handled strictly according to regulations. We should make things easier for businessmen during their travel and proceed from economic efficiency. Immediately after the governor's remarks, an official of the government's foreign affairs office said that we have begun to resolve this problem. All personnel from enterprises of foreign investment seeking exit permits should first get the approval of the provincial government. After they obtained a passport, all they need to go abroad within the following 1 or 2 years is a stamp from their own enterprise.

Enterprise managers were very satisfied with the above answers.

Many enterprises of three capital sources complained about illegal levies currently prevalent in society. On this issue, Du Xianzhong, deputy governor in charge of foreign trade, said that such problems can be solved quickly if the enterprises have the courage and knowledge to boycott them in accordance with laws and regulations. They should also dare to use news media to appeal to the public. Of course, they should also study public relations and strive to use scientific methods to improve their relations with all fields.

The Vice Chairman of the Standing Committee of the Provincial People's Congress reminded everybody that the auditing department from now on will be in charge of handling such cases as illegal levies.

At the forum, managers of 20-some enterprises brought up scores of issues. Some were resolved on the spot; some were turned over to relevant departments to be studied immediately and resolved as soon as possible. As for those general issues, the provincial government promised to strengthen and improve law and regulations so as to solve them once and for all.

12302

ECONOMIC ZONES

Creation of Selected Cities as 'Mainland Hong Kongs' Proposed, Discussed

'Improved Organic System'

40060483 Shenzhen SHENZHEN TEQU BAO in Chinese 15 Jul 88 p 4

[Article by Liang Qian 2733 0578 in "Turning Shenzhen Into A Mainland 'Hong Kong,' How?" column: "Mainland 'Hong Kong' Is an Optimized Composition"]

[Text] The so called mainland "Hong Kong" can be symbolized by a formula: mainland "Hong Kong" = a new and improved organic system = socialism + the

mode of organization and function of society-oriented expanded reproduction + the structural framework of modern capitalistic commodity economy and management methods + modern scientific technique + Specifically, to create several mainland "Hong Kongs" means to select a few cities which have done relatively well in the reform and opening up to the outside world, and while we must preserve the socialist system, we want to borrow from and make use of the development experiences and methods of modern capitalism which have proven to be successful, and systematically introduce, transplant, and improve the legal system and management techniques of the capitalistic commodity economy, and organically integrate the merits of the commodity economies of all nations with the advantages of socialism to build a new order of socialist commodity economy with Chinese characteristics.

The mainland "Hong Kongs" should have three basic characteristics:

—It should be an improved hybrid and not a simple mixture. It should be the organic integration of the merits of socialism and the proper framework and scientific management of the capitalistic commodity economic system. It should embody the merits of both systems while allowing them to augment each other. This is a "1 plus 1 is greater than 2" improved structure and not simply a "1 plus 1 equals 2" mixture.

—It must have a rational and scientific economic program and a perfect legal system which comply with international practices. They should link up and also be "compatible" with the legal and management systems of the majority of the other nations with the commodity economic system.

—Its productive capacity should be highly developed, and its economic order must be rational and scientific. It should possess ample economic strength and vitality. At home, it should serve as a role model and give impetus to the mainland's economic development and the reform process. Abroad, it should be able to adapt well to international economic situations and handle contingencies with ease, and it should be competitive in its participation in international division of labor and exchange.

The Shenzhen SEZ is at the cutting edge of China's efforts to reform and open up to the outside world. Its proximity to Hong Kong is a geographic advantage. It has enjoyed rapid economic development in recent years, and it has a solid foundation in every respect. The cadres and the masses have a definite understanding of international practices and world market mechanisms, and they are psychologically prepared to accept the introduction of the management and legal systems of the modern capitalistic commodity economy. Conditions foreign and domestic are forcing the Shenzhen SEZ to push its economic development to higher grounds. Therefore, it should boldly experiment and explore,

speed up its political and economic reforms, integrate the SEZ's characteristics, systematically introduce, transplant, improve the modern capitalistic economic and legal systems, and promptly establish a brand new order of socialist commodity economy to become the nation's first mainland "Hong Kong."

12986

'Necessary Conditions'

40060483b Shenzhen SHENZHEN TEQU BAO in
Chinese 15 Jul 88 p 4

[Article by Hong Kong's Xia Xiaolan 1115 1321 1344 and Liang Mintao 2733 2404 3325: "Open Up the First Line, Guard the Second Line: Necessary Conditions for Creating a Mainland "Hong Kong""]

[Text] Deng Xiaoping pointed out recently that "we have to create a few more 'Hong Kongs' in the mainland." Overseas, many are shocked by this statement.

To create another "Hong Kong" in the mainland, first, we must understand Hong Kong. Lu Ping, deputy director of Hong Kong and Macao Affairs Office and deputy Secretary General of Committee for Drafting Basic Law of Hong Kong Special Administrative Region, attributed Hong Kong's success to: (1) Hong Kong's political stability, (2) its sound legal system, (3) its completely open and free economy and, (4) its superior geographic conditions. Lu Ping particularly emphasized Hong Kong's open monetary and financial policies and its free port status. He pointed out that "there are many so called free ports in the world, but they are not really all that free. Many do impose import and export restrictions. Only Hong Kong is a bona fide free port. Why? First, Hong Kong is not a country, and there is no national industry to protect. All investments, domestic or foreign, are treated alike. Therefore, there is no need for tariffs and other protectionist measures. Second, 90 percent of Hong Kong's products are destined abroad, and so their products do not have to compete with imports in the domestic market. Hong Kong's peculiar conditions mandate a completely open economy. After many years' practice, this kind of free port policy has proven to be a success. Therefore, in drafting the basic law for the Hong Kong Special Administration Region, we have preserved Hong Kong's free port status."

Since the free port model will be good for the Hong Kong Special Administrative Region 9 years from now, does the creation of several "Hong Kongs" in the mainland mean that they too should become bona fide free ports like Hong Kong?

In an interview by reporters from the China News Service in Hong Kong, Hainan's Provincial Party Committee Secretary Xu Shijie [6079 1102 2638] said, "originally the central government was mainly responsible for extending ideological guidance to help Hainan implement a policy similar in nature to a free port policy. Why

was this suggestion not put forward, and why was the policy not implemented? It is due mainly to the lack of proper conditions in Hainan. Hainan depends on the mainland for the supply of many goods, including food and daily necessities. It will be a problem to treat the goods and materials shipped from the mainland as imports. If we open the front door, we must guard the back door. If we cannot guard the back door, we cannot open the front door. If foreign goods and commodities are brought in duty-free or at reduced tariffs, the state must guard against the assault on mainland products by imports entering through the 'free port.' Therefore, we must first have a proper control system before we open up to the outside world. This is the 'second customs inspection' we talked about in the past. In short, as soon as conditions are ripe in Hainan, the central government will give its permission."

In an interview by reporters from the China News Service, a supervisor at the Shenzhen Border Customs Station also stated that "we will have to wait until the second front inspection station is perfected, which will allow the Shenzhen SEZ to become a duty-free zone, before we can exempt visitors entering Shenzhen from getting visitation permits and filling out customs declaration forms."

Thus, the mainland "Hong Kongs," whether they will be exact copies of Hong Kong or not, must allow free entry and exit of visitors, goods, and funds, and they must also be duty-free zones. But, at present, no city, including Shenzhen, Hainan, Juhai, and Xiamen, is equipped to become a free port, to open its front door and guard its back door. However, this should not prevent the installation of local test points on a limited scope.

In my opinion, the Fujian Industrial Zone presently under construction in the Shenzhen SEZ is most qualified to become the testing ground for the first mainland "Hong Kong," because at present, only this industrial zone can readily open its front door and guard its back door. The Fujian Industrial Zone is located at the mouth of the Shenzhen River. It has absolute territorial advantage, and it can make use of Hong Kong's readily available material and technology to implement a free port policy and promptly establish a base which is 100 percent devoted to the production of competitive export goods to earn foreign exchange.

The Fujian Industrial Zone is a small but fully equipped independent and self-contained district which is primarily industrial but offers commercial and residential services and other facilities. It is the first export processing zone which is developed as a complete project and is entirely foreign funded. It embodies a comprehensive and pluralistic system of independent industries and free commerce. It promises to be the best testing ground and breakthrough point for the first mainland "Hong Kong" which adopts customary international practices and "puts the two ends abroad" and engages in "large scale import and export."

Under the guidance of the 13th Party Congress, and with the support of the central government and the Guangdong Province, the Shenzhen SEZ, with its temporal, geographic, and human advantages, has all the potentials to become the first mainland "Hong Kong." This unprecedented move is bound to succeed.

12986

Overseas Chinese District in Shenzhen 'Thrives'
40060483a Shenzhen SHENZHEN TEQU BAO in Chinese 16 Jul 88 p 1

[Article by Zhang Dechun 1728 1795 4783 and Zhang Hong 1728 4767: "Perfecting the Investment Climate, Strengthened Enterprise Management—Shenzhen Overseas Chinese District Thrives"]

[Text] After several years' efforts, Shenzhen's overseas Chinese district has significantly improved its investment climate and has become increasingly attractive to overseas investors. Countless foreign businessmen have invested and built new factories here. During the first 6 months of this year, the GVIO of the district has topped 257 million yuan, more than 65 percent of which have been exports. These represent a 22 percent increase in the GVIO and a 24 percent increase in the export value over the same period last year. It has realized a net profit of 17 million yuan, which is a historic record for any 6-month period.

The overseas Chinese district, developed by the China Travel Service Group in Hong Kong, has put the emphasis on providing businessmen with a good investment climate and business environment. The group puts aside a significant portion of its annual profit for constructions in the overseas Chinese district. In the last 2 years, it has put 200 million yuan into its construction funds. It has developed 1.3 sq km of land, built 8 km of roadways inside the district, and connected all roads leading to and from the district. The construction of 130,000 sq meters of factory buildings began in June of last year, and by the first part of this year, 10 buildings extending 31,000 sq meters have been completed and are already in use. This year, the 39-unit deluxe "Oriental Garden" resort condominiums have also been completed, and individual units of the Fanghuayuan Apartment which is still under construction are being offered for sale. These are good real estate investments as well as fine homes for the businessmen.

Up to the end of June, the overseas Chinese district has entered into contract with overseas Chinese in the U.S., the Philippines, Singapore and other countries as well as with other Chinese and Hong Kong and Macao merchants for more than 50 construction projects. More than 20 joint ventures, cooperative ventures, and enterprises which process imported materials have already been established, and most of their products have already entered the international market.

The overseas Chinese district has improved its "hardware" significantly and has also worked hard on its "software." It has especially set up a training center to instruct small groups of cadres on enterprise management techniques, to renew their knowledge, and improve their management skills. The Guangming Overseas Chinese Electronics Corporation at present is the district's largest enterprise. It has 1,800 workers. Because of its competent cadres and the outstanding job it has done with staff and worker training and education, and because of sound enterprise management, its output value in the first half of this year has topped 170 million yuan, and its profit has almost quadrupled that of last year for the same period. The Huali Packaging and Trading Company, Ltd. lost HK\$5 million during the first 5 months of trial production due to poor management and lack of raw materials. Because the overseas Chinese district later dispatched cadres with management experience to help fix problems, the company is no longer losing money, and in fact, it has become one of the most profitable enterprises in the district.

12986

Shenzhen Mayor Interviewed on Area's Development

40060469 Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese No 190, 16 Jul 88 pp 33-38

[Text]

The Opening of the Coastal Region To Have a Positive Effect on Shenzhen

Since 1987, Shenzhen has been developing extremely rapidly, and it appears that a take-off stage has already begun forming.

It has already been 9 years since China began implementation, in 1979, of a policy of opening up to the outside, and Shenzhen SEZ, as an experimental reform region, has provided a wealth of experience for this policy of China's during the past few years. Early in 1988, the CPC Central Committee formulated and set forth the coastal economic development strategy, and established Hainan Province. On 20 June 1988, Zhou Jiannan [0719 1696 0589], deputy head of the State Council's Leading Group for Foreign Investment, stated at the opening ceremonies of the Sino-U.S. Conference on Industrial and Trade Research and Other Economic Development that in recent years, SEZ's had implemented important reforms in such areas as planning system, fiscal system, monetary system, investment system, foreign trade system, and labor and wages. At the same time, the Chinese government had decided to designate as economic open regions the Liaodong Peninsula, Shandong Peninsula, and certain coastal cities and developed regions, and to implement preferential policies encouraging the absorption of foreign commercial investments and development of foreign economic and trade activities, while at the same time expanding the scope of three economic

open regions—the Pearl River delta, the Yangtze River delta, and the Minnan Region. In this way, the scope of China's coastal open region would double and redouble, forming a continuous north-to-south open coastal region of over 300,000 square kilometers and a population of 160 million.

What problems has Shenzhen, the "older brother" of the SEZ's encountered in the competition for opening? How has Shenzhen developed recently? Is Shenzhen's model valid in coastal opening? This publication is very happy that it was able to interview Mayor Li Hao for the fourth time, and that he found time in his busy schedule to explain to our reporter Shenzhen's recent development and trends.

Is Shenzhen's Position Likely To Be Supplanted?

Reporter: Is the opening of other coastal regions likely to pose a threat to Shenzhen? Is Shenzhen's position likely to be supplanted because its land prices and wages are not as low as those of Hainan, the Pearl River delta, and elsewhere? What new policies does the Shenzhen city government have to deal with this situation?

Li Hao: This question was constantly asked me by friends in the preceding stage; they all wanted to know whether, following implementation of the coastal opening strategy, such things as the carrying out of comprehensive reform experiments by Guangdong and Fujian and the establishment of Hainan as a province were likely to increase competitive pressure on Shenzhen, and what countermeasures Shenzhen could adopt to maintain its predominance. Actually, it has been apparent to everyone for the greater part of a year that the implementation of this new strategy by the coastal region is unlikely to have any effect on Shenzhen, and even if it did have an effect, it would be a largely good effect. Shenzhen's position is unique, consisting of its special role of "window," responsible for serving as a thoroughfare between China's interior and the outside world. Therefore, the coastal region's opening and its increased contact with the outside world is not only unlikely to affect Shenzhen's economic development, it may on the contrary become a factor advantageous to Shenzhen's development. According to Shenzhen City statistics, 39 units above the level of prefectural seat from throughout China held talks in the first half of the year, some of them on an extremely large scale, such as the Nanjing City talks, which had nearly 1000 participants, including officials of Nanjing government departments and the Economic Bureau, and foreign business representatives. The volume of business was extremely high. The volume of business with foreign and Hong Kong firms amounted to \$200 million. This proves that, as the interior moves toward opening up to the international market, it often must first turn to and use Shenzhen. Because Shenzhen's position is unique, the opening of other regions in no way poses a threat of competition; rather, it is mutual cooperation and promotion, and better brings into play Shenzhen's role as a "window."

This is also the case with the further opening of Hainan. Some mistakenly believe that when Hainan is opened it is liable to become Shenzhen's adversary, but I believe that the opening of Hainan is a very good thing for the whole country, and will also provide impetus to Shenzhen's development. Just a year ago, a Shenzhen enterprise invested in the construction of a hotel in Hainan. Hainan must also use this "window" of Shenzhen's in developing foreign contacts. Moreover, Shenzhen and Hainan are two different types of special zone. Shenzhen is a window-type zone, while Hainan is a resource development-type zone. Shenzhen is close to Hong Kong, and is classified as a port city, and therefore there is unlikely to be much competition with Hainan. It is likely that the only effect will be to promote mutual supplementation. This is similar to the relationship between the mainland and Hong Kong, whereby the more the mainland opens and develops, the more Hong Kong prospers, and the more prosperous and stable Hong Kong is, the more it benefits the mainland.

Competition in Conformity With Economic Laws

Reporter: Such coastal localities as Dongguan and Huizhou are fairly close to Shenzhen. Are they likely to have a major effect on Shenzhen? What countermeasure does Shenzhen have against their competition?

Li Hao: If you call it competition, this kind of competition is very natural, and conforms with economic laws. The labor force and land in these places are somewhat less expensive than Shenzhen's, and some labor-intensive enterprises will turn more to these regions, which is a normal phenomenon. It is exactly the same case as with Hong Kong and Shenzhen; the average wage of Shenzhen's workers is HK\$800 per month, while the average wage of Hong Kong workers is about HK\$3,000 per month, and therefore a considerable amount of money is saved annually by setting up factories in Shenzhen, so that Hong Kong businesses naturally move labor-intensive industries to Shenzhen or the interior, while Hong Kong itself gradually develops toward high-tech industry. This is the inevitable trend of economic development. However the wage disparity between Shenzhen and such localities as Huizhou is by no means very great. A comparison shows that Hong Kong is much higher than Shenzhen, while Shenzhen is about the same as such localities as Huizhou, and therefore the current effect is unlikely to be very great. However, in view of Shenzhen's development, Shenzhen's land is becoming more and more valuable, and a fairly large number of workers come into contact with high-tech industry, so it is possible that in the future Shenzhen may convert certain low-added value industries, and itself turn more to development of high-tech industry. This is an inevitable trend. In general, the implementation by China's coastal region of a strategy of opening up to the outside world has not put any competitive pressure on Shenzhen, and has even added new factors of development for it.

Shenzhen Has Geographical and Policy Superiority

With regard to what countermeasures Shenzhen will adopt in the future, it will generally continue to bring into play its geographical and policy superiority, and urge the further acceleration of economic system reform, allowing Shenzhen to have a more perfect investment and operation climate. The goal of our reform is to achieve operation in accordance with international practices. More specifically, we are making efforts in three areas. The first is to establish and perfect an enterprise operation mechanism, to allow various kinds of enterprises with different ownership systems to achieve autonomous operation, self-development, and a system which rewards excellence and weeds out the inferior, in accordance with market rules and under conditions of fair competition. The second is to establish and perfect a market system, to make possible the resolution and realization, under market conditions, of everything needed for enterprises' production and operation. The third is to establish and perfect a macroeconomic adjustment system for the city government, and the administrative measures necessary to supplement them, to effectively guide normal economic advance. Currently, centering on the objectives of reform, we are formulating new reform plans, and gradually implementing them.

Shenzhen's Development Divided Into Three Stages

Reporter: To what stage has Shenzhen developed up to now?

Li Hao: According to our tentative plan, the SEZ's development is roughly divided into three stages. The first stage was from the time the SEZ was first proposed until the end of 1985. The second stage is from 1986 to the early 1990's; this is the stage in which development of the SEZ takes shape, and an export-oriented economy is established. This stage has three primary tasks: (1) adjust and smooth out relations; (2) concentrate on developing an export-oriented economy with industry as its basis; (3) promote system reform, and establish a comprehensive economic, political, and cultural framework. The third stage is the stage of further improvement. We are currently in the second stage, and are striving to complete the second and third tasks.

Reporter: What outstanding reforms and construction has Shenzhen, as an experimental zone for reform, implemented, and what reform measures is it likely to implement in the future?

Shenzhen's Reform Leads the Whole Nation

Li Hao: There are many respects in which Shenzhen's reform leads the whole nation. In the past few years we have probed many areas of the economic system, and have carried out reforms one after another over 10 areas, including the planning system, enterprise system, price system, fiscal credit system, labor and personnel systems, and wage system. The SEZ's reform has been intensified

since entering the Seventh 5-year plan. Specifically, we promoted the following reforms one after another: (1) We took the lead in promoting reform of the land use management system; (2) we established the nation's first foreign exchange regulating center, allowing Shenzhen to form a primary foreign exchange market; (3) we established the nation's first share system bank—Shenzhen Development Bank; (4) we formulated and promulgated "Temporary Provisions for the Trial Conversion of Shenzhen SEZ State-Owned Enterprises to the Share System," and explored state-owned enterprise share system reform; (5) we were the first to establish a city investment management company, and separate the government's social management function from its asset management function, forming a new investment system; (6) we promoted reform measures encouraging scientific and technical personnel to set up private-sector scientific and technical enterprises; (7) we introduced the competition mechanism into the personnel and cadre; (8) we were the first to establish a city supervisory bureau. These reform measures will play an active role in ensuring that "the economy will prosper, and party and government organs will be honest."

The important reforms carried out this year include rent reform, opening the capital goods market, and adjusting and perfecting the wage system. Rent reform is divided into three steps—from the current low rent, adjusting to a quasi-cost, and then gradually adjusting upward to the cost price, and achieving comprehensive implementation.

Wage reform includes classifying, assessing, and managing administrative personnel and the personnel of enterprise units. In addition, it includes adjustments to increase wage disparity, overcome disparity, and the like. At present, the wage differential among Shenzhen's civil servants is only 300 percent, while the salary disparity among Hong Kong's civil servants is around 2000 or 2000 percent. Naturally, Shenzhen cannot have as wide a disparity as Hong Kong, but it must gradually increase it. The egalitarian principle of wage uniformity is a root of unhealthy tendencies. The resolution of egalitarianism is highly advantageous with regard to using salaries to breed honesty, putting an end to unhealthy tendencies, and allowing government organizations to recruit more outstanding talent. The task of increasing wage disparity will require a long time to complete. The government must first have adequate financial resources and talent to adjust wages upward. At the same time, there is a problem with regard to thought and understanding, and if the disparity is increased too much all at once, the masses are liable to be dissatisfied. It is therefore necessary to proceed gradually. This year's 320 percent disparity is a slight increase over last year's 300 percent, and in the future it will increase gradually each year.

With regard to price reform, in 1989 Shenzhen began to abolish price subsidies, and to uniformly introduce wage disparity, and last year it began to carry out measures to link prices, such as the basic cost of living.

Reform of the political system will redesign the framework of Shenzhen's government, and allow the design of the various party and governmental systems and social organizations to gradually become more scientific, simplify the administrative structure as much as possible, get rid of bureaucracy, develop the democracy of socialism, and increase zeal and efficiency in all areas.

Reporter: Have there been any changes in the framework of Shenzhen's government from the 13th National Party Congress to the present?

Li Hao: Shenzhen's framework is clearly different from that of organizations in the interior. For example, the government has not established specialized bureaus, and in cases where the party committee has special agencies corresponding to the government's, the agencies are greatly cut back. In 1986, the city committee again emphasized that it would not take on all administrative work, and that it would focus on work in three areas: 1) major governmental affairs, 2) cadres, 3) spiritual civilization. Although the formulation at that time was by no means complete, it was very similar to the party committee tasks set forth later at the 13th National Party Congress. In addition, introducing the competition mechanism into cadre management was also a new breakthrough. The Shenzhen City government currently has 39 bureau director positions. Of these, 12 bureau directors and deputy directors of bureau-level units were hired through competitive examinations. The Bureau of Audits and Bureau of Standards, for example, advertised for a total of 6 bureau director and deputy director positions, and at that time over 80 people applied to take the examination. Moreover, all were from within the SEZ, were of the proper age, and had suitable academic records and experience. The system of advertising job vacancies is extremely helpful in raising the caliber of government personnel.

Shenzhen's Development Sets New Records

Reporter: Shenzhen's economic development has repeatedly set records in recent years, with outstanding records being achieved in exports, capital construction projects, and the like, but what are the actual figures? And can we size up the situation in the second half?

Li Hao: With regard to the data, let's hear from Liu Zhigeng [0491 1807 1649], Deputy Head of the Planning Office.

Liu Zhigeng: First, with regard to the gross value of industrial output, according to statistics of the end of 1987, the gross value of industrial output reached 5.76 billion yuan, a 60 percent increase over 1986, and a 100 percent increase of 1985, the highest growth rate of any region in the nation. Exports last year also increased to \$1.414 billion, an 86 percent increase of 1986. This increase is also the nation's largest; ranking the exports of the nation's various large cities, Shenzhen occupies third place, surpassed only by Shanghai and Tianjin.

Over half of industrial products are exported; the gross value has reached 3 billion yuan, a 68 percent increase, and its proportion to the gross value of industrial output has increased from 51 percent to 53 percent.

In the first half of this year, the national economy still maintained an overall trend toward high-speed growth. Projecting up to the end of June, the gross value of industrial output has reached 3.5 billion yuan, a 45 percent increase over the same period last year; total retail sales of social commodities is 2.25 billion yuan, a 47.8 percent increase, and capital construction has reached 1.1 billion yuan in investments, a 50 percent increase. The gross value of exports is \$810 million, an 84.1 percent increase. The volume of passenger traffic, volume of goods transported, and harbor traffic volume have increased 13.9 percent, 26.4 percent, and 57 percent respectively. There are 350 cases of bringing in and utilizing foreign capital and concluding contractual agreements, a 132 percent increase, and the amount of foreign commercial investments agreed upon is \$230 million, an increase of over 100 percent. In general, the various industries, based on last year's growth, will continue to display a tendency toward rapid growth.

Shenzhen Has Developed Especially Well in 1988

Reporter: Shenzhen seems to have developed especially well in 1988, what exactly is the cause of this?

Li Hao: In 1986, many people believed that Shenzhen's conditions were rather sluggish, but be that as it may, industry still showed 33 percent growth that year, last year it was 61 percent, and up to June of this year there has been over 46 percent growth. This rate of growth is normal for Shenzhen, but such a high rate cannot be asked of the whole nation. This year Shenzhen's tourist industry and third industries also showed considerable vigor. There are many facts to prove that the international investment market is tending to shift toward the interior. In 1986 and 1987, a few large international enterprises moved into China, but this year is different. This year, the SEZ's practice of importing from abroad and cooperating with units in the interior produced unprecedented favorable trends. First, many large financial groups and transnational corporations in Hong Kong, Macao, and overseas are showing a greater and greater interest in coming to the SEZ to invest. Such U.S. firms as General Electric, Xerox Transnational Corporation, and Dupont all intend to invest in and run projects in Shenzhen, and such large firms as Hong Kong's Sun Hung Kai, Tin On, and Swire, the Netherlands' Philips, Japan's Hitachi, and West Germany's Siemens have come one after another to negotiate investments. Second, foreign firms are focusing on investing in "long-line" projects in such areas as industry, transportation, and science and technology. In industry alone, the total amount of investment has increased by 360 percent. The Kowloon Warehouse Group intends to participate in the development of Lantian Harbor, and the Sun Hung Kai Group has expressed the intention of investing

in the Shenzhen Airport. Third, foreign firms are actively participating in the development of new industrial zones and factory buildings. Chegongmiao's Huangguan Electronics Industrial Zone, which was developed by foreign firms, erected a factory building over 80,000 square meters in area, and the construction of Shatoujiao's Baoshui Industrial Zone is proceeding smoothly. Fourth, the development trend of the three forms of import processing and compensation trade is also very vigorous. In the first half, Baoan setup over 600 new enterprises of this type, with an average of 4 starting businesses each day. Negotiated investments by foreign firms totaled \$230 million, a 180 percent increase. Fifth, lateral integration with the interior has achieved clear success. Industrial projects and their negotiated investments have increased 360 percent and 840 percent respectively. These various factors have promoted Shenzhen's high degree of economic growth.

Shenzhen's position is an overlapping intersect point situated between the two circles of the international market and the domestic market. In the past, these two markets were kept apart, but after opening it changed to this situation. Shenzhen is especially different; it is both a part of the international market and a part of the domestic market, and this has increased the superiority of Shenzhen's development. Shenzhen's value rests on this point; many people like to hold exhibits in Shenzhen because it is very convenient for people within China to attend, and also very easy for foreigners to come to Shenzhen. Other places are different. Hong Kong is now classified only as an international market, and it is still very hard for people within China to go to Hong Kong. The coastal development strategy now being set forth by China is also aimed at expanding the scope of overlapping intersect points.

Dialogue With Hong Kong Officials

Reporter: Not long ago, you went to Hong Kong and held dialogues with Hong Kong government officials. Was the content of the dialogues related to this topic?

Li Hao: We talked primarily about relations between Hong Kong and Shenzhen. At present, relations between the cities can be divided into three levels.

The first level is that of specific work concerning transit across national boundaries, involving such issues as communications, customs, and personnel transit. Both sides have enjoyed a good cooperative relationship for many years with respect to these areas, contact is very frequent, and resolution of problems in these areas has also been relatively prompt. The second level is that of problems of cooperation and coordination with respect to such as policy, planning, and information concerning the development of the two cities. Cooperation in this area has gradually increased in recent years. This has included both private sector and government cooperation. For example, the electronics industries of Shenzhen

and Hong Kong have established a relatively close cooperative relationship. Having high-level government officials of Shenzhen and Hong Kong visiting each other and explaining to each other their respective development plans and policy measures is very beneficial to the harmonization of development relations of the two cities. Just as General Secretary Zhao Ziyang [6392 4793 7122] has pointed out, these contacts, with respect to the development of the two cities, brings into play their respective strengths, allows them to complement and support each other, improves their competitiveness on the international market, and benefits the long-term prosperity and stability of Hong Kong and the more rapid economic development of Shenzhen and the interior.

At the third and highest levels, the problem is that we must clarify the relationship between Shenzhen and Hong Kong with respect to understanding and theory. This is the basis for formulating development strategy and policy. Exactly what kind of relationship exists between Shenzhen and Hong Kong? Is it a relationship of mutually exclusive competition, or is it a mutually complementary cooperative relationship? I believe it should be the later. At present, Shenzhen's development depends to a very large degree on support from Hong Kong with respect to funds, technology, management, talented personnel and the like, and Shenzhen's comparatively rapid development is related to its proximity to Hong Kong. This is obvious. At the same time, we must also note that Shenzhen's development is also beneficial to Hong Kong. Shenzhen currently has 200,000-300,000 workers employed in Hong Kong-run enterprises involved in the three forms of import processing and compensation trade, joint ventures, or wholly-owned enterprises, and more and more Hong Kong enterprises are moving to Shenzhen. Without the cooperation of Shenzhen and the Pearl River delta region, Hong Kong could not have achieved its present competitiveness on the international market. Shenzhen's development in such areas as industry, technology, communications and transportation is without a doubt positively helpful in maintaining Hong Kong's position as a center of trade, shipping, and finance.

Shenzhen's Future Major Construction

Reporter: What major construction is likely to be implemented in the second half of 1988 and next year?

Li Hao: There are many fairly large construction projects, such as construction of the Huangchuan port and highway. After this port is completed and opened for use in the first half of next year, the volume of traffic may grow from the present volume of approximately 10,000 vehicles per day to 50,000 vehicles per day. Construction has begun on the Lantian deep-water harbor in the eastern region, and construction of Huangtian Airport is also scheduled to begin before the end of the year. There are currently only 36,000 program-controlled telephones in the whole city, but this will be

increased this year and next year to over 90,000. There are even more industrial construction projects. There are over 30 priority projects. For example, the Huamei Precision Chemical Plant and the Haujiari Aluminum Products Plant have been completed and started operation or trial production, the second stage of construction of the Laser Television Transmitter Project and the Shenxi Microcomputer Factory is progressing smoothly, and these may go into operation before the end of the year. A glass products factory, a color picture tube factory, a brewery, a sheet metal factory, a chemical materials factory and the like have either gone through contract initialling or have entered the stage of preparation for construction, and feasibility studies are currently being conducted on 20 projects, including a 7.5 million-ton and a 3 million-ton oil refinery, a 600,000-ton sugar refinery, and a 5-million-piece-capacity permanent magnetic material plant.

Reporter: The cost of living has risen tremendously in the north, affecting the morale of the citizens; could this phenomenon occur in Shenzhen?

Li Hao: There must be price and wage reform—even if there is some risk, this barrier must be broken down in order to smooth out relations. The central authorities were completely correct in making this decision. A slight rise in prices is hard to avoid in implementing reforms. I believe that the people of the whole nation can understand this and give their support, and once the job is completed, it should not affect morale. Shenzhen has experienced a rise in prices, too, but we are prepared to keep the degree of rise within a proper range; and, therefore, it is unlikely to produce too much of an effect.

The key is to increase labor productivity and economic returns. As long as economic returns increase, it is possible, through such measures as upward adjustment of wages and increase of subsidies, to remedy the effects brought on by price hikes. Our guiding principle is to gradually increase wages and improve the people's livelihood as we develop production and increase returns. And yet, we cannot depart from what is economically feasible, become divorced all at once from our national conditions, and raise wages by a large amount. By adjusting wages too high, it is easy to create a vicious circle of alternating wage and price hikes. Even if it doesn't reach this stage, it can also affect the competitiveness of our products. Mr Chen Wenhong [7115 2429 7703] proposed in Issue No. 189 of "Wide Angle" that "this should be a period of arduous construction for China, but many Chinese are instead enjoying and consuming as much as they can." This opinion merits our serious attention. Naturally, Mr Chen Wenhong appears to have betrayed some pessimism toward China's economic development, and I feel that perhaps Mr Chen has taken an overly grave view of the problem.

Amid Mayor Li Hao's hearty laughter, our interview, which had lasted over 2 hours, was concluded. Unfortunately, Mr Chen Wenhong had been unable to participate in the interview because of other obligations; otherwise, he certainly would have been able to respond to Mayor Li's views.

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Progress in Zhejiang's Two Coastal Development Cities

40060397 Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese
No 24, 13 Jun 88 p 14

[Article by Cao Yinkang 2580 6892 1660: "Initial Results of Zhejiang's Development"]

[Text] In 1984 and 1985, the Chinese government approved the inclusion of two Zhejiang cities, Ningbo and Wenzhou, in the 14 coastal development cities which were to take the lead nationally in opening to the outside. Not long after, two more Zhejiang cities, Jiaxing and Huzhou, were included in the Changjiang Delta Economic Development Zone, along with four counties they belong to. As this was starting, the provincial capital of Hangzhou, a national tourist center, also opened up. From this, the basic pattern of Zhejiang's opening to the outside began to take shape.

For the past several years, with the coastal development zone as a starting point, Zhejiang has functioned as a fan radiating both domestically and internationally, establishing economic relations with 28 Chinese provinces, municipalities and autonomous regions as well as more than 130 nations and regions throughout the world, providing a spur to the rapid development of the province's overall economy. Since 1984, Zhejiang's gross industrial and agricultural output value has averaged 22 percent, a rapid, large-scale increase. Last year this figure amounted to 94.6 billion yuan, enabling the province to jump into sixth place nationally. At present, this province can supply more than 1,500 kinds of products for export, which are marketed to more than 130 nations and regions worldwide. Last year's volume of trade exports reached \$1.37 billion.

Intensified Construction of Infrastructure

In order to speed up development, Zhejiang is making considerable progress toward improving its infrastructure. Take as an example the area of communications and transportation construction. Ningbo formerly had no air service but now there are regular flights from that city to Hangzhou, Shanghai and Beijing. In addition, there are now air routes from Hangzhou to Taizhou, and from Taizhou to Shanghai. Ningbo's Liangshe International Airport and the Wenzhou Airport are now under construction, as are the Shanghai, Hangzhou and Zhejiang double track railway and the Qiantangjiang Bridge. The newly constructed deepwater harbor Beilun Harbor railroad is open to traffic. Connecting the Ningbo area to the small ports development area road infrastructure is

the No Two Ningbo-Hangzhou Highway which has been included in the Seventh 5-Year Plan. The project linking up the Beijing to Hangzhou Grand Canal with the Qiantangjiang has been completed. The water transport routes connecting Ningbo and Wenzhou with Hong Kong are both open. Construction has also been completed on the 100,000-ton class Beilun Harbor and the 10,000-ton class Zhenhai Harbor. The first step was to form an ocean transport network which had Ningbo's harbor as its center, starting from the north with Zhapu Harbor, Dinghai Harbor and Haimen Harbor, and proceeding south to Wenzhou Harbor.

In the construction of communications, the telephones in the five cities of Hangzhou, Ningbo, Wenzhou, Jiaxing and Huzhou in general have greater capacity. Hangzhou and Ningbo's programmed control telephones are open, so that calls can be placed directly to nine nations and areas, including the United States, Great Britain, Italy, France, Japan and Hong Kong.

The tight situation regarding water and electrical supplies has also been alleviated somewhat.

The five cities have either recently built or refurbished a group of guesthouses that are at approximately the middle of the international level. Last year after the State Council published its regulations aimed at encouraging foreign investment, Zhejiang adopted a series of favorable measures in such areas as tax revenues, payments, land use, natural resources, etc., which were advantageous in handling the concerns and difficulties of foreign businesses. This has also raised the level of efficiency of our own offices, and thereby further developed a positive "flexible environment."

Excellent Benefits for Foreign Investment Enterprises

The improvement of the environment for investment has attracted a sizable group of investors. By the end of 1987, this province had drawn in funds from foreign businesses and governments, from international money market organizations, from foreign banks and the three kinds of partially or wholly foreign-owned enterprises⁴ they control, development subsidy trade, etc. In all, the province had utilized \$350 million in foreign capital. Formerly, the very first foreign investment firms from Hong Kong and Japan were driven to such nations as the United States, France, Italy, the German Federal Republic, Libya, Singapore and Australia. And, the investment sphere had also expanded from its original guesthouses, service installations and clothing manufacture to light industry, weaving, machinery, electricity, building materials, aquatic products, energy resources, communications and transportation, and other such industries.

At present, the whole province has concluded agreements for a total of 157 jointly funded and managed enterprises, as well as two foreign, independently funded enterprises. Of these, 118, or 73 percent, are engaged in production. These businesses are distributed chiefly among the weaving, electricity and plastic products

industries. Of all the enterprises throughout the province which are funded from foreign sources, 77 are in production (doing business), or in test production (conducting business on an experimental basis), and the majority have achieved better economic benefits.

Attracting Joing Operations Abroad, Under Dual Management

At the same time that Zhejiang is making use of foreign investment, it is intensively developing economic and technological projects abroad. At present, the province has contracted with over 20 foreign nations and areas for construction projects, providing food service and maritime workers, as well as opening up technical cooperation in such fields as agriculture, aquatic production breeding, etc. At the same time they are operating 12 joint ventures in such nations as the United States, Canada, Thailand and the United Arab Emirates.

Opening to the outside world also advances the province's economic and technical cooperative efforts with other areas in China. At present, there are 16 provinces, cities and central units along with 47 counties within the province have established management organizations in Hangzhou to carry out exchanges in such areas as economics, technology, personnel and information. Every kind of regional economic organization and widespread development organization activity, whether between town and country, factory and office, industry and agriculture, between military and civilian, production unit and academic institution, among research units, has been a spur to Zhejiang's economic construction. Now, more than 50 percent of this province's steel, 60 percent of its coal, as well as the majority of its nonferrous metals, textiles and industrial chemicals are all dependent upon cooperative efforts.

After four years of opening to the outside, Zhejiang's economic structure has begun to move from a closed to an open model. According to the government of Zhejiang, the province will go along being self-sufficient, characterized by too many people and too little land, its technology relatively developed and its resources relatively poor, showing progress in adjusting the economic structure, and carrying out an outward looking economic developmental strategy.

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AGRICULTURE

Decontrol of Fruit, Aquatic Product Prices *40060470b Beijing JINGJI CANKO in Chinese* *20 Jul 88 p 2*

[Article by reporters Wang Jinye 3769 6651 2814, Zhao Hung Feng 6392 3163 1496, Liu Dongdong 0491 0392 0392: "Successful Attempts in Price System Reform—An Investigation on Decontrolled Fruit and Aquatic Product Prices (Part 1)"]

[Text] Ramie wars, silkworm cocoon wars, sheep wool wars...

First, it is "pork won't sell," then it is "meat can't be purchased." In the period between last winter and this spring, the supply of pork, poultry eggs and sugar suddenly became tight, and large cities reverted to the use of purchase coupons...

After the agricultural products markets were decontrolled, they exhibited a kind of chaotic situation where it seemed they had never been calm. The grumbling of the people was endless. But, among all of the agricultural products, only the fruit and aquatic products pleased most people. Everyone admits that the decontrol of the fruit and aquatic products markets have been the most successful of all agricultural products.

What successful experiences in price reform for fruit and aquatic products can we learn from?

Prices Are Decontrolled, the Benefits Are Everywhere

"No matter where you are, you can eat any kind of delicious fruit you want." This is how people describe the current fruit market.

"It used to be that buyers chased after fish. Now fish chase after the buyers." This is the scene in the aquatic products market.

After prices for fruit and aquatic products were decontrolled, the markets remained marvelously stable. Consumers could clearly feel that when the goods in the markets were abundant and good, it was easier to buy them. The people could go to the state-run shops and country trade fairs to buy live, jumping fish; they didn't have to stand in line with tickets to buy dead fish. With a cornucopia of sweet, fragrant fruit of all seasons available from all over, the idea that certain fruit could only be consumed in certain places during certain seasons no longer held true. The blossoming of the market depended on the development of production. In the years 1985 to 1987 following decontrol of market prices, the area in the nation planted with fruit doubled. The national output of aquatic products increased greatly from 6.16 million tons in 1984 to 9.4 million tons in 1987.

The basic reason for the rapid development of production lies in the unprecedented rise in farmers' production enthusiasm. Farmers were also the direct beneficiaries of the decontrol of prices. The report from the Guangdong Province Agricultural Products Investigation Team shows that the 1985 net income of farmers for oranges and bananas was 1926 yuan and 635 yuan per mu respectively, an increase of 1452 yuan and 481 yuan respectively over that of 1983 when prices hadn't been decontrolled. Net income per 50 kilograms of marine fish and pond fish increased from 4.9 yuan and 15.37 yuan respectively in 1984 to 22.30 yuan and 42.18 yuan respectively in 1985.

After the situation of all state-run shops being the same became a memory, many channels emerged in circulation territories, the links in the circulation chain became fewer, and a new set-up with open-style management came about. Not only did individual and collective businesses receive actual benefits, but the vitality of state-run shops also greatly increased. For example, in 1984 the nationwide aquatic products supply-sale system lost 35 million yuan, but in 1986 it earned 184 million yuan and last year 200 million yuan.

In summary, when prices are decontrolled, the benefits are widespread. The situation prior to decontrol of prices where producers gained few profits, many businesses lost money, and the consumers had strong opinions is a thing of memory. Instead, we now have a new situation with producers increasing their profits, businesses changing their losses into gains, and consumers being very satisfied.

Prices After Decontrol—First Rise, Then Stable

“After the price decontrol, prices fluctuated like a kite out of control.” This is how some consumers remember it.

Sure, labor pains are difficult to avoid. Under the system with centralized or assigned procurement, the prices of fruit and aquatic products were too low; there was no enthusiasm on the part of the producers, and products ran short. So, when prices were decontrolled, most sharply rose in the neighborhood of 100 percent and some even tripled or more. The purchase price of small Guoguang apples went from the original between .20 yuan and .24 yuan per 500 grams to between .40 yuan and .50 yuan; their retail price during the busy season jumped from a maximum of .42 yuan per 500 grams to between .90 yuan and 1 yuan. In Guangzhou, the staple-grass carp went from 4 yuan per kilogram to about 15 yuan per kilogram. Consumers who were accustomed to having cheap fruit and aquatic products naturally could not endure the heavy pressure of these high prices, and in many cities consumers wrote letters to the government requesting them to take up the matter and do something about it.

As the cries of discontent from consumers were heard everywhere, the abrupt rise in prices provided producers and businesses with a huge shot of inspiration. Unwittingly, the consumers discovered that the number of products in the markets increased tremendously, the quality became good, and prices either gradually dropped, remained level or rose slowly. In 1979, the first year of price decontrol in Guangzhou, grass carp sold at retail for an average of 6.44 yuan per kilogram; in 1980 it dropped from 4.14 yuan. Dace dropped from 2.8 yuan per kilogram in 1980 to 1.78 yuan per kilogram in 1984. In Hangzhou, oranges which sold for between .40 and .42 yuan per kilogram before price decontrol have sold for about .70 yuan per kilogram during the busy season of the last 2 years. This completed a kind of process,

shortage—expensive—numerous—stable (cheap). The consumers are happy, and control of prices turned out to be still in the hands of the people. In interviews we often heard, “The earlier prices are decontrolled, the earlier we benefit.” This is the personal feeling of producers and businesses. They understand that if you don’t go through the “labor pains,” then you will suffer “long-term pain,” and if you grit your teeth, you can get through it.

The situation in 1987 attracted the attention of the people. Fruit and aquatic product prices rose fairly markedly for objective reasons. One is that production costs rose, and another is that prices were pulled up by rises in non-staple prices. However, in spite of this, consumers still admit that comparatively speaking, fruit and aquatic product prices are still reasonable. In Guangzhou, the price of 1 kilogram of lean pork is about the same as two kilograms of grass carp. In summary, a certain fluctuation in prices is unavoidable and normal.

Can the Prices of Daily Necessity Products Be Decontrolled?

Conducting concrete analysis from the standpoint of the law of value, we see that we shouldn’t apply suffocating controls the minute prices begin to fluctuate. This is how price decontrol of fruit and aquatic products has been successful.

After prices were decontrolled for fruit and aquatic products, production developed and markets stabilized; however, the markets for non-staples like hogs and vegetables fluctuated frequently. Last year, in certain large cities, supplies of pork and chicken eggs reverted to using coupons, and the market prices were high. Examining the reason for this, we see that because such goods as meat, poultry, eggs and vegetables are closely related to daily life, as soon as there is fluctuation, a signal is immediately passed along to the various decisionmaking bodies. Because we are so deeply ingrained with the old methods and also we don’t have any effective new methods to use, it is easy for us to resort to the old. Thus, the decisionmaking bodies spontaneously react using the old methods to stabilize the market. We abandon the old method, but it comes back to us and hurts the enthusiasm of the producers and the businesses, and the result is that it spells automatic doom. Although there have been fluctuations with fruit and aquatic products in some areas and some individual varieties, overall they have been allowed to take their own course without inappropriate administrative meddling. The stimulating factor—price—has all along played its role, so producers and businessmen have all along been able to gain profits, thereby avoiding large fluctuations in production.

Some comrades feel that fruit and aquatic products don’t belong in the category of daily necessities—you can eat more if you have the money, and you can cut down on them if your money is tight. So, things have gone fairly smooth since their prices were decontrolled. However, daily necessities are different, we can’t take reckless

action. The practice of reforms in Guangzhou gives us sufficient material to dispel any doubts. In Guangzhou, fish is more important than meat, and as for the residents there, fish is more of a "necessity."

In 1979, while guaranteeing each citizen 13 kilograms of medium-priced fish per year, Guangzhou resolutely decontrolled the aquatic products markets. Under the stimulation of high prices, the output of fresh water fish in Guangzhou Province rapidly rose tremendously with good quality and many varieties. Also, the traditional feature of selling live pond fish made a recovery. While the people found it easy again to eat fish, fish prices also came down.

Of course, since we're dealing with daily necessities, control departments will have to pay even more attention and study trends in market change after prices are decontrolled. They will have to fully consider the ability of consumers to withstand certain changes, and they will have to make the necessary preparations, both materially and in spirit, to guarantee that price reforms are carried out smoothly.

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National Tobacco Procurement

40060513f Beijing JINGJI RIBAO in Chinese
7 Sep 88 p 1

[Excerpt] As of 20 August, China had procured 8.8 million dan of flue-cured tobacco, a 94 percent increase over the same period in 1987.

Hunan Rural Savings

40060513h Changsha HUNAN RIBAO in Chinese
16 Aug 88 p 1

[Excerpt] At the end of July, rural savings in Hunan Province totaled 1.836 billion yuan, an increase of 50,710,000 yuan, or 3.9 percent, over the same period in 1987.

Hunan Hybrid Rice

40060513g Changsha HUNAN RIBAO in Chinese
19 Aug 88 p 1

[Excerpt] Hunan Province has sown 3.8 million mu to hybrid rice, the average yield per mu is 456 kilograms, 87 kilograms more than normal rice.

Jiangsu Reports Shortages of Raw Materials for Pesticides

40060492a Nanjing XINHUA RIBAO in Chinese
7 Jul 88 p 1

[Article by Ding Kaishan 0002 7030 1472 and Tang Rongjie 2799 2837 2234: "Province Overfulfills Agricultural Pesticide Output Quotas for First Half of Year. All Jurisdictions To Devote Attention To the Supply of Raw and Processed Materials During Last Half of Year"]

[Text] The province's pesticide producers have fully tapped internal production potential to turn out 16,900 tons (at a 100 percent content) of agricultural pesticides during the first half of 1988. This represents a 10.6 percent increase over the same period during 1987, for 53.1 percent fulfillment of the year's plan. This includes overfulfillment of production plans for the first half of the year of the major pesticides, omethoate and methamidophos, which are used for the prevention and control of paddy rice and cotton insect pests.

The greatest difficulty confronted by the province's pesticide producers during the first half of 1988 was price adjustments and insufficient supplies of the raw and processed materials needed to produce pesticides. Distribution of raw and processed materials under state plan met only approximately 40 percent of production needs, and there was an even greater shortfall in the supply of major raw materials such as emulsifiers, dimethylamine, toluene, pure benzene, and xylene. Faced with these circumstances, departments responsible for agricultural pesticide production at all levels in the province, as well as provincial and municipal materials units, worked hard to allocate plan raw materials and to help enterprises find raw materials in very short supply. Numerous production plans put greater emphasis on obtaining market information, and they organized teams for the specific purpose of procuring raw materials. The Yangzhou Pesticide Plant lacked raw materials needed to produce dicofol, so the plant immediately acted in flexible and various ways to establish relations with fraternal plants for the purpose of exchanging products in very great demand that the plant produced for needed raw materials, getting raw materials plants to ship goods ahead of schedule. It was thus able to insure output of dicofol, producing a total of 185.79 tons during the first half of 1988 in a more than 60 percent fulfillment of plan, and providing a product having a 96 percent acceptance rate. The Zhenjiang Pesticide Plant both actively assembled raw materials to produce its old line of products while also developing new lines as market conditions warranted. During the first half of 1988, it successfully developed three new kinds of pesticides, namely granular Cremart, jingwen shade [4737 4489 3010 1779] cream, and bromo-cyano-chrysanthemum ester, producing a total of 956 tons of them, which it put on the market only to have them sell out very rapidly.

Pesticide producing firms throughout the province also made sure to do more to bolster internal management and make technical improvements, boosting production through the practice of economies. The Nantong Pesticide Plant focused on the problem of gaps in technological processes, carrying out technical improvements. By preventing leaks and improving cooling, it managed to decrease consumption of dichloroethane, the principal raw material for long lasting phosphorous, to 321 kilograms from the 600 kilograms of 1987. Reduction of dichloroethane consumption by 25 tons per month insured fulfillment of state production plans.

Provincial authorities in charge noted that substantial difficulties continue to be faced in the production of agricultural pesticides, the conflict between production and marketing being extremely pronounced. They called on all jurisdictions to continue to make strenuous efforts to organize the supply of raw and processed materials for agricultural pesticide production, and to insure supply of the amounts of coal and electricity needed by production enterprises, with no unauthorized reductions or diversions. They should scrupulously carry out existing preferential tax policies to promote development of pesticide enterprises; and they should take positive action to improve leadership of agricultural pesticide production and marketing, taking a firm grip on production and marketing during July, August, and September to help the province's agriculture fight plagues to harvest bumper crops.

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Jilin Grain Storage

*40060513e Beijing JINGJI RIBAO in Chinese
5 Sep 88 p 1*

[Excerpt] In 1988 it is estimated that Jilin Province will put 18 billion jin of grain in storage, and the amount of grain in storage will total 30 billion jin. However, storage capacity is only 20 billion jin. Because of excessive rain this year, the grain water content is over 30 percent, and in order to store the grain the water content must be at least 18 percent.

Zhejiang Rice Procurement

*40060513c Beijing JINGJI RIBAO in Chinese
7 Sep 88 p 1*

[Excerpt] As of 31 August, Zhejiang Province had procured 1,312,000 tons of early rice, exceeding the plan by 14 percent.

Northern Provinces Increase Vegetable Area

*40060513d Beijing JINGJI RIBAO in Chinese
5 Sep 88 p 2*

[Excerpt] This year Beijing Municipality has sown 110,000 mu to cabbage, an increase of 20,000 mu over 1987. Liaoning Province plans to sow 186,000 mu to cabbage, a 5.2 percent increase over 1987; the province can provide 370 million kilograms of commodity produce, a 14.2 percent increase over 1987, and procurement prices have increased 20 to 25 percent over 1987. Jilin Province plans to sow 240,000 mu to autumn vegetables, a 2.5 percent increase over 1987; projected output of commodity produce is 430 million kilograms, a 13.5 percent increase over 1987, and the procurement price for cabbage will increase 30 percent. Heilongjiang Province has sown 335,000 mu to autumn vegetables, a 1.8 percent increase over 1987. Inner Mongolia plans to sow 110,000 mu to autumn vegetables, a 7 percent increase over 1987, and will provide 410 million kilograms of commodity produce, a 3 percent increase over 1987.

Senior Educational Workers Recommend More Short-Term Universities

40050314b Shanghai WEN HUI BAO in Chinese
17 May 88 p 3

[Article by Feng Xuefeng 7458 1331 6912 and Ding Xilin 0002 2569 2651, Guangzhou correspondents: "Reform Calls For More 'Short-Term Universities'"]

[Excerpts] At a symposium of Chinese and foreign senior educational workers, a Chinese principal inquired about "short-term universities" in foreign countries. The reply from a foreign principal was: You don't have to look at our short-term universities, because your Guangzhou University is an exemplary one.

Short-term universities are different from ordinary universities not only because of the shorter term, but also because of the different ideology and mode of school management. Zhang Shixun [1728 1102 8113], principal of Guangzhou University, said in elaboration: There is always the controversy over whether a university is the place to impart knowledge or the place to cultivate technical skills. Guangzhou University's goal of cultivation is quite distinctive: higher professional skills. Here the students study for the "vocations in short supply," and we pay special attention to the cultivation of the spirit and ability of practical action. They pay their school fees for nonresident students, and we are not responsible for their job assignment.

The departments and disciplines of Guangzhou University is vastly different from those of traditional universities. The Chinese language department consists of specialized classes for secretaryship and filing; the foreign language department provides class for industry and commerce, foreign trade, and practical English conversation for tour guides; the artistic design department provides specialized courses for garment designs and industrial model designs; and the law department is mainly concerned with laws involving foreigners in the south. There are altogether nine departments and five specialized disciplines, all having the best possible facilities. "Short-term universities" are the "processing factory for talents" obeying the "baton" of demand in the talents market, and regarding the employing units as "emperors." The ratio of social demand to the graduates of Guangzhou University's specialized courses is 7:1 or 10:1 at the highest. Its specialized courses are highly flexible and adaptable. When the former course of industrial enterprise management was found to be unsuitable for the present comprehensive development of enterprises, it was changed to a course of industrial-commercial enterprise management; when the scope of the scientific and technical English course was found to be too narrow, it was expanded to include industrial-commercial English, foreign trade English, and tourism English. Special classes on sound recording were run for two terms to meet an urgent demand, and were suspended as soon as their purpose was accomplished.

Guangzhou University gives prominence to practical education. There is a mansion in the school compound

to be used as an experiment center. The course of electronic engineering, for example, includes a whole set of experiments on subjects ranging from the most rudimentary theories of electronics to computer application. The practical lessons cover subjects of an "inspirational" and "task-setting" nature and finally of comprehensive application. The same is true of liberal arts, because the course of secretaryship in Chinese include practical guidance in covering meeting sessions. At first, under the influence of the old concepts of vocational and technical education, not only the students, but also the teachers had difficulty in adjusting to this mode of practical education. However, the university took care to change these concepts and finally embarked on the road of cultivating practical talents. In the 5 years since its inception, Guangzhou University has turned out nearly 1,000 graduates. "Guangzhou University students are useful, and can have an easy start in their jobs." These are the popular comments from the user units.

The teachers and staff personnel of Guangzhou University number only some 800, and the ratio of teachers to students is 1:11. Keeping a contingent of both full-time and part-time teachers has made it possible not only to overcome the defects of an over-size organization, but also to suit the flexible nature of a "short-term university's" specialized courses. Now full-time teachers are undertaking the basic courses, while part-time teachers are responsible for newly emerging disciplines which are currently short of the demand. For example, the senior engineers and sound recording experts of the Guangdong Provincial People's Broadcasting Station were employed to teach sound recording, and some advisers of the Ministry of Justice were invited as guest lecturers on laws involving foreigners. This teaching method is highly practical and informative, and therefore warmly welcomed. Management of the mess hall and other public health facilities are contracted to outsiders, and the university is not required to bear these extra burdens.

There will be an all-around reform of the system of higher education, and the universities will accept students paying their own expenses without the obligation of job assignment. Thus the mechanism of the talents market will be developed further. The "run-of-the-mill" specialized courses will have difficulty in surviving or in getting out of its predicaments. The successful experiences of Guangzhou University calls for more "short-term universities."

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Symposium on Eliminating Fetishes, Superstitions

40050314a Nanjing XINHUA RIBAO in Chinese
4 Apr 88 p 4

[Unattributed Report: "Summary of Discussions by Experts of Provincial Academy of Social Sciences on Measures To Do Away With Feudal Superstitions (Part II)]

[Excerpts] The experts held that doing away with feudal superstitions is a protracted and arduous task and requires the mobilization of all available forces in a

concerted effort for this systems engineering project of the society. There should be long-range strategic plans, but the work must be started immediately in a realistic way.

Shen Jiarong [3038 0857 2837]: Feudal superstitions formed in history can only be gradually eliminated in the historical course of a vigorous development of social productive force.

Shen Jianguo [3038 1696 0948]: Feudal superstitions were formed under the historical conditions of weak productive forces, and the material foundation for their radical treatment is a vigorous development of these forces. However, a strong ideological impetus is needed to acquaint people with the fact that in the development of material civilization, they themselves are the main force to transform nature and the society so that they can quickly and consciously free themselves from the controls of natural forces and alien social forces, and destroy the direct psychological foundation—the sense of reliance—for the breeding of feudal superstitions.

Tang Jingzhao [3282 2417 2507]: At the present stage of historical development, although highly developed productive forces are the material foundations for doing away feudal superstitions, we still cannot overlook the importance of scientific thoughts as a means to defeat superstitions. The propagation of atheism is an important aspect of the development of socialist spiritual civilization. It is the most primary and basic requirement for this development and must receive the attention it deserves.

This question now gives us food for thought: Faced with the prevalence of superstitions, why are we so quiet in the propagation of atheism? We must hold even higher the great banner of atheism, correctly interpret the relationship between heaven and human beings and between image and spirit, continue to disseminate scientific truth, and unhesitatingly wake people from their dreams about gods and devils so as to strengthen their faith in science and their immunity against superstitions.

China's Constitution stipulates that "citizens enjoy the freedom of religious belief." It also stipulates that we should "conduct education in dialectical materialism and historical materialism" among the people. That is why we must clearly distinguish between the elimination of feudal superstitions and the protection of freedom of religious belief. However, we can never abandon our propagation of atheism in combating feudal superstitions simply because the world outlooks of both superstition and religious belief are based on idealistic theism.

Ye Nanrong [5509 0589 2839] (Chief of Editing and Translation Office of Social Sciences Institute): As a cultural phenomenon, feudal superstitions can be effectively weeded out through cultural reform and the development of new culture. For this reason, we must first of

all quickly formulate the strategy of cultural development, and create an objective psychological environment that is favorable for human modernization. Second, we must make an effort to promote education, to improve the teaching materials, and to step up the dissemination of scientific knowledge among the secondary and elementary school students in order to improve the cultural quality of the rising generation. Third, we must properly use such mass media as newspapers, broadcasting, culture and arts so that they will not, wittingly or unwittingly, encourage superstitious activities. Fourth, we must provide more cultural facilities to enrich people's cultural life and to treat the "undernourishment" of peasants, particularly of the younger generation. Fifth, we must replace the ceremonies based on ignorance and superstitions with new, wholesome cultural ceremonies.

Zhong Kezhao [6988 0344 6856]: Feudal superstitions are generally of four types: The first takes the form of fatalism or determinism. Examples of it are physiognomy, glyphomancy, and fortune-telling. The second means belief in geomancy and the veins of fortune at tomb sites, as shown in the selection of house foundations or tomb site by practitioners of positive and negative forces. The third means belief in the existence of spirits and ghosts as shown in witchcraft. The fourth recognizes the immortality of the soul as shown by the acts of releasing the souls from purgatory. To eliminate these feudal superstitions, we must impart different cultural and scientific knowledge to different people purposefully, so that people holding different superstitious beliefs can be awoken gradually. For this purpose, we have to set up sparetime organizations in the countryside to "stress science and eliminate superstitions," and to conduct constant propaganda and educational activities. We must also study the pattern of feudal superstitions, and find the propitious time each year to diffuse scientific knowledge in the appropriate way. Those who make use of superstitions as a profession should be taught to respect social ethics in making money, and be helped to become rich through hard work. We should improve medical facilities in the countryside and continue to increase the people's awareness of the need to prevent and treat illness scientifically.

Dai Fukang [2071 4395 1660]: Continued improvement of the socialist democratic system is also indispensable in eliminating feudal superstitions. Socialist democracy in the final analysis means that people as masters of the country should truly enjoy the rights of citizens and the rights to manage the state, the enterprises, and the government agencies. The more advanced the socialist democratic system, the more capable will the people be of displaying their qualifications as masters of the nation. They will then be aware of their own value and power in the society, and will have greater faith in their government, their unit, and their leadership instead of placing their hopes on certain nihilistic power.

Yu Jilang [0151 3078 3186] (deputy researcher of Political and Legal Research Institute): When feudal superstitious behavior infringes on the personal and property rights of others and jeopardizes social order, the judicial workers have the unshirkable responsibility of protecting people. To restrict the harms of feudal superstitions, China's legislative system has basically provided "laws to be followed." If people suffer damage because of superstition, they can seek compensation according to civil law. If superstition results in homicide, injury, rumor-mongering, or swindling, we can pursue the offender's criminal liability accordingly and sentence him to a set term of imprisonment. If the undesirable result of superstition does not constitute any criminal liability, it still can be dealt with according to the relevant clauses in the penal code for public order control. But the problem now is that those who enforce law cannot truly ensure that "laws must be observed, their enforcement must be strict, and law breakers must be dealt with." Some party cadres have the mistaken idea that feudal superstitions are like "eels which cannot stir up any big waves" and pay them little attention. Some others fail to distinguish between freedom of religious belief and violation of law or crime.

They like to see "less rather than more problems," and are unwilling to take action.

Shen Han [3038 3352] and Zhang Huren [1728 5478 0088] (of Scientific Research Section): The task of eliminating feudal superstitions is not only a protracted, but also a complex and meticulous one. We must distinguish between religious and superstitious activities and between social habits and superstitious crimes before we can correctly enforce party policies and the relevant state law. In the case of social habits, we need not interfere as long as they do not jeopardize social order and have no demoralizing effects on the society. For superstitious people, we should mainly conduct positive education and make greater efforts to enlighten them. The party members and cadres engaging in superstitious activities should be dealt with according to party discipline and state laws. For those who make use of superstitions as a profession and commit criminal offenses, we must resolutely expose and attack them before we can accomplish the purpose of educating the masses.

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**Kuomintang Grass-Root Organization Termed
'Constitutionally Weak'**

40050318b Taipei TZULI WANPAO in Chinese
12 May 88 p 2

[Article by Li Wen-Pang 2621 2429 6721 Wu Chung-Hsin 0063 1813 0207: "The Puffy Appearance of Kuomintang's Grass-Root organizations"]

[Text] Provincial Senator Su Cheng-chang [5685 4176 2490] once pictured the Kuomintang as an elephant. With a membership of nearly 3 million, it indeed looks like a colossus. In the election of recent years, however, it was always threatened by the Democratic Progressive Party which has a membership of less than 20,000 in the province. From this experience, we can see that this elephant must be constitutionally weak. Furthermore, if we view the Kuomintang in light of the false reports on the proportion of members who are out of contact, this weakness has become a chronic malady.

After the last election, a senior party officer of the provincial headquarters emotionally said: the Kuomintang is absolutely a majority party with a huge membership. If every member could influence one or two voters, it cannot possibly lose in an election. Yet the result has turned out to be so miserable. Where is the party members' centripetal force?

The strong centrifugal force of party members is obviously due to their loss of contact. If they have little contact in their normal life, how can there be any effective mobilization? Even though a mobilization may be organized through some extra efforts, it can produce little centripetal force in the absence of a strong fraternal foundation.

However, the outward appearance of party organs at the grass-root level is quite impressive. Their flashy gestures seem to suggest great vitality; but people can frequently witness situations like this: The party headquarters borrowed from a certain unit the use of a stadium with a seating capacity of several hundred. However, when the ceremony began, the people present were less than one-tenth of the expected number. The Kuomintang's weakness in mass work has long been a source of concern.

The activities of grass-root party organs, which are flashy but without substance, means not only a waste of energy, but also the creation of a false image with the result that the higher authorities do not know where the problem lies. Consequently, they cannot take any corrective action until it is too late. Then the task will be doubly difficult.

The loss of contact among party members, which has been covered up for a long time, was completely laid bare by the candidates in the general election of party delegates. This experience also revealed the incurable disease

behind the elephant's weak constitution. If the provincial party headquarters wants to face the difficult election in the coming year, it is now high time for it to be completely realistic.

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**KMT Delegate Candidate Chang Hsiao-tzu
Interviewed**

40050318c Taipei TZULI WANPAO in Chinese
14 May 88 p 9

[Interview with Chang Hsiao-tzu 4545 1321 1964, dean of studies, Tung Wu University by Huang Hsiu-chin 7806 4423 6930: "Is Chang Hsiao-tzu Turning to a Political Career?"; date and place of interview not specified]

[Text] Chang Hsiao-tzu, dean of studies in Tung Wu University, is seeking election as delegate of the 13th KMT Congress. Because of his association with the academic circles and his unique background, he is now an object of public attention.

Will he follow the footsteps of his brother Chang Hsiao-yen [4545 1321 0917] in a steady political career? Will his personal relations with the late President Chiang Ching-kuo and his son be an asset or a liability? He talked about these questions in an interview with the correspondent. The conversation in the interview is essentially as follows:

Question: When did you decide to run for 13th KMT Congress delegate?

Answer: In fact, the decision came very late. I decided to run only 2 weeks ago.

Question: Will your personal relations with the late President Chiang and his son be an asset or a liability to you?

Answer: These relations may have some bearing on what I am going to do. However, it is hard to say whether they will turn out to be positive or something negative. Some people may support me for sentimental reasons, but there are also people saying that I am not qualified to seek election. In Chinese politics and culture, there are many factors which are not easily comprehensible.

Question: Since your career was always in the academic circles, why do you suddenly run for party congress delegate?

Answer: Chinese intellectuals always feel that they have a mission to accomplish. There is an old saying that one who excels in learning becomes an official. Along with

the accumulation of experiences and their gradual maturity, they will take this mission very seriously. I feel that my subjective qualifications are adequate, but I have only taken the first step in contacting the external objective environments.

Question: Does this first step mark a change from an academic to a political career on your part?

Answer: I haven't given this matter much thought right now. I seek election this time only to gain some new experiences outside the school campus. "Joining a race" is itself a good thing. In the course of racing, I can learn about the concepts and sense of value among KMT's basic-level organs. I have many friends who are high-level party officials. However, their understanding of the basic level may not be so direct as that of basic-level personnel. I believe that if I have the opportunity to serve the party, my understanding of the basic level is very important.

Question: Does Mr Chang Hsiao-yen support you in the race?

Answer: Hsiao-yen is very concerned, but, since we don't have many financial or other resources, what he can give is only sentimental and moral support.

Question: What is the opinion of Chiang Hsiao-wu [5582 1321 2976] and the other Chiangs about your joining the race?

Answer: They have not expressed any attitude. Only Hsiao-yen thinks that they would support me.

Question: What do you think is the basis of support for you?

Answer: I have participated in elections in the headquarters of intellectual youths of Taipei. After the preliminary election, more than 400 professors will vote. In the past, I have expressed many of my concepts in the mass media from the academic point of view. If the professors consider my views practical, they should support me. I think my views are in tune with the social pulse!

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Influence of Party Politics on Educational Process
40050318a Taipei TZULI WANPAO in Chinese
14 May 88 p 9

[Article by Yu Ming-shih 1946 2494 2514: "Party-Oriented Education Versus Democratic Education"]

[Text] When the faith in "doctrine, leadership, state, responsibility, and honor" has been instilled into students' minds over a long period, their understanding of any democratic political movement of a critical and turbulent nature is apt to be distorted. The education based on a party-government concept results from the

power holder's strong desire for a permanently stable political power. That is why whenever a strongly critical opposition party is formed, the power-holder would use the political tactic which is typically Chinese, of labeling the organization as "disturbing social peace and inciting unrest." To ensure that the people under his denomination have absolute trust in and not the slightest doubt about his political power, politics and education, originally separated, have merged to become a means of "cultivating a new generation that is loyal to the party and the state." The Confucian tradition of "studying to become an official" has long been regarded as a moral standard in every dynasty, and even the much vaunted "absolutely orthodox national government" has unhesitatingly inherited this tradition to fulfill the duty of bridging the gap between the past and the future. The education which one-sidedly stresses love of the country (including love of the party) deprives the students of the opportunity to observe its merits or shortcomings, or to make any choice or comparison. Furthermore, Chinese people have the traditional virtue of "accepting oppression with a smile." Therefore, when the form and substance of education is found unsuitable for the present age, both the older and the younger generation would still gladly accept it as a cultural "heritage."

The most serious defect of party-oriented education is that it imparts little knowledge of democracy and offers only a peep-hole view of the current situation. At every stage from the singing of kindergarten songs to the study in the Three People's Principles in universities, education is pervaded with the so-called spirit of "loving the party, the state, and the leader." What is ludicrous is that, although people have the freedom of assembly and association as stipulated in the constitution, they still have to "show their respect and loyalty blindly" to their leader (usually the chief of a majority party). Such respect and loyalty are basically unnecessary, because they are obviously intended to pave the way for an "eternal political administration." Then what difference can it be from a long-lasting "autocratic monarchy"? The only change is in the label for good appearance, but not in the contents. Education should have a long-range goal, and should never be manipulated at will by a few careerists.

Not long ago, there was quite an outcry about military instructors leaving the school compound. This episode did not mean that the students did not need any basic military knowledge or training. It was only some form of passive resistance against the invasion of the school by some political party. If we want to know about the real substance of education, we can look at the textbooks of history, geography, and national language we have studied since childhood. Can they really help us assimilate things of academic value independently instead of serving the "ultimate purpose of some political party"? The military instructors' loyalty to the party and the state is beyond question, but whether they could objectively teach about the relationship between government

administration and military affairs and about the evolution of democracy at this age is a different matter. Worse still, some instructors openly recruited party members in the classroom. From this, we can see that education has completely lost its neutrality. I don't mean to say that a political party must be barred from the school gate, but must point out that if the teaching materials and teaching methods are as improper as they now are, they would prevent the students from obtaining a correct knowledge of democracy and lead them into the mistaken belief that "opposition means disorder."

Disputes in the Legislative Yuan are quite frequently heard of, but civilians are also desperately propagating democracy. While making these efforts, they should understand that the students have been brought up with a distorted idea democratic education and cannot take any independent democratic action. The exclusion of party-oriented education from school is perhaps a test of the strength of democracy in the new generation with the hope that this generation will wake up for a political reform. This is probably the only hope for those who are well-intentioned but now helpless.

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Article Analyzes Career, Aspirations of Gen Hao Pai-tsun

40050317 Taipei TZULI WANPAO in Chinese
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[Article by Chang You-hua 1728 0645 7520: "Hao Pai-tsun, A Strong Military Man 'With Will-power But No Political Ambition'"]

[Excerpts] In the military circles, the position of Hao Pai-tsun [6787 2672 2625] as Chief of General Staff has always been an object of close attention and the subject of widespread controversy, especially because he has been in this position for 7 consecutive years, and the first person to stay in this position for such a long period. Because of the trust in him by the late President Chiang and his loyalty to President Li Teng-hui [2621 4098 6540], Hao Pai-tsun is recognized by outsiders as the most powerful military figure in the last 7 years.

In fact, people in Taiwan's political circles have always asked this question: As a recognized strong military man, how powerful is Hao Pai-tsun after all? During the power transfer after the death of President Chiang Ching-kuo, this question has been answered in these words: Hao Pai-tsun is a "strong chief of general staff" who is entirely capable of holding great power.

Seven years ago, Hao Pai-tsun was promoted from a commander in chief with the rank of second-grade army general to a chief of general staff with the rank of first-grade army general. Since then, outsiders have thought that based on an analysis of his military record, his indirect political power in addition to his eminent position in the military command system would give

him a dominant role on the political stage. Probably, he has been over-enthusiastic in this role, and those who are studying Taiwan's political situation have misgivings in varying degrees about "military intervention in politics." These misgivings turned Hao Pai-tsun into a controversial figure.

Is there a natural link between Hao Pai-tsun and "military intervention in politics"? According to the course of events after the death of President Chiang Ching-kuo, Hao Pai-tsun's performance was beyond many people's expectation. Because of his self-restraint, this strong military man, several times looked upon as a "dangerous element" 7 years ago, has been reevaluated after a harsh test on the political stage. This test has proved the absence of any natural link between his enthusiasm and "military intervention in politics."

Nevertheless, because he is a powerful figure and a military man who rarely openly air his views, he has always been regarded as a "mysterious person," and would easily provoke discussions. When he was interviewed 7 years ago, he said: "I have strong will power, but no political ambition." According to those who know about his personal characteristics, Hao Pai-tsun meant what he said. His statement, therefore, fully illustrated his "positive" attitude in handling official matters.

In the past 5 or 6 years, Hao Pai-tsun was thought to be a powerful figure in charge of Taiwan's political development. The main reason for this speculation was that the system of government by civilians has not been perfected, and people are too prone to identify the government with the person in power. Because of his military power, Hao Pai-tsun is regarded as a "strong chief of general staff." His high position and great power were, however, bestowed by "law." China's national defense system branches into two parallel systems, namely, the military administration system and the military command system. The power of giving military commands is entirely in the hands of the head of government, and the Executive Yuan cannot legally interfere with this system's functions. Therefore, as long as the head of government empowers the chief of general staff to handle the affairs of the military command system, the chief of general staff will act as the "president's military representative." Hao Pai-tsun's military power and his reputation of "strong chief of general staff" were only bestowed by "law" and had nothing to do with his "ambition." Although he has repeatedly declared that he has "no political ambition whatsoever," well-informed people hold this belief: "Since our political leaders have had no intensive training in strategic matters and no strong ties with the military authorities, their relationship is maintained by the functioning of the system. In the event of any serious incident, the political leaders will hold the views of Hao Pai-tsun—the military leader with real power—in unduly high esteem."

In the recent case of "hijacking and crossing over" of a CAAC plane the person with the power to supervise the military functions was no other than Hao Pai-tsun. Since

the headquarters of the general staff, the national war intelligence center, and the joint chiefs of staff headquarters are all located in the president's mansion, President Li Teng-hui was able to authorize Chief of General Staff Hao Pai-tsun in the same evening to take charge of this incident. This is a typical example of the military command system's responsibility to the supreme command system. After the incident, despite the murmurs about his "high-handedness," the command system's action was basically affirmed.

As to the accusation of his "high-handedness," someone who knows him well had this to say: "This was by no means the first time he has been accused of wrong doing. To malicious accusations, he always took a philosophic attitude described in these words: 'My heart knows right from wrong, people are free to condemn or praise; and fate decides failure or success.' He never takes the initiative of defending himself."

Hao Pai-tsun, as we hear, is deeply influenced by this philosophy. A traditional military officer, he is very strict with military discipline. Despite his high rank as general, to ensure a basic uniformity of action among his troops, he has given personal demonstrations by lying on the ground with a rifle and won the title of "a general demonstrating like a rank-and-filer."

In 1976, Hao Pai-tsun, in his capacity of deputy army commander, went to Chinmen on behalf of General Commander Ma An-lan [7456 1344 3482] to inspect the defense work. As soon as he got off the plane, he immediately set out for the training field in his car to inspect the drill. The lack of uniformity in combat training methods greatly disturbed him. Therefore, he asked the cadres in charge of training in every unit under him to submit a report on the demonstration of "training movements." Later, he was even more disturbed to find that not a single one of trainees could recite the rules or move in the proper way. Then he took a rifle and lay on the ground to demonstrate the whole course of a one-man attack. The leaders of the defense units were much impressed as well as embarrassed. Since then, on every inspection trip, Hao Pai-tsun would ask the cadres at every level to demonstrate the basic training movements. This is an example of his unique method of commanding troops.

After taking over the post of army commander-in-chief in 1978, Hao Pai-tsun introduced an army transformation program in which the "five tactical tests," the "5,000-meter run," and the "basic training and drilling" were to be strictly enforced. It also calls for uniformity of standards in demonstrations of movements, and stipulated that officers of any branch below the rank of full colonel are subject to tactical tests. This stipulation annoyed many officers.

It is true that Hao Pai-tsun's rigid rules have achieved the unity of action and orders. However, the behavior of many subordinates has given him much headache. According to

some military person, Hao Pai-tsun's method of commanding shows that he is competent. However, people find it difficult to go along with his extraordinary "will power," and many officers, who cannot stand his temper, have difficulty in getting close to him. In this respect, Hao Pai-tsun also has his own predicaments.

According to one of his subordinates, Chief of Staff Hao has sometimes relaxed his rulings a little to protect his subordinates, and was, for this reason, accused of shielding shortcomings. At other times, when he tries to strengthen discipline by punishing some one whom he had personally groomed up, he was again accused of putting on an act of "killing one in order to warn 100 others." After all, he was criticized for whatever he did. That is why the personnel problem has given him endless worry.

Hao Pai-tsun began his career as the aide of former Chief of General Staff Ku Chu-tung [7357 4376 0681] and then Chiang Kai-shek. He likes to read "Annals of War," and that was why he organized the "staff officers' tour" group in the General Staff Headquarters for the purpose of conducting on-the-spot studies of the strategic terrains in Taiwan as mentioned in the annals, and working out a military strategem. He led the group to every part of Taiwan and as soon as he arrived in any place, he would hold a meeting with the garrison commander and ask for a brief report on the terrain, the routes of approach by the enemy, and the routes of march for our own troops. If the garrison command is not fully prepared and if his report did not correspond with what Hao Pai-tsun actually knew, he would be severely reprimanded. That was how many garrison commanders were fired. Sometimes, the garrison commander would be reprimanded even though the contents of his report were accurate. However, after the reprimand, the garrison commander would be promoted or recommended to the military academy for advanced training as a reward. Another military person has commented on his work style as follows: In his highly authoritative mood, he usually ignores his subordinates' views. What he wants is implicit compliance. That is why he sometimes seems to lack human feelings in dealing with his subordinates' problems. His decisions on some even minor matters have to be rigidly enforced.

In the "May 26 Incident" involving the Chinmen Defense Department, the way Hao Pai-tsun dealt with Chao Wan-fu [6393 5502 1381] was markedly different from what he did to the culprit Kung Li [7895 0500]. There are in fact two questions about the responsibility for the "May 26 Incident." First, what is Chao Wan-fu's share of responsibility? Second, should Kung Li, commander of Little Chinmen combat area be held fully responsible? Yet before the investigation was completed, Chao Wan-fu was "fired," and, as we understand, Chao had been groomed by Hao Pai-tsun himself.

Hao Pai-tsun is always very strict in his rulings. His strictness may be the cause of his success or the typical characteristic of a military man. Yet, behind the characteristics of a military man, there must be a certain

extraordinary quality for him to be involved in politics; otherwise, the late President Chiang, with his "keen insight into human nature," would not have kept him in the post of "military representative of the president" for 7 long years.

Outsiders mostly portray Hao Pai-tsun as an "unyielding" and a "quick and brave" man. However, is this also true of him in politics? According to those who know him well, it is true that he is by nature "unyielding." However, this nature applies only to "military training," and there is a striking difference between his political and military natures. Basically, he is always very careful to avoid overstepping the mark. He lives and works in the army, and takes little interest in nonmilitary affairs. He also lives a simple life with little outside contact. He is not interested in politics, because the words and actions of former Minister of Defense Yu Ta-wei [0358 1129 4850] and the Wang Sheng [3769 2573] incident left a deep impression. That is why Hao Pai-tsun always emphatically declared that military people should not have political ambition, although they must understand politics; and that military people should respect the "system."

Outsiders' comments on Hao Pai-tsun over the years were based on his long-held position as the Chief of General Staff, his great military power, and his unyielding work style which inevitably create doubts and fear. However, nobody has ever called him a "conservative," although many have criticized his "tyranny." In the past 1 or 2 years, outsiders have always criticized the military for obstructing reform. Yet Hao Pai-tsun always carried out instructions from the higher authorities, declaring that it is his unshirkable responsibility to "protect the state's

security system." He very rarely expressed his views on the reform. He even repeatedly warned his officers against making any public statement concerning politics, and urged them to be careful in performing their own duties as military personnel. When overseas scholars Chang Hsu-cheng [1728 2485 6134] and Yang Li-yu [2799 0500 1342], and the members of the Legislative Yuan Hsiao Chu-chiao [5618 2806 0829], and Chou Shu-fu [0719 2579 1650], who have a military background, informed him of civilian worries about "problems with the military" after the death of Mr Chiang Ching-kuo, Hao Pai-tsun reassured them with the statement that he would never let military people interfere with politics. According to someone on intimate terms with him, Hao Pai-tsun's term as Chief of General Staff was time and again prolonged in the past 7 years obviously because the authorities trusted his loyalty and valued his insight into the current developments. Despite his tremendous military power, no precaution was taken against him. This trust reflects Hao Pai-tsun's respect for the "system," which is the key to his position of eminence. The military style of "loyalty and honesty" advocated by him has in particular deeply impressed the authorities. Now, let me talk about his "report on benefits from reading." The book reports of most officers are written by their aides but those of Hao Pai-tsun are different. No matter how busy he might be with military affairs, he must take up the pen himself instead of getting help from others. From this we can see that his personal attendance on everything and the loyalty which characterizes his military style are two facets of the same entity. What is particular about him is that besides the books on war translated from foreign languages, he likes to read "Wang Ming-yang's Philosophy" and "Quotations from the Military Treatise of Tseng Kuo-fang, Tso Tsung-tang, and Hu Lin-yi."