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NATIONAL AFFAIRS, POLICY

National Coastal Economic Seminar Opens in Weihai

SK1108042488 Jinan Shandong Provincial Service in Mandarin 2200 GMT 10 Aug 88

[Text] A national theoretical seminar on developing the export-oriented economy along coastal areas opened in Weihai City on 10 August. Speaking at the opening ceremony of the seminar was (Xue Muqiao), general director of the economic and social development research center under the State Council and a nationally noted economist.

Attending the opening ceremony were responsible persons from the State Council and the relevant departments of various provinces and cities; and specialists, scholars, and theoretical personnel from various economic development zones and coastal open cities throughout the country—a total of more than 100 people.

The seminar jointly sponsored by the Shandong Provincial Academy of Social Science, the provincial Commission for Economic Relations with Foreign Countries, and the Weihai City People's Government, will concentrate on discussing how to have the coastal areas throughout the country develop the export-oriented economy, readjust economic and production structures, do a good job in introducing outside advanced technology and carrying out domestic cooperation, and accelerate the pace of earning foreign exchanges through exports.

Enterprise Law Engenders New Order of Commodity Economy

40060411 Shanghai SHIJIE JINGJI DAobao
[WORLD ECONOMIC HERALD] in Chinese
6 Jun 88 p 10

[By Gong Jinwang 7895 6651 3769 and Lin Wangqi 2651 3769 7871]

[Text] The Industrial Economics Institute of the Chinese Academy of Social Sciences and the editorial board of "Chinese Industrial Economics Research" recently held a joint panel discussion on "Implementation and Enforcement of Enterprise Law". Over 30 representatives of Beijing enterprise circles, academic circles, and press participated.

China's First Fundamental Law of Enterprise

The participants fully affirmed the important historical place of enterprise law in China's economic development, and particularly in the development of the enterprise system. Industrial Economics Institute Director Zhou Shulian [0719 0647 5571] believes that enterprise law is China's first fundamental law of enterprise. With respect to its guiding ideology and specific content, it

represents a new leap beyond the "regulations" and "decisions" implemented in the past; taking as its guiding ideology the theory of the initial stage of socialism, it has clearly stipulated the principle of implementing separation of ownership rights and management rights, and has also stipulated a series of provisions allowing enterprises to truly become commodity producers and managers. Liu Zheng [0491 2973], Director of the Research Division, General Office, Standing Committee of the National People's Congress, pointed out that there are three points about enterprise law which are most important. The first is the principle of the separation of two rights; this is its heart and soul. The second is that it has established a factory director responsibility system; this is a major change in the enterprise leadership system. The third is that it has strengthened the democratic management of enterprise; this is the basis for the implementation of the factory director responsibility system. With these three points, enterprise has hope of being stimulated. Enterprise law is in accord with both the reality of China's current reform, and with the direction of future reform; it has vitality. Chinese Academy of Social Sciences researcher Cheng Dongqi [7115 2639 3825] believes that with the intensification of enterprise reform, enterprise law may gradually be further perfected, but that this does not in the least lessen the significance of enterprise law in the present stage, and that, viewed from a historical perspective, enterprise law should be appraised highly.

Establishing a New Order of Socialist Commodity Economy

Liu Zheng pointed out that enterprise law is the product of carrying out reform, and the present enterprise law could not exist without reform; at the same time, enterprise law has used the form of law to affirm the success of reform, consolidated the results of reform, and provided a legal basis for, and a legal guarantee of, future reform.

Chen Jiagui [7115 0163 6311] of the Industrial Economics Institute's Industrial Management Research Division believes that the formulation and implementation of enterprise law has played an important role in accelerating the transformation from the traditional product economy to the new type of commodity economy, and in establishing a new order of socialist commodity economy. First, implementation of enterprise law can allow whole people-owned enterprises to become independent commodity producers and managers, which is one of the basic conditions for establishing a new type of commodity economy. Second, enterprise law has made relatively detailed stipulations concerning the rights and obligations of enterprises, and this had played an important role in standardizing enterprise behavior. It will allow enterprise to have a law it can rely on in engaging in commodity economy activities, allow the rationalization and legalization of enterprise behavior, and finally attain the goal of stimulating enterprise. Third, enterprise law has stipulated the relationship between enterprise and

state, based on the principle of separation of government and enterprise, and has stipulated the function of the leading departments of the central government; government can manage enterprise only in accordance with the stipulations of enterprise law, and in the event of violations, enterprise has the right to resist. This is advantageous to promoting the resolution of the function of government, allowing government to implement control in accordance with the needs of a commodity economy.

Implementation of Enterprise Law Requires a Favorable Social Environment

Everyone believes that one of the keys to implementing and enforcing enterprise law is to seize on the problem of establishing enterprise's position as independent commodity producer and manager, and that there exist both favorable conditions and many problems for achieving this goal.

The development of a modern commodity economy society requires the clear separation between economic and political circles—the depoliticizing of enterprise, and the “de-enterprising” of politics. But China's state-owned enterprise is a mixture consisting of economy-oriented substance and administratively-oriented structure, having a dual identity of economics and politics, pursuing production targets and pursuing social public targets; what can be done about this? Shu Li [5289 4539] of the “China Machinery Journal” pointed out that although enterprise law has been promulgated, the original old laws, which contradict the new laws, still exist, thereby inevitably creating friction between new and old, and unless clear stipulations are adopted with respect to the old laws, certain old problems cannot be resolved. Beijing No. 1 Lathe Factory Policy Research Division Director Shi Guodong [0670 0948 2769] pointed out that the most vexing problem for China's enterprise is that the issue of the independent management rights of enterprise has yet to be resolved. In the making of contracts, for example, the factory director's leadership authority cannot be fully expressed; contract targets are excessive, and about the same as the original eight planning targets, so that it becomes completely directive planning. In the case of enterprise escalation, too, there are various examination targets for each item, and this is still, in reality, using administrative methods to impose all sorts of rules and regulations on enterprise. Additionally, it is hard to put up a resistance against relying solely on enterprise for various financial levies.

In view of the above-stated issue, the comrades participating in the discussion believe that the top priority task with regard to implementation and enforcement of enterprise law is to create a favorable external environment for enterprise, and they put forth several opinions and recommendations about this:

1. We must change our thinking and renovate our concepts. The process of implementing and enforcing enterprise law is a process of restudy and reassessment. It

is hard to correctly and completely understand enterprise law using the concepts of product economy and the thinking of small peasant economy, and this may produce a “sense of loss”. This is why it is necessary to change our thinking and renovate our concepts.

2. We must adjust the relationship of the government, and leading departments at all levels of government, to enterprise. Government and leading department at all levels of government can neither run the whole show, as in the past, nor can they give enterprise completely free rein; rather, they should manage, supervise, and serve enterprise in accordance with law.

3. Planning management must carry out a series of major reforms. First, the focal point of planning must be shifted from the previous large number of specific activities of directly managed enterprises to research on the formulation of economic, scientific and technological, and social development strategy, formulation of industrial policy and basic economic policy, and working out a mid- to long-term plan. Second, the content of planning management must be shifted from making individual volume management and management in kind its basis, as in the past, to making total economic volume management and economic structural management, and price control, the basis. Third, the form of planning should further reduce appointive planning, and vigorously reform the directive planning system. Fourth, the planning method and system must be suited to the expansion of enterprise rights and changes in the enterprise organization structure, and appropriate reforms must be carried out. In particular, the previous single vertical connection planning organization system and planning method must be changed.

13387

Contract Managers' Income, Responsibilities *40060403 Chongqing GAIGE [REFORM] in Chinese* *No 3, 10 May 88 pp 152-156*

[Article by Liu Ruizhong 0491 3843 0022, Ji Xiaoming 0679 1420 2494, and Liu Xianglong 0491 5046 7893, of a research project group of the China Structural Reform Research Institute: “Contract Managers' Income and Risk Responsibilities”]

[Text] *Editor's Note: In doing research on structural reform, the use of case analysis to demonstrate a new economic phenomenon in good time and to make system and operation analyses is still something new in China. At present, contracting has become the dominant way of enterprise reform. Recently, the writers gathered information on more than 300 enterprises in all parts of the country, which were operating on a contract basis. The information has been classified, analyzed, and appraised. The results are several special articles, one of which is presented here for your reference.*

The contract system of managerial responsibility gives the manager the status as the representative of the enterprise and its assets and the authority to make independent management decisions on the use of such assets. At the same time, it provides the mechanism to reward the manager with reasonable income commensurate to the enterprising effort he makes and the risks he must take as an entrepreneur and to spell out the responsibilities he must assume in risk-taking. It will help insure proper business conduct and achieve long-term development goals.

I. Managers' Income

Contract enterprise managers generally receive the following forms of income: wage (also called managerial wage, performance wage, or risk wage); incentive pay (also called responsibility bonus, or bonus for short); and wage plus bonus. A manager's income, whatever its form, is tied to the goals he should attain for the enterprise during his tenure as stipulated in explicit terms in his contract. In other words, the manager must earn his pay by delivering what his contract says he should deliver during his tenure. Targets are generally set for contract management on profit, tax and profit to be turned over to the state, appreciation in asset value, technological transformation, and debt repayment. Among these targets, profit and tax and profit to be turned over to the state are the most important. Therefore, it can be said that the manager's income is directly tied to the enterprise's economic performance. As a management contract can be undertaken by an individual, a partnership, or all the employees, the income of the manager can be any combination of the three forms. The asset management responsibility system is yet another form of income for special managers. The following are examples of different forms of income for managers.

Example 1: The Shenyang Brewery, in Liaoning, is a large state-owned enterprise. Its contract manager is paid wage plus bonus. In 1987, Xiao Qingsen [5135 1987 2773] won a 4-year contract for its management. According to the terms of the contract, the manager will receive a bonus on fulfilment of various targets. Targets are set for profit, technological transformation and capital construction, new product standards and investment-to-output ratio, and appreciation in asset value and rate of return on assets at end of contract. The manager's bonus is linked to profit realized. In addition to his fixed wage, he will receive a bonus according to the following specific stipulations: 1. The enterprise should show an annual profit of 13.04 million yuan, 13.83 million yuan, 14.66 million yuan, and 15.55 million yuan respectively in 1987, 1988, 1989, and 1990. The manager will receive a bonus of 800 yuan each year the profit target is met. 2. He will receive an additional 250 yuan for every 1 percent of profit over the target. 3. If he fulfils the profit target, but not the other three targets, his bonus will be reduced by one-third for each target he fails to fulfil. In 1987, the profit target was overfulfilled by 16.95 percent, and the manager was paid his bonus according to the terms of the contract.

Example 2: The Beipei Glassware Plant in Chongqing, Sichuan, is run by a partnership, and the partners receive a basic pay plus an "evaluated performance wage." The plant has 2,828 workers and staff members and assets with an original value of 4.49 million yuan. At the beginning of 1987, a seven-man contract group headed by Xie Derong [6200 1795 2837] signed a contract with the First Municipal Light Industry Bureau, which has jurisdiction over the plant, for the plant's management. A major provision of the contract is for repayment of debts with the plant's after-tax profits. The term of the contract is 3 years. The targets of profit set by the contract are: 600,000 yuan in 1988, 850,000 yuan in 1989, and 1.03 million yuan in 1990. The profit retained by the enterprise will be used mainly to repay debts. Performance will be evaluated by product quality, technological transformation, foreign exchange earnings through export, and appreciation in asset value. The partners' incomes are governed by the following provisions: 1. The income of each partner is made up of two parts, namely, a base pay (each individual's current wage plus allowances) and an "evaluated performance pay" which is linked to contract targets. 2. The performance pay is dispensed in terms of shares. The total amount available for performance pay are divided into four shares, of which one share goes to the plant manager and three shares are distributed among the other partners according to their responsibilities. 3. Each year after fulfilling all the contract targets, the partners will receive, in addition to base pay, a basic "evaluated performance pay" of 1,000 yuan per share. 4. The "evaluated performance pay" is dispensed partially each year, and a settlement will be made at the end of the contract. The yearly partial payment includes the "basic part" and 20 percent of the additional performance pay for overfulfilment of targets. The remaining 80 percent of the additional performance pay is deposited in a special account by the enterprise's finance department. At the end of the contract, an overall evaluation will be made, and the balance of the performance pay will be disbursed as a special item from profits retained by the enterprise. 5. During the period of the contract, the "evaluated performance pay" for the partners headed by Xie Derong will be increased by 200 yuan per share each time the enterprise management is rated one grade higher, and reduced by 200 yuan per share if management is rated one grade lower; it will be increased by 500 yuan per share, if a product of the plant wins a state gold medal for quality; and it will be increased by 200 yuan per share, if a product wins a state silver medal for quality.

Example 3: The Nanjing Socks Plant, in Jiangsu, is a small state-owned enterprise. It is run by all the employees under the system of contracted management responsibility. The contract specifies "two guarantees and one link." As an incentive, the manager receives his basic way plus bonuses linked to fulfilment of targets.

The 4-year contract took effect at the beginning of 1987. The contract targets are: 1. Using the amount of profit turned over to the state in 1986, 317,400 yuan (including

112,900 yuan of taxes), as the base, the contractor guarantees that the amount of profit turned over to the state will be increased by 5 percent each year. 2. The contractor guarantees implementation of technological transformation projects and debt repayment. 3. The total payroll is linked to profits and taxes. A base of 1,049,000 yuan is set for total payroll, and a base of 2 million yuan is set for profits and taxes (of which 750,000 yuan are taxes). The total payroll will go up or down with profits and taxes at a 1-to-0.4 ratio. The manager will be evaluated and rewarded according to the following criteria: A bonus equal to his regular wage will be paid for fulfilling all contract targets; a bonus 1.3 times his regular wage will be paid for overfulfilling the targets for profits and taxes by not more than 5 percent; a bonus 1.6 times his regular wage will be paid for overfulfilling the profit and tax targets by 5-10 percent; and a bonus double his regular wage will be paid for overfulfilling the profit and tax targets by more than 10 percent. As a result, all contract targets have been fulfilled or overfulfilled. The total payroll has increased by 33.44 percent, averaging nearly 400 yuan for each worker. The manager has received his regular wages and, in addition, three times as much in bonuses.

The various forms of performance-related income for managers are an important factor for the considerable success of the contracted managerial responsibility system.

However, judging by the incomes of managers in various places, there are two major problems.

1. There is not much difference between the basic wages of managers of enterprises of different sizes. The manager who runs a plant with assets worth tens of millions of yuan is paid a basic wage only 1.5 to 2 times that of the manager of a plant with only a few hundred thousand yuan or maybe a million yuan in assets. That is not reasonable. It is more reasonable to pay the manager a basic wage according to the size of his business and a bonus according to the efficiency of his management. Serious consideration should be given to adopting a system under which managers are paid according to the size, type, and economic performance of the enterprises they are running.

2. It is difficult for managers to actually take a relatively large bonus. The difficulty lies not so much in the obstruction of the owner as in the manager's own estimate and worry about the realities and pressures within and without the enterprise and the consequences a large bonus could bring on him. An effective way is needed to guarantee the manager's income. For example, the psychological pressure on the manager might be greatly reduced if he is paid by the government, instead of taking a chunk from the profits retained by the enterprise. It follows that perhaps it is better to increase the manager's wage than give him a bonus. Theoretically this is feasible. The manager who runs a state-owned enterprise or plant under contract has a direct relationship

with the government which represents the owner or the state. It is logical for the manager to be paid out of the government budget a sum equal to a base wage plus an appropriate bonus.

II. Risk Responsibilities

In its participation in the activities of a commodity economy, an enterprise is faced with an unpredictable and changing social and market environment, and there are always risks to take. The risks can be roughly divided into natural risks, social risks, and operational risks. Generally they are known as marketing and operational risks and can also be divided into two main categories: nonmanagerial risks and managerial risks. Nonmanagerial risks are those caused by changes in the external environment (including natural risks and social risks), and they can only be reduced by certain precautionary measures. Managerial risks are caused by wrong decisions made by the enterprise itself, and can be avoided by adopting a more scientific decision-making process.

Any kind of marketing and operational risks can cause losses to the enterprise. Therefore, a relatively reasonable principle and specific rules governing the assumption of responsibility for risks should be formulated beforehand. This is important to the improvement and perfection of the market system. It is even more important to the contracted managerial responsibility system based on the separation of ownership from managerial authority, because a clear-cut division of responsibilities among the state, the enterprise, and the manager for risk-taking in the operation of a state-owned business is not only the objective basis for the serious implementation of the management contract, but one of the basic conditions for the establishment of an enterprise system with the manager playing the leading role but without changing the ownership.

Example 1: The Chengan County Department Store, in Handan Prefecture, Hebei Province, requests its manager to put cash and personal property in pledge for fulfilling clearly defined risk responsibilities. The store is a small state-owned and county-controlled enterprise. Owing to poor management, it had hardly ever showed a profit in the past. In 1986, it lost 28,000 yuan. In April 1987, a competitive public bidding was held for the management of the store, and the successful bidders, Liu Qingxiang [0491 1987 4382] (a peasant) and his younger brother Liu Xiangze [0491 0686 3419] (a worker) signed a contract with the county commercial bureau to run the business for 2 years from May 1987 to May 1989. The contract sets the following operational targets: 1. The store should operate with an average of 1.1 million yuan in working capital, which includes an inventory of 950,000 yuan worth of goods, and sell 95 percent of the goods purchased each year. 2. It should achieve a total net sales of 4.1 million yuan in the first year and 5.2 million yuan in the second year. 3. It should realize a profit of 60,000 yuan in the first year and 80,000 yuan in the second year. The manager's risk responsibilities are

stipulated as follows: 1. The contractors should bear the financial losses caused by their failure to fulfil their contract obligations without justifiable reason—for example, in the use of funds, excessive increase in defective goods, inability to dispose of them, and so forth. 2. In case of major losses to the enterprise as a result of improper direction or poor management, losses under 3,000 yuan should be borne by the contractors. For losses over 3,000 yuan, the contractors must not only make it up with their own properties, but must bear the legal consequences depending on the seriousness of each case. 3. The contract profit targets must be fulfilled at least 85 percent. If profit falls below 85 percent of target, the contractors' family property will be taken to make up the difference.

At the signing of the contract, the contractors handed over 300 yuan and a rough listing of their family properties (a 10-room house and durable consumer goods) as security. The cash was deposited in a bank for safekeeping by the commercial bureau. The contract was notarized as required by law. In the 7 months up to the end of 1987, the enterprise had already realized a profit of 42,000 yuan, and there should be no problem in fulfilling the first year's profit target by the end of May 1988.

Example 2: The No 1 Knitwear Plant in Chengdu City, Sichuan Province, is the largest state-owned knitwear producer in the southwest region. In early 1987, former plant manager Liu Qingjie [0491 1987 2638] signed a contract with the bureau in charge to run the plant for 3 years from 1987 through 1989. The operational targets are stipulated in the contract. Also spelled out in specific terms are the manager's risk responsibilities: 1. Failure to fulfil the target for profit to be turned over to the state and the target for debt repayment, even though all other economic and technological targets are fulfilled, will be regarded as failure to fulfil all operational targets, in which case the plant manager will receive only a reduced wage. For every 10 percent underfulfilment of the target for profit to be turned over to the state or the target for debt repayment, the manager's base wage will be deducted by 10 percent, with the maximum deduction limited to 50 percent of his base wage. 2. Failure to fulfil targets other than those for profit to be turned over to the state and for debt repayment will be cause for a proportional deduction from the increased portion of the manager's income. Failure to fulfil the target for total profit will entail a 10-percent deduction; the target for technological transformation, a 10-percent deduction; the target for quality and consumption, a 20-percent deduction; and the target for safety, a deduction to be determined according to circumstances. The deductions will be limited to the increased portion of the manager's income.

Under contract management, the enterprise realized a profit of 280,000 yuan in 1987, but, after paying debts and issuing bonuses to workers and staff, there was little left, and the contract targets for profit to be turned over to the state and debt repayment were both unfulfilled. As a punishment for failing to meet his risk responsibilities,

the manager's monthly income was reduced to 50 yuan, his original monthly wage. He was excused by the bureau in charge from paying the targeted amount of profit to the state on grounds that the total paid by industries under the bureau's jurisdiction had already overfulfilled the targets.

Example 3: The Chengdu Bearing General Plant, in Sichuan, is a large state-owned enterprise. On the basis of maintaining the original level of total payroll and tax rate, the enterprise's operations were turned over to all the employees under a system of contracted managerial responsibility with risks shared and secured by all employees in 1987.

The amount of money each person contributes as security against risks is determined by a responsibility coefficient assigned him. The base security is 300 yuan each. The amount of security is calculated by the formula: Security to be paid by each person = his responsibility coefficient x base security. The securities to be paid by the plant's workers and staff are stipulated specifically as follows: 1. The director and party committee secretary of the general plant, 1,050 yuan each, with a responsibility coefficient of 5; 2. At the sub-plant level, the chief economist, chief engineer, chief accountant, deputy party committee secretary, and trade union chairman of the general plant, 900 yuan each, with a responsibility coefficient of 3; 3. Department chiefs, deputy department chiefs, deputy chief economists, deputy chief engineers, and deputy chief accountants of the general plant, directors, managers, branch plant directors, and workshop supervisors, 750 yuan each, with a responsibility coefficient of 2.5; 4. Senior staff members of departments and offices, engineers, economists, accountants, statisticians, physicians-in-charge, technicians, and teachers of the general plant, deputy branch plant directors, and deputy workshop supervisors, 600 yuan each, with a responsibility coefficient of 2; 5. Shift and team leaders, workshop section chiefs, and cadres, 450 yuan each, with a responsibility coefficient of 1.5; 6. workers, 300 yuan each, with a responsibility coefficient of 1; and 7. Apprentices, 150 yuan each, with a responsibility coefficient of 0.5. As the plant is a large state-owned enterprise specializing in bearing production with net assets worth 17.5 million yuan and 3,160 workers and staff members, a rather large sum, about 700,000 yuan, has been accumulated as security against risks.

In 1987, the plant registered an annual output value of 40.6 million yuan, sales totaling 46 million yuan, and profits and taxes totaling 8.55 million yuan, overfulfilling all contract targets.

Example 4: The Shenyang Pneumatic Machinery Plant, in Liaoning Province, is a large state-owned enterprise. To deal with losses resulting from risk-taking under contract management, it adopts a system under which a penalty is given the manager, the loss is paid for by the enterprise with its own funds, and credit is extended by the state. At the beginning of 1987, following appraisal

by a bidding evaluation committee and endorsement by the workers congress, Guo Chengyuan [6753 2052 0337] was commissioned as the plant's contract manager. The 4-year contract contains the following stipulations: 1. If the plant fails to fulfil profit targets for 2 years running, Guo Chengyuan will be denied his base wage and bonus for the entire second year, in which case he will be paid a living allowance of 50 yuan per month by the enterprise. His contract may be terminated, and his commission may be cancelled. 2. Spot checks on product quality will be made by relevant superior authorities during the period of the contract. If the quality of products is found to be substandard or improperly graded, Guo will be denied all bonuses and one-third of base wage for the entire year. If substandard products, after leaving the plant, cause damage to customers or evoke their strong dissatisfaction, and the facts are confirmed by relevant quality monitoring departments, Guo will be denied all bonuses and two-thirds of base wage for the entire year. If substandard products cause serious economic losses to customers or consumers or accidents resulting in injury or death, Guo will be denied all bonuses and base wage for the entire year, in which case he will be paid a living allowance of 50 yuan per month by the enterprise. 3. If the manager causes serious losses to the enterprise and the state due to major wrong decisions or misconduct during his tenure, he should bear the legal consequences.

As of the end of 1987, the enterprise realized a profit of only 400,000 yuan, far below the year's target of 1.97 million yuan. The manager gave the following reasons: inaccurate market forecast, which led to unrealistic optimism on production prospects; subjective mistakes in policy decisions, which led to inappropriate changes in product mix; lack of mental preparation for changes in the supply-and-demand situation and prices of raw and semifinished materials and of appropriate internal measures to cope with such changes; and failure to pay close attention to management and to carry out the movement to increase production, practice economy, raise revenues, and reduce expenditures.

So far, the manager himself has been denied all bonuses and 50 percent of base wage for the entire year according to the terms of the contract. Other managerial personnel at the sub-plant level have also lost a specific proportion of bonuses and wages. As the enterprise failed to meet the target of turning over 800,000 yuan in profit to the state, the municipal finance bureau decided to take 180,000 yuan of the enterprise's own funds as a partial payment, which left the enterprise still more than 600,000 yuan in debt to the state. However, the enterprise is one of the first group of enterprises placed under contract management on a trial basis, and there is no stipulation in the contract that if the enterprise fails to turn over the targeted amount of profit to the state due to poor management, it is obligated to make the payment with its own funds. The enterprise believes that the finance bureau's decision is a violation of contract. So, the decision and remaining questions are still in dispute.

Example 5: An important way to enable enterprises under the contract system to assume full responsibility for their own profits and losses is for the enterprises to help each other in meeting risk obligations. Take the No 3 Chemical Works, in Hengyang City, a medium-sized state-owned enterprise, for example.

In 1984, the plant negotiated and signed a 3-year contract with the municipal planning commission, finance bureau, tax bureau, audit bureau, chemical industry bureau, and branch office of the People's Bank of China. In 1987, some unexpected major changes took place in the plant's market environment. First, work at the plant was held up for lack of material, because supply contracts under the state plan were not fulfilled. Second, sharply increased prices of raw and semifinished materials drove up production cost and slashed profit by 3.37 million yuan. Third, because fixed expenses became higher with reduced output, the plant's expenditures increased by 240,000 yuan. These three factors reduced profits and taxes by a total of 9.05 million yuan. Although the enterprise made an additional 2.17 million yuan—1.49 million yuan from higher selling prices of its products and 680,000 yuan from the movement to increase production, practice economy, raise revenues, and reduce expenditures—which did cover part of the loss, it still fell 6.88 million yuan short of profit target. Thus, in 1987, it delivered only 700,000 yuan in profit to the state and owed the state 1.33 million yuan. The Hengyang Municipal Government came to the conclusion that the plant's failure to meet targets was caused mainly by external market conditions. Therefore, it reduced the penalties to the plant manager and party committee secretary from 1,300 yuan each as stipulated by the contract to a fine of 100 yuan each. At the same time, in order to enforce the contract, arrangements were made for "enterprises to help each other in meeting contract obligations." The municipal party committee arranged for the Hengyang Chemical Works and three other enterprises which had overfulfilled their targets to pay 1.33 million yuan in addition to their own profit deliveries to make up for the shortage caused by the No 3 Chemical Works. The No 3 Chemical Works pledged in writing to pay the amount to the municipal finance bureau in 3 years. The four enterprises which made the extra payment will have the amount deducted from their profit deliveries in future years.

At present, though some constructive ideas have been put into practice in various places to enforce enterprise-management-contract provisions regarding risk responsibilities to be assumed respectively by the state, enterprise, and manager, there are still problems in the following areas.

1. It is not clear what kind of risks is the manager's responsibility. In the above examples, little is said to clarify the different kinds of market risks faced by enterprise management, except a general guideline that when adverse market conditions make it impossible for an enterprise to fulfil profit and profit-delivery targets, a

solution should be found jointly by the two sides of the contract through consultations. In fact, in enterprises run by contract managers based on the separation of ownership from managerial authority, the ultimate responsibility for risk-taking is usually borne by the owner, and the manager is only partially responsible for market risks which are managerial in nature. When a manager fails to meet his responsibility, he usually takes a reduction in his actual or anticipated earnings (in terms of bonus, wage, social honor, personal success, etc.), that is, a depreciation in the value of his labor. Therefore, a clear distinction between managerial and nonmanagerial risks and provisions spelling out the scope and extent to which a manager is held responsible for risks caused by changes in the external environment (referring mainly to policies and market situation) are conditions essential to the effectiveness of management contracts. Otherwise, disputes are unavoidable, and contracts can hardly be enforced.

2. The risk responsibility of the owner is not clear. Strictly speaking, the ultimate responsibility for risk-taking rests with the owner. Thus, so long as an enterprise remains state-owned, whether the responsibility is borne by the state or the enterprise itself does not seem to matter, as what belongs to the enterprise belongs to the state. However, with the reforms and the establishment of the profit-retaining system, the enterprises now have their own funds, which are different from state investment. These enterprise-owned funds are used mainly for expanding production and workers welfare and bonuses. At present, some contract regulations stipulate that when an enterprise under contract management fails to meet its profit and profit-delivery targets, it must use its own funds to make up for the shortage. If it does not have enough funds, it owes the difference to the state. This may seem to help the enterprise exercise greater budget restraint and strengthen its independent management. However, it hardly works that way. Because, at present, an enterprise's contract profit and profit-delivery targets are determined mainly on state budget and revenue considerations and are often increased proportionally. Such targets can hardly be reasonable or scientific. If enforced, some enterprises may become heavily indebted to the state and unable to carry on normal business activities, and their very existence may be threatened. In the end, they may be totally worn out and collapse. The comrades of the Shenyang Pneumatic Machinery Plant are rather pessimistic about the future of their enterprise.

We think that under present conditions, risk responsibilities should be assumed jointly by the state and the enterprise. In other words, shortages should be borne partly by the enterprise with its own funds and partly by the state. Or, these profit-delivery targets can simply be replaced by income taxes combined with specific provisions on fines. In this way, the enterprises will be left with funds needed for self-development.

3. Managers of different backgrounds are treated unequally with regard to risk responsibilities. Some local governments stipulate in explicit terms that all nonstate workers and cadres who contract for enterprise management must put up their own cash and family property and their guarantors' family property as security against risks, but state workers and cadres are exempt from these requirements. This is actually inequality based on the managers' different backgrounds and, to a very large extent, a legacy of the feudal system. The introduction of securities put up against risks, a practice borrowed from the lease system, may prove effective for enterprises whose operations involve greater risks, as it puts some pressure on the contract managers and increases their sense of responsibility. However, as Chinese citizens, the managers' authority, obligations, and duties should be equal, and their risk responsibilities should not be different because of their different backgrounds. It should be noted here that some enterprises need to have a secured risk responsibility system, and that some enterprises do not need such a system but can be restrained by linking their managers' income with performance. The unequal stipulations which discriminate against certain people should be abolished.

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Overcoming Obstacles Standing in Way of Wage, Price Reform

40060412 Shanghai SHIJIE JINGJI DAobao
[WORLD ECONOMIC HERALD] in Chinese
20 Jun 88 p 14

[Article by Vice Chairman of China Labor Institute Zhao Lukuan 6392 1462 1401 and China Labor Affairs Institute, Yang Tiren 2799 7555 0088: "Temporary Solution: Institute Transformation and Consolidation of the Market Order."]

[Text] Discussions today are leaning toward "releasing prices", but we are bringing up short term wage and price "controls". This seems to be like singing opposite tunes, but actually that is not the case. The "controls" that we are talking about are not the kind of "freezing" of the past. We mean that wages and prices will temporarily be adjusted by the government. The goal is to adjust prices so there is a safe environment. Therefore, this is not "regression", but "progress".

The "Two Difficulties" Are the Root: Under Market Conditions That Are Still Not Fully Developed, Transferring Price Authority to a Lower Level Prematurely.

Currently China has fallen into the "two difficulties" of price questions. On the one hand, starting from the need to deepen reforms and stabilize the economy, some prices that are clearly unreasonable must be adjusted. On the other hand, wherever you move a price it will always set off a spiral where the price will increase salaries and prices, and will cause inflation and cause the masses to lose their sense of security.

If we don't solve the two problems of spiraling price increases and spiraling wage-price increases, not only will we not be able to restrain inflation, but we will not be able to get anticipated results for adjustments made in any price. Because of this, in order to shake off the "two difficulties", we must look for what is causing price increases and cyclical wage-price increases.

In commodity economics there are many factors leading to price increases and spiraling wage-price inflation. But in China, the main reason at present is that in the latest period, with our market mechanisms not fully developed, we too early on gave the right to determine price and salary standards to the enterprises and supervising departments for enterprises.

Generally speaking, in conditions of commodity economics, prices and wages are best determined by the market, or are set by the government, based on market conditions. Only in this fashion, will prices and wages become a parameter for enterprises to use in allocating resources.

If prices are neither set by the market nor by the government, but are determined by the enterprise, they will not be a "parameter"—this destroys the special balancing capabilities of the market mechanism. We can see that starting from the goal of balanced income and a stable economy, if conditions for market to determine price are temporarily incomplete, you would prefer to have the government set prices, but would certainly not want the enterprises to set prices. There still exists in China a misunderstanding that it is the same thing to have the market set price or the enterprise set price. Thinking along these lines, in this last period, in our not yet developed market mechanism, we gave a substantial amount of authority to determine wages and prices to the enterprises and supervisory departments of enterprises. In actuality, allowing the enterprise to set prices is not allowing the market to set prices. This type of "release" is very destructive to the economy. Actually, when the market sets the prices, pointing to enterprise price policy, the trend shows that they cannot be far off the market standard. The enterprise at root is the recipient of market price. When enterprises determine market price it indicates that the enterprise has some monopolistic power over the market, and it can call upon its own strength to manipulate market price.

Looking back on the last stage of reforms, we can reach this conclusion—the only bad aspect were fuzzy concepts such as "release". We must recognize that in our reforms it is possible that two types of release might exist. One type does not have a new sequence of commodity economics, and it also does not have a completely formed market mechanism to serve as a reliable way to transfer administrative power to a lower level. This type of release actually is not a reform—it is courting chaos. The other type is release that is built on the newly sequenced foundation of commodity economics. Only when this type of release exists will it really

activate enterprises to increase their supply of products, and raise the economic efficiency. Therefore, we should not simply classify reforms as release. We should categorize the reforms as the old product economy sequence of undoing the fetters hampering the productive capacity and establishing a new commodity economics order of liberating the productive capacity.

Temporary Measures: Under the Authority of the Government, Implement Necessary Adjustments in Wages and Prices

Permanent Measure: Reconstruct the Mechanism of Enterprise Activity, Consolidate the Market Sequence, and Fully Establish the Market Mechanism.

From the above we can see, to break away from the "two difficulties" we must first take that portion of wage and price setting authority that we still do not have proper conditions to grant to the market, and withdraw that authority from the enterprises and from their supervisory departments, and correct it so that the government has it in hand. At the same time, the government should do everything possible in a relatively short time period to complete the reconstruction of the enterprise activity mechanism, and consolidation of the market order. And after the market mechanism has essentially been put in place, then step by step, wage and price setting authority will be "released" to the market.

There is a certain difficulty involved with the government taking back partial wage and price setting authority. Therefore, in this instance, the country withdrawing authority should make use of legal measures, instituting limits to the degree of fluctuation of wage levels and price levels, or directly establish wage standards for some types of labor or price standards for some commodities. This is one method for the government to interfere with the market, and is an income policy that encompasses the following areas. First, it is instituting control over a portion of wages and prices. At present the following two types of wages and prices need not be controlled. One type is wages and prices where the forecast budget for the buyer and seller are hard to keep within bounds. Another type are wages and prices where the elasticity of income demand is fairly great or the supply demand relationship is basically normal. Except for these types, controls should be instituted on all wages and prices. The controls can all be improved or made gradually looser, according to the market mechanism or the supply demand relationship. Of course, even after the market mechanism has been fully put in place, there will still be a minority of special products whose prices will need to be decided by the government.

Second, it is a type of control that is elastic. That is to say, that the wage and price standards set by the government have an upper and lower limit, and the enterprises actually accepting the price and wage standards can fall between the upper and lower limit. Seeing that the main symptom now is inflation, it is because for most types of products and labor, only an upper should be set.

Third, with the government administering wage standards for those that need regulation, the relationship between price and between wages and prices institutes regulation. What we are referring to here as regulation of wage standards is not the same as the "wage adjustment" carried out in the past. Under the conditions of having the government institute controls over wage standards, the wage adjustments that the enterprise institutes will still be determined based on the government established wage standard. According to these demands, the enterprise wage total currently promoted, (including bonuses) which uses a method of following the fluctuation in interest rates, can no longer be used. Because with that method, the laborers' wage level for each enterprise are vastly dissimilar, and results in a sort of manipulation of wage standards by the enterprise. After the government has instituted control of wage standards, the government should use a method of the average wage of the enterprise floating according to the rate of labor productivity, and institute control over enterprise wage funds. Beyond this, another reason why individual wages have gotten out of control is the current practice of distributing salaries between the person contracting with the enterprise and the person issuing the contract. The contractor is the legal authority appointed to handle management, and his salary should be subject to annual salary controls, with the coefficient floating according to the range of production exceeding the quota.

Fourth, when we say a "government" has regulating authority, this mainly indicates the central government. Only for labor and products that only circulate within one district can the local government institute controls. However, the control authority cannot be turned over to the managing department for the enterprise.

Instituting wage and price controls is only an interim measure to alleviate symptoms. Measures to permanently cure the "two difficulties" lie in reconstructing the enterprise management mechanism and consolidating the market system. Therefore in the final analysis, price reform will not be dependent on the government setting prices, but will be dependent on market adjustments.

The key question in restructuring the enterprise movement mechanism, correcting the enterprise movement targets according to the demands of commodity economics. For this we must implement reforms allowing for publicly owned property shares.

Consolidating the market system consists mainly of the following three areas. One is the free movement of all products and essential elements, and building a complete market system. Second is building complete market organization. Third is building a complete, unified tax system and body of commercial law. Many people do not approve of implementing a share system, and they don't support the main reason behind the free movement of products and essentials. They are afraid of "chaos".

Actually, this is not the case. Under a system of commodity economics, responsibility, authority and profit (including property rights), it is increasingly clear that the more energetically the enterprises pursue the idea of the greatest profits, and the movement of products and essentials becomes freer, the movement of the economy becomes more systematic and the overall economy becomes more stable, and more efficient. We can see that clarifying property rights and establishing a full market mechanism as the essential reforms is completely different from the reforms of "delegating authority and permitting profits" within the framework of economics. Reform is the establishment of a new system of commodity economics.

Wage and Price Adjustments in the Control Phase

In the present conditions in China, as we implement control over price and wage standards, we can greatly reduce the stormy waves that might be encountered as government adjusts price and wage standards. But to reduce the blindness of these adjustments, the government must still do the following two things. First, it must use scientific market projections as data, which means setting shadow wages and shadow prices. Our current labor and commodity markets have been seriously contorted. Therefore, the shadow wages and prices should not be set according to the current market situation. Rather we should borrow a basically reliable market to be our reference, and beyond that add on appropriate adjustments according to our actual market and our industrial policies. Last time some people suggested using the port price of the international market to decide the policy price, this idea should be taken seriously. Secondly, we most definitely must avoid the situation of "haggling" between the same enterprises and the responsible authorities, because otherwise it is not control.

Having experienced several years of "climbing ratio" and inflation, the wage relationship and the price relationship is very confused. To minimize resistance, when making adjustments, the government should implement high adjustment policies based upon actual wage levels and price levels that have already been reached. Naturally this will greatly raise the nominal levels of wage totals and price totals, but this is nothing more than an information of a one-time open currency devaluation taking place. When the devaluation has reached a certain level you introduce a one time currency reform and the problem is solved. There is one advantage to using lofty sounding policies to regulate wages—it can be implemented in conjunction with measures such as rent reform, social security system reform, and labor contract system reform, taking the many present "dark" wages and turning them into "light" wages, and together completing what constitutes the wage reform.

Currently in China the relationship between price and currency is very unusual. The unusual characteristic is that price inflation did not result from currency overextension, rather it is income climbing and price inflation

causing the currency overextension. If we don't correct the first reason, and blindly print currency, we will be unable to control wage and price inflation, and will squeeze production. Therefore "controlled" currency reform must be carried out together with wage and price reform.

At the time that the government is regulating prices, the method of giving citizens some subsidies cannot be used. This is a method that adds financial burdens and loses popular support. In the end, wage and price adjustments must be instituted in tandem. We can speculate that if all goes well, after all the wage and price adjustments, a method will be set up whereby the basic wage will float according to the basic cost of living, maintaining the compromise relationship between wage and price. In the future, when the labor market is completely opened up and fully in place, in the labor market the relationship between enterprise and prices will be decided by the enterprise and the laborers together. Then the government will only need to establish regulations for the relationship between government and business wages and prices.

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Study of Inflation, Price Reform

40060453 Beijing ZHONGGUO JINGJI TIZHI GAIGE
[CHINA ECONOMIC SYSTEM REFORM] in Chinese
No 6, 23 Jun 88 p 16

[Article by Ni Di 0242 6611, Xiang Yanxiang 0686 5333 4382, and Li Baoshi 2621 1405 1395: "The Nature of Our Rising Prices and Considerations on Price Reform"]

An Analysis of the Nature of Our Price Increases

Are the rising prices of recent years in our country a currency phenomenon or a problem with the system? At present, most people simply attribute the rising prices to inflation, which is a currency phenomenon. Speaking as to the nature of the problem, we feel that the following five elements are primarily involved in our rise in prices in recent years:

1. Reasonable adjustment. Tactically speaking, there are three methods of adjusting the price system: (1) hold low prices where they are and lower high prices, thereby bringing the high prices down near the low prices; (2) hold high prices where they are and raise low prices, thereby bringing the low prices up near the high prices; and (3) lower high prices and raise low prices, thereby bringing the two toward each other. Obviously, given a situation where all other conditions remain the same or looked at from the demand for stable prices, the first method is the best. But, in the real world, because of the rigidity of price levels, we can only choose the second method. Then, this will inevitably bring about an overall increase in price levels.

2. Currency phenomenon, namely—the total amount of currency has gotten out of balance. From 1979 to 1987, our nation increased its issue of currency over 24 percent each year and average individual income increased 10.8 percent each year which was higher than the yearly increase of the labor production rate; national income increased by 8.7 percent each year, the consumer fund and fixed asset investment increased 10.1 percent and 26.4 percent respectively each year. Between 1979 and 1987, the surplus purchasing power in our society as a whole increased by 26.8 percent annually. Clearly, the overall demand of society expanded ahead of time, thereby creating a situation where the total amount of currency has gotten out of balance. This is a primary factor that has pulled prices up.

3. Structural inability of supply to meet demand. As regards supply, primarily there has been a shortage of unprocessed products, namely, raw materials and agricultural products. As for demand, a main problem has been the too-rapid increase in investments outside of the budget and group purchasing power. According to incomplete statistics, group consumption in our nation has risen over 20 percent annually from 1983 to 1987, and investments outside of the budget have risen even more sharply. This has brought on a structural rise in demand and has pulled up the prices of elementary products.

4. Market fluctuation. This applies primarily to agricultural product prices. Of course, insufficient supply has been a major factor in the huge increases in the price of agricultural products in recent years. However, one cannot overlook the importance of market fluctuations in this respect.

5. System phenomena. Our price reforms were launched under the conditions where each economic body had strong interest motives, but there were unsound micro-economic restriction mechanisms (including financial and behavioral restrictions) and unsound macroeconomic adjustment and control mechanisms. Under such circumstances, as market prices rise, the reaction of each economic body is not to reduce demand, or adjust production or management plans, but is to force up commodity prices and create stockpiling purchases (in such places as processing enterprises and foreign trade divisions), with the state finance as the backup, thereby further pulling up the price levels. Furthermore, speaking as to market behavior, the indiscriminate raising of prices by primary-level enterprises, local governments, links in the chain of circulation and production division is both widespread and serious, and directly promotes rise in prices.

Summarizing the above, the price increases in our nation in recent years is primarily a phenomenon of the system and of the currency.

Judgment of the Situation

1. Our nation at present is in a period of transition between old and new systems where the aspirations to go beyond the advanced world level are strong, the demonstrated effects of the international level of consumption are greater than the effects of the introduced production technology, and lifestyle changes are faster than changes in production styles. Thus, demands of our society have increased tremendously but the supply of society has remained behind sluggishly. For the present and the coming few years, this will lead to an unavoidable, inevitable rise in overall price levels. We must have a sober ideological recognition of this and sufficient psychological preparation.

2. Nine years of reforms have put our people in a position where they are much better able to economically and psychologically endure price reforms. However, we should also soberly note that the fairly large scope of price increases over a succession of years has deepened the disappointment and skeptical attitude of the masses toward price reforms, which in turn has influenced the reputation of the reforms.

We should clearly understand that one important reason for the present growing dissatisfaction of the masses with price reforms, aside from the excessive scope of price increases, is the unjust distribution of individual income caused by unreasonable comparative prices. In case of stockpiling purchases by the people, this is not only a reflection of the greater ability of the masses to withstand price increases and a stronger desire of the masses to ease their feelings of panic; it is also normal market behavior under conditions of a commodity economy where consumers act according to their expectations of prices. We should neither be alarmed by this nor turn a blind eye to it.

3. Just how do we assess the seriousness of the present price situation? We feel that the price increase situation of the near future isn't something to be treated lightly but at the same time we shouldn't be filled with anxiety over it. As was pointed out earlier, price rises in the near future are a certainty; undue emphasis on stabilizing prices and artificial suppressants could very well bring about results counter to our desires, thereby harming economic growth and causing long term hidden or cyclical inflation. Also, we should take very seriously the unfavorable results that price increases bring to our economic development, the lives of the people, and system reforms. Thus, we must maintain price increases within a definite range.

Suggestions on Countermeasures and Considerations on Deepening Price Reforms

Summarizing the above, at present the target of our nation's macroeconomic policy should be twofold—we should both achieve the proper economic growth and also guarantee relative stability of prices. To accomplish this, we should adopt the following countermeasures:

1. As was mentioned earlier, the general rise in prices in our nation is a mixed effect of the expansion of overall

social demand and structural supply shortages. Because of this, we should utilize a currency policy that works along the lines of controlling the total amount of currency and adjusting the structures to alter the present negative interest rates. We should achieve control of the total amount of currency and restrain demands by such measures as raising interest rates, increasing savings reserves and opening market business. We should use tax policies and administrative credit to alter industrial and enterprise structures, increase the effective supply, and gradually bridge the gap between overall supply and demand. Above all, we must hold to this year's planned directive on finance and currency credit, and do our best not to go over it. Additionally, currency policy for at least the next three years should be continuously carried out following the principle of tending to be tight while stable. As for the quantitative limits, based on the overall reaction, we feel the actual amount of currency put into circulation in 1987 can be considered as the upper limit reference index; suitable cuts should be made so as not to go over it.

2. Implement various forms of savings deposit lotteries and issue high interest rate bonds. In this way we can quickly withdraw currency from the market, reduce market pressures and also, under the conditions of tightening money supply, build up concentrations of funds for such focal points as national energy resources and communications. However, we must definitely ensure that funds concentrated in this manner are employed in the proper industrial projects. Otherwise, although payments are shifted, market pressures will not be reduced and it will only exacerbate the rise in investment.

3. Uncontrolled investment scales not only spur on the rise in current market prices, but also can raise market prices for several years to come because of industrial cycles which are characteristically fairly long. Thus, we should strictly control investment scales over the next several years, and at the same time we should prevent a rise in individual consumption funds and make large reductions in group consumption.

4. In addition to speeding up work on commodity housing, it is proposed that we set free the prices for some top-grade consumption goods. This can both withdraw currency from the market, and evenly suppress prices. However, we must make sure that this is done for the purpose of withdrawing currency from the market and reducing market pressures, not to rob from the consumer and fill holes in the state's financial coffers. Otherwise, it will promote a further rise in prices and also increase the disparity between the rich and the poor.

5. Earnestly sort out and rectify the links in the circulation chain and make great efforts to reform the circulation system so as to reduce and eradicate as much as possible the impact on the production and prices of such elementary products as agricultural products brought on due to market fluctuations. At the same time, make widespread implementation of the use of the billing

system in transfer account trade and business deals, and strengthen cash management so as to eliminate the negative influence of non-economic behavior on market prices in economic life as much as possible.

6. Improve coordination of foreign trade departments with domestic circulation departments and commodity pricing departments so as to avoid blows to the domestic market from foreign trade caused by problems in the system.

7. The strategy for development of the coastal areas is correct. However, while pursuing this policy, two things need to be done. First, we should strengthen the link between the policy of opening up to the outside world in the coastal regions and the macroeconomic policy for the national economy as a whole. Second, we must appropriately speed up steps toward reform of our hinterland so as to avoid having the policy of one region being out of line with the promotion of price level increases in the national economy as a whole.

8. Urgently consider providing residents with appropriate compensation. It is proposed that starting next year, a system of regular pay increases be built for employees, employees on leave and retired employees of public agencies and organs and should be integrated with the implementation of the public servant system. Constant raise of the base wage should be pegged to price levels.

9. Establish a price form fund system. Use the earnings from raised or freed prices of top-grade consumption goods in short supply as suggested earlier to raise the prices of those products that are barely profitable or bring negative profits over the long term.

10. What we need to stress is that if we want to control the rise in prices, we must find our answers in supply and demand. However, if we want to solve the problem once and for all, we must thoroughly change the present system. It is proposed that, while we are perfecting the contract system for enterprises and strengthening the microeconomic restriction mechanisms and macroeconomic adjustment and control mechanisms, we should work on eliminating double-tracked pricing starting next year. We can move toward the market price or control price based on the different varieties of industrial and agricultural production materials and according to the market supply and demand situation. (It is possible that a very small number of varieties will still require a period of double-tracked pricing.) Then, based on the degree of perfection of enterprise reform and macroeconomic adjustment and control mechanisms, all product varieties will shift toward market pricing during the final phase of the Eighth 5-Year Plan. This will enable us to carry out the nation's macroeconomic plans and social benefits through market mechanisms and arrive at a point where industrial policies will guide enterprise behavior.

Management Training Center Planned
OW1308044788 Beijing XINHUA in English
1339 GMT 12 Aug 88

[Text] Beijing, August 12 (XINHUA)—A training center for leaders and managerial personnel, the Eastern Advanced Institute of Management and Decision Sciences, will be established in Beijing with help from the U.S. And will enroll 100 postgraduates this year.

The institute, to be established by the Chinese University of Science and Technology, Wuhan University and the Far East Institute of Advanced Studies in the U.S., is designed to train college graduates and postgraduates for master's and doctor's degrees. This year's enrollment for the faculties of development strategy and industrial enterprise management will aim at training leaders and enterprise decision-makers who have more than five years' experience.

The establishment of the institute was finally decided on at an international conference by Chinese and American specialists in the field, which closed here today.

Zhang Shunjiang, a professor at Wuhan University and vice-president of the Decision-Making Research Association under the China Management Science Research Association, said that China is heading the world in establishing the basic theory of decision-making sciences. His association has published a great deal of literature on the subject and has enrolled 20,000 people in correspondence courses.

Zhang said that the establishment of the institute is aimed at further development of the new science and training of personnel for China's modernization construction.

Specialists attending the conference said they believed that a series of global problems such as the danger of nuclear wars, overflow of world population and worldwide environmental pollution threaten the existence of mankind. They called for leaders of every nation to put the interests of the whole globe before those of their own nation in making decisions.

More Marketable Houses Built, Sold
OW1408113088 Beijing XINHUA Domestic Service in Chinese 0537 GMT 12 Aug 88

[Text] Beijing, 12 Aug (XINHUA) — According to JIAN SHE BAO, a general report released recently by the Ministry of Construction showed that China registered a sharp increase in construction and sale of marketable houses in 1987. People also showed increasing ability to purchase these houses.

In 1987, a total of 40.21 million square meters of marketable houses were completed, an increase of 17 percent over the previous year. The sales rate of marketable houses also grew from 64.4 percent in 1986 to 77.9 percent. This indicated that commercialization of houses

is increasing yearly. In 1987, housing development enterprises throughout China sold a total of 26.97 million square meters of marketable houses, of which the majority went to units owned by the whole people and collective-owned units, while 4.263 million square meters, or 15.8 percent, went to individual buyers. In 1986, only 13.9 percent of the total marketable houses were sold to individual buyers.

What merits our attention is that in 1986, we could complete 34 square meters of marketable houses with 10,000 yuan, while in 1987 we could only complete 27 square meters with the same amount. This indicated that other expenditures relating to overall housing development were reflected in prices of marketable houses. The average price of a square meter of marketable housing has surpassed 400 yuan, which is 90 percent higher than the average building cost. The price of marketable houses may still go higher, if their supply is less than demand in a certain period to come in the future.

Price Index in 29 Cities Reported for May

HK1208094188 Beijing CEI Database
in English 12 Aug 88

[Text] Beijing (CEI)—Following is a chart of price index and index of living costs in 29 big and medium cities in May 1988, released by CSICSC [China Statistics Information Consultancy Service Center].

	Price index of retail sales of whole society	Price index of living expenses of employees	Including: price index of services
Beijing	112.5	112.0	106.7
Tianjin	111.5	111.0	102.5
Shijiazhuang	111.6	111.3	107.6
Taiyuan	116.8	115.6	101.9
Hohhot	111.6	111.1	104.9
Shenyang	110.9	110.3	104.2
Changchun	113.7	114.9	128.2
Harbin	111.5	110.8	103.5
Shanghai	119.4	118.8	113.9
Nanjing	122.7	121.0	102.7
Hangzhou	119.3	117.8	100.7
Hefei	123.7	121.3	102.1
Fuzhou	125.7	123.7	103.8
Nanchang	123.8	122.3	106.1
Jinan	113.7	113.0	103.5
Zhengzhou	118.1	117.6	113.0
Wuhan	117.8	116.5	102.2
Changsha	122.3	121.1	108.6
Guangzhou	123.8	121.8	105.5
Nanning	118.3	117.9	113.4
Chongqing	115.4	114.7	108.6
Chengdu	117.6	116.5	106.3
Guiyang	114.9	113.8	102.6
Kunming	112.8	112.3	108.1
Xian	113.9	114.1	115.5
Lanzhou	118.0	118.0	118.6
Xining	110.4	110.0	105.6
Yinchuan	112.2	111.7	106.2
Urumqi	116.2	114.6	100.1

Review of Book on Modern Capitalism

HK1508090788 Shanghai SHIJIE JINGJI DAobao in Chinese 8 Aug 88 p 11

[Article by Tong Dalin 4547 1129 2651, Wu Mingyu 0702 2494 3842, and Liu Ji 0491 0679: "Preface to the Book *Introduction to Questions Concerning Contemporary Capitalism*—a Series Published by the State Science, Economics, and Sociology Research Foundation"]

[Text] Our firm and invariable objective is to build socialism, but socialism today has yet to create the higher productivity than capitalism which Lenin predicted, and the standard of living of people in socialist countries remains lower than those in some developed capitalist countries. Science and culture in socialist countries are also comparatively backward. In these circumstances, as Comrade Deng Xiaoping said, we are still not in a position to talk about the superiority of socialism.

We are told that it is an urgent task of great importance to strengthen our study of contemporary capitalism in an earnest manner. Why so? For the following two basic reasons:

First, when mentioning the mission of the socialist movement Marx and Engels wrote that the characteristic of the new trend of thought is not to seek a perfect form for society but to find a way to solve the contradictions in capitalism. For this purpose they worked hard on scientific research and they said that "our movement can be summed up in one sentence: To wipe out private ownership." Through study and analysis of the realities and tendencies in the development of capitalism during the late 19th and early 20th centuries, Lenin wrote his epoch-making thesis "Imperialism Is the Highest Stage of Capitalism." In this he pointed out that imperialism is a kind of monopolistic, decadent, and moribund capitalism, and marks the eve of the socialist revolution. He then successfully led the October Revolution in Russia. After that, socialism became part of mankind's real life and the death knell of capitalism was sounded. In the 20th century human society developed rapidly, and the world underwent tremendous changes. Capitalism certainly did not stand still in an invariable form, and is no longer a social pattern as it was at the turn of the century and during the previous century. On the other hand socialism has not yet fulfilled its mission of becoming superior to capitalism. Socialism today should be superior to contemporary capitalism rather than the capitalism of 100 years ago; and socialism should provide a means of solving the contradictions in contemporary capitalism rather than those in 19th-century capitalism. Therefore, in order to realize the unfulfilled cause of the revolutionaries of the older generation, we should not rigidly adhere to the specific conclusions drawn by the revolutionary teachers from their special historical conditions, but should study and follow their spirit, viewpoints, and methods in doing scientific research to analyze modern capitalism, and draw new conclusions

s suited to the conditions prevailing in modern times. If we ignore the characteristics of modern capitalism, or merely have a vague idea about them, then how can we solve the contradictions in modern capitalism and create socialism that is superior to modern capitalism? If we fail to do this we will not be able to creatively develop Marxism and our practice will just be aimless practice, and then how could we effectively advance the socialist cause? Therefore, studying modern capitalism should be a historical mission for socialists of the current generation.

Second, the founders of Marxism told us that socialism could only be established on a social foundation wherein the productive forces were highly developed. This was not the fact and thus rapid development of the productive forces must be a basic task for socialist nations for a fairly long time to come. The productive forces will have to be further developed in order to build communist society. The two major pillars supporting the economies in modern society are advanced science and technology and large-scale socialized production. These two aspects precisely represent the advantages of contemporary capitalism, and mark the results of the development of capitalism over the past hundreds of years. Its successes and failures in these aspects all provide useful and valuable experience for the building of socialism, because socialism does not fall from the sky and the socialist factors are produced and accumulated in the course of developing the productive forces to a higher and higher degree. As Lenin pointed out, "socialism has now appeared in all windows of capitalism, and in each major measure that was advanced on the basis of the latest in capitalism, socialism has directly and actually been demonstrated." Therefore we not only must seek the way to build socialism mainly through our own explorations and through summing up our own experience, but must also make efforts to discover useful things in science and technology and in economic management in the capitalist countries.

We should pay close attention in particular to the socialist factors that have appeared in modern industrial production and in the development of modern economies. There is a longstanding feudalist tradition in our country, and the small production habit still widely exists. Our ongoing modernization process and reforms will realize the transition from traditional small production to large-scale modern production. Therefore the study of contemporary capitalism is of great immediate significance. Only by earnestly studying contemporary capitalism can we distinguish the dross in the capitalist system from the socialist factors that have been demonstrated in large-scale modern production and in modern economies. Only thus can we soberly establish our own theory for reforms and formulate the reform strategy and measures so as to speed up socialist modernization.

In short, both the historical mission of the socialist movement and the immediate needs in our modernization construction and reforms require us to seriously study contemporary capitalism, and include this in our work schedule.

PROVINCIAL

'Comprehensive' Investigation Report on Dongguan

*HK2508030188 Beijing RENMIN RIBAO in Chinese
14 Aug 88, pp 1, 2*

[Article By the Investigations and Studies Room of the General Office of the CPC Central Committee: "Dongguan in 10 Years—Studying a Successful Typical Example in Building Socialism in the Coastal Rural Areas of Our Country"—editor's note in boldface as published]

[Text] **Editor's Note: This investigation report was written by the comrades of the Investigations and Studies Room of the General Office of the CPC Central Committee after carrying out comprehensive investigations in Dongguan City of Guangdong Province for 30 days. Dongguan City is situated in the hinterland of the Zhujiang Delta and is very close to Hong Kong. Therefore, Dongguan City is situated in a special geographical location and has an excellent human environment. Dongguan City has very good conditions to carry out the economic development. Over the past 10 years, fundamental changes have taken place in Dongguan City. Thanks to the correct line, principles, and policies formulated by the 3d Plenary Session of the 11th CPC Central Committee, Dongguan City's economy has taken off. We should pay attention to Dongguan City's basic experiences. Reading this investigation report is conducive to deepening our understanding of the significance of building socialism with salient Chinese characteristics, further diminishing our worries about the implementation of the policies of reform, opening up to the outside world, developing the export-oriented economy, and strengthening our confidence in carrying out the reform. This year is the 10th anniversary of the 3d Plenary Session of the 11th CPC Central Committee. We sincerely hope that more investigation reports reflecting the great changes of our country over the past 10 years will be published.**

In our country's great cause of reform and opening up to the outside world, areas like the southern Jiangsu Province, Wenzhou, Quanzhou, Fuyang, and some other areas have become the models in developing the commodity economy with rich regional characteristics and carrying out the building of the socialist modernizations. The rise of the Zhujiang Delta as a successful model in opening up to the outside world has provided us with a new model. Dongguan, as a typical model in developing the export-oriented economy, has also attracted people's attention. Dongguan is situated between Guangzhou and Shenzhen in the hinterland of the Zhujiang Delta. Dongguan is very close to Hong Kong. Dongguan has a total

area of 2,465 square kilometers with 1.17 million mu of cultivated land and a total population of 1.25 million. More than 0.6 million Hong Kong compatriots have relatives in Dongguan. More than 180,000 Overseas Chinese have relatives in Dongguan. Dongguan is a well-known hometown of the Overseas Chinese. In September of 1985, Dongguan was upgraded from a county to a city. In January of this year, approved by the State Council, Dongguan was again upgraded from a city at the county level to a city at the prefectural level.

Because Dongguan is situated in an excellent geographical location and has a favorable human environment, it has very good conditions to carry out the economic development. Before the 3d Plenary Session of the 11th CPC Central Committee, under the influence of the "Left" guiding ideology, Dongguan repeatedly missed the good opportunities for carrying out its economic development. For over 30 years, although Dongguan's economy had been developed to a certain extent, the standard of people's material life and cultural life had still been still very low. Dongguan had lagged far behind the nearby prosperous Hong Kong.

Since the 3d Plenary Session of the 11th CPC Central Committee, the implementation of the policies of reform and opening up to the outside world, especially the rapid development of the export-oriented economy, have brought about fundamental and enormous changes in Dongguan. Dongguan has become one of the fastest developing areas in Guangdong Province. By the end of September last year, Dongguan's financial revenue had been more than doubled; Dongguan's total social output value, total industrial and agricultural output value, national income, foreign exchange earned through export, and the average income of the urban residents of Dongguan had all been quadrupled; The living standard of the people of Dongguan had also been greatly raised; The educational, scientific, and cultural undertakings of Dongguan had all flourished; Dongguan had enjoyed social stability; The people of Dongguan had become more energetic than before; The general mood of the society of Dongguan had been greatly improved; The people of Dongguan had been enthusiastic in trying to "find ways to become prosperous and learn more new things;" All types of qualified personnel had emerged in Dongguan; And the prestige of the CPC organizations of Dongguan had been greatly enhanced.

When summing up the profound changes that have taken place in Dongguan since the 3d Plenary Session of the 11th CPC Central Committee, the cadres and masses of Dongguan said: "The current socialism is really good to all!"

1. Dongguan Always Gives Priority to the Development of Productive Forces

The most important change that has taken place in Dongguan is that along with rapid development of the socialist commodity economy, especially the development of the export-oriented economy, Dongguan's economy has thoroughly cast off its backwardness and has

taken off. Compared with 1978, in 1987, Dongguan's total social output value increased by 540 percent, reaching 6.58 billion yuan; Dongguan's total industrial and agricultural output value had increased by 380 percent, reaching 3.64 billion yuan; Dongguan's national income had increased by 430 percent, reaching 2.39 billion yuan; The amount of foreign exchange earned by Dongguan through export had increased by 340 percent, reaching \$ 267 million; And Dongguan's financial income had increased by 210 percent, reaching 202 million yuan. In the 9 years between 1978 and 1987, the average annual growth rate of the industrial and agricultural output value of the Dongguan City stood at 19.1 percent, which was higher than 13.5 percent, the average annual growth rate of the industrial and agricultural output value of Guangdong Province during the corresponding period. Especially, since 1985, Dongguan City has realized an annual increase of 700 million yuan in its total industrial and agricultural output value. Since 1985, Dongguan City's total industrial and agricultural output value have increased at an annual rate of 37 percent. Along with the economic growth, Dongguan City's collective economy also rapidly developed and expanded. Compared with that of 1978, in 1987, Dongguan City's collective economy's investment in the fixed assets increased by 1,580 percent; In 1987, the industrial output value of the collective economy of the Dongguan City was 2.436 billion yuan, which was 878 percent more than the 249 million yuan recorded in 1978.

Along with the economic development, the general material life of the people of the Dongguan City has been greatly improved and the living standard of the people of the Dongguan City has been raised. Compared with the situation in 1978, in 1987, the per capita income in the rural areas of Dongguan City increased from 193 yuan to 1,039 yuan, which was higher than 645 yuan, the per capita income of Guangdong Province; The per capita income of the workers and staff in the towns under the jurisdiction of Dongguan City increased from 547 yuan to 2,067 yuan; The total turnover of social commodities, which reflects the social purchasing power, increased from 280 million yuan to 1.58 billion yuan; In 1987, the total amount of bank savings of the people of Dongguan in the urban and rural areas reached 1.89 billion yuan, an increase of 340 percent over that of 1978; And in 1987, the per capita bank savings of the urban and rural areas of Dongguan reached 1,523 yuan. According to our investigations, the per capita income of Dongguan City, especially the per capita income of the peasants, far exceeded this figure. For example, according to the statistics of Duitang Village of Chashan Town, in 1987, the per capita income reached 1,372 yuan; The per capita income of the peasants who grow fruit reached 1,185 yuan while the per capita income of the people in other trades and professions far exceeded 187 yuan. The situation in other areas of Dongguan City was almost the same as the situation in the Duitang Village of Chashan Town. The People of Dongguan no longer have to worry about their food and clothing, but now have surplus money. Now, some 70 percent of the peasant households

in Dongguan City have built new and beautiful houses. Everywhere in Dongguan, we can see that socialism has been integrated with prosperity and wealth.

Thanks to the correct line, principles, and policies formulated by the 3d Plenary Session of the 11th CPC Central Committee, great changes have taken place in Dongguan. Under the correct guiding ideology formulated by Dongguan City's CPC Committee, great changes have taken place in Dongguan. The leaders of the Dongguan City have been adhering to the principle of seeking truth from facts and carrying out the economic development in the light of the reality of Dongguan City, have emancipated their minds and taken the lead in the reform and economic development. Over the past 9 years, Dongguan has overcome a lot of difficulties and obstacles in the course of the reform and opening up to the outside world. Dongguan City's CPC Committee, People's Government, and the broad masses of the cadres and people now have a strong sense of reform and a good understanding of the significance of opening up to the outside world. No matter what happens, they always place the development of the productive forces above everything else. They have made unsparing efforts to develop Dongguan's economy and enable the people of Dongguan to become prosperous! This is how the cadres of Dongguan understand the spirit of the 3d Plenary Session of the 11th CPC Central Committee. When Dongguan City first started to implement the policy of opening up to the outside world, the influence of the "Left" ideology was still very strong. When a Hong Kong businessman came to Xiegang Town of Dongguan City and told the cadres there that he wanted to rent a commune auditorium to start a woolen mill there, the commune cadres said: "This is the only front of the Mao Zedong Thought in our commune and cannot be taken by the bourgeoisie." As a result, the commune cadres only allowed the Hong Kong businessman to rent a shed on the market. When Dongguan first started to carry out the "processing of materials supplied by foreign businessmen," the cadres and masses of Dongguan were strongly influenced by the so called "sandy beach theory," "shock theory," and "low-grade theory" and they thought that carrying out the "processing of materials supplied by foreign businessmen" would affect the prestige of the CPC. As a result, they had reservations about the development of the export-oriented economy, especially about the "processing of materials supplied by foreign businessmen." In order to wipe out the worries of the broad masses of cadres and people of Dongguan City, the CPC Committee of Dongguan City repeatedly carried out propaganda and education among the broad masses of cadres and people by presenting them with some vivid and encouraging facts to try to eliminate the influence of the "Left" ideology among the cadres and masses. In course of the reform and opening up to the outside world, some unhealthy and negative phenomena, malpractices, and even some economic crimes emerged in the society. However, the leaders of Dongguan City were not frightened out of their wits by these negative phenomena, but resolutely accelerated the pace of the

reform and opening up to the outside world and tried to solve these problems by accelerating the economic development.

Comrade Xiaoping pointed out: "To carry out socialism, it is necessary to develop the productive forces. Poverty is not socialism. We should adhere to socialism. However, in order to further build socialism which is superior to capitalism, we must first of all build socialism which can shake off poverty." Over the past 9 years, the people of Dongguan have done things in just this way. The people of Dongguan firmly believed that only by developing the productive forces and shaking off poverty will the superiority of socialism be brought into play and the attraction of socialism be enhanced. Before the 3d Plenary Session of the 11th CPC Central Committee, although Dongguan had repeatedly carried out the socialist education movement [a nationwide movement to clean things up in the fields of politics, economy, organization, and ideology—FBIS] in various forms, it had failed to shake off poverty. Dongguan had become increasingly poor. People could only earn several fen or several jiao after a whole day's work. The masses could not see the superiority of socialism in their daily life. People wanted to go to Hong Kong and tried in every way to escape to Hong Kong. At that time, the CPC Committee of Dongguan had to make a lot of efforts to prevent people from "escaping to Hong Kong," but achieved few results. For example, in 1978, the per capita income of Changan Town under the jurisdiction of Dongguan was only 83 yuan. So a large number of people of Changan Town escaped to Hong Kong. Between 1978 and 1979, some 4,000 people of Changan Town escaped to Hong Kong, leaving over 5,000 mu of land uncultivated. At that time, people of Changan Town often said: "All the young people have escaped to Hong Kong; The land has been left uncultivated; The cadres' work is difficult; And the old people are scared." This shows that the superiority of socialism cannot be brought into play merely by shouting such slogans as "Socialism is Good." And people's confidence in socialism and the people's determination to take the socialist road cannot be "produced" through the socialist education movement. People can only see the superiority of the socialist system in the course of the reform and opening up to the outside world and in the economic development and the continuous improvement of their material and cultural life. Yang Deliang, a young peasant of Huangjiang Town, is 23 years old this year. After graduation from the junior middle school, he thought that he would have no future; he became a peasant in his home town. So he tried to escape to Hong Kong three times but in vain. Now, he has contracted 10 mu of lychee and eight mu of fish pond. In 1987, he earned 23,00 yuan and built two new houses. Yang Deliang said with deep feeling: "In the past, I only thought that life in Hong Kong was better. Now I have found that I can also find gold here in Dongguan!" Facts have shown: The development of production, the economic prosperity, and a peaceful and content life are the essential components of the attraction of socialism.

2. "Borrow the Boat To Go to Sea" and the Development of Export-Oriented Economy

Along with the deepening and development of the rural reform and the growth of the rural labor productivity, the rural areas will certainly have more and more surplus labor. Therefore, it is necessary to create more jobs in the rural areas. This situation has made the development of the rural economy possible. However, because Dongguan lacks capital, technologies, and qualified personnel, especially the qualified managerial personnel, the transfer of surplus rural labor to the non-agricultural sectors has encountered enormous difficulties. In order to transfer hundreds of thousands of surplus rural labor to the non-agricultural sectors, the CPC Committee of Dongguan City quickly grasped the opportunities provided by the new changes in the world economy, especially the new changes in the economy of the Asia-Pacific Region, and decided to make use of Dongguan's advantages of being close to Hong Kong and Macao, having a large number of Overseas Chinese and Hong Kong and Macao compatriots, having a lot of foreign capital, and having a labor force of good quality. The CPC Committee of Dongguan City decided to greatly develop the town and township enterprises, greatly carry out the export-oriented processing, especially "three forms of import processing and compensation trade," and greatly carry out the development of the export-oriented economy. There are many ways of making use of foreign capital, advanced foreign technologies, and advanced foreign managerial experiences. However to Dongguan, to carry out the "processing of materials supplied by foreign businessmen" is less risky and can produce the fastest economic results. So the leaders of Dongguan City call the "processing of materials supplied by foreign businessmen" as "borrowing the boat to go to sea." As a result, Dongguan City's economic development started from "borrowing the boat to go to sea." This is a decision which is full of imagination. In the process of carrying out "processing of materials supplied by foreign businessmen," Dongguan City has taken the road of making do with whatever is available. All the warehouses, auditoriums, ancestral halls, mess halls, and offices in Dongguan City have become workshops and factory buildings. Dongguan City has also gradually accumulated funds to build modern factory buildings. Now, you can see large stretches of industrial areas and a lot of modern and standard factory buildings in Dongguan City. By the end of 1987, Dongguan City had had a total of over 2,500 enterprises carrying out the "three forms of import processing and compensation trade." These enterprises are scattered in 80 percent of the rural areas of Dongguan City, carrying out the processing of a total of 15 varieties of products which are divided into more than 4,000 types, including textile products, clothes, electronic products, toys, and so on. In 1987, Dongguan City earned a total of \$ 107 million by carrying out the processing of materials supplied by foreign businessmen, which accounted for 39.6 percent of the total industrial income of the Guangdong Province, which was \$ 270 million. In 1987, the per capita foreign exchange earning

of Dongguan reached \$ 214, ranking the first among the units at the county level in the whole country.

Over the past 9 years, Dongguan City has imported 127,676 sets of equipment, including some technological equipment of the 1980's standard, by carrying out the "three forms of import processing and compensation trade." By carrying out the "three forms of processing and compensation trade," Dongguan City has not only imported advanced foreign managerial experiences, but has also attracted some 150,000 labor force from its own rural areas and some 170,000 rural labor force from other areas, thus successfully transferring the surplus rural labor force to the non-agricultural sectors and indirectly supporting and pushing forward with the economic development of the hinterland.

One of the most important experiences of Dongguan City in developing the export-oriented economy is to "make full and flexible use of" in a timely fashion, the Central Authorities' policies of opening up to the outside world and policies regarding the economic development zones of the Zhujiang Delta. The leaders of Dongguan City have dared to seek truth from facts and have overcome numerous specific difficulties and obstacles according to the policy principle of the Central Authorities and in the light of the actual local conditions of Dongguan City. Because the broad masses of cadres and people of Dongguan City dare to carry out explorations and open up new prospects and dare to greatly develop the export-oriented economy, the "three forms of import processing and compensation trade" have been extensively carried in Dongguan City.

Another important reason for the rapid development of the export-oriented economy of Dongguan is that Dongguan City has made great efforts to strengthen the building of the "soft environment" and "hard environment" and has created a fine investment environment for the foreign businessmen. From 1980 to the end of 1987, Dongguan City made a total of over 1 billion yuan of investment in the development of communication facilities, factory buildings, energy projects, telecommunication facilities, and some other basic facilities. By the end of 1978, there had only been a one-kilometer-long cement highway in Dongguan City. By the end of 1987, there had been a total of 860-kilometer-long cement and asphalt highways in Dongguan City. This means that on every square kilometer of land, there was a 0.58-kilometer-long highway. Dongguan City's per-square-kilometer highway was more than the per-square-kilometer highway of the whole country, which was 0.1 kilometer of highway. The highway density of Dongguan City ranked first among all the areas at the county level in China. By the end of 1987, Dongguan City had had a total of 20,000 program-controlled telephones which could be directly put through to more than 100 cities in about 17 countries (regions) in the world. By the end of 1987, Dongguan City also had had a total of 8,756 direct-dial long-distance telephone sets, which accounted for 20 percent of the total number of direct-dial long-distance

telephone sets of China. The number of direct-dial long-distance telephone sets Dongguan City had by the end of 1987 ranked the first among all cities at county level in China. Over the past 9 years, Dongguan City has also greatly developed other types of public facilities. Now, all the villages and towns have highways, electricity supply, telephone lines, and water supply. Apart from getting a small amount of funds from the state and other provinces, Dongguan City has mainly relied on itself in raising funds for its own construction. First, Dongguan City has mainly relied on the appropriations of the city people's government and the various town people's governments, the funds raised by the collective enterprises and the masses, and the bank loans to carry out the development of the basic facilities. Second, Dongguan City has also implemented the method of using highways with compensation so as to recover part of the construction funds; Third, Dongguan City has made use of the funds accumulated by the rural industries. Over the past 9 years, some 140 million yuan of the funds accumulated by the rural industries has been allocated to support the building of the basic facilities. The amount of funds allocated from the funds accumulated by the rural industries accounted for 38.5 percent of Dongguan City's total investment in the building of communication facilities, power projects, and telecommunication facilities.

With regard to the building of the "soft environment," first, Dongguan City has made great efforts to well carry out the overseas united front work and implemented the state policies toward Overseas Chinese and returned Overseas Chinese, thus mobilizing the enthusiasm of the Hong Kong and Macao compatriots and the Overseas Chinese in supporting the construction of their hometown and smoothing out the channels for external economic intercourse; Second, Dongguan City has made great efforts to improve the government's work style, improve the administrative management of the foreign-related contracts, and increase the work efficiency of the government. The "Office in Charge of the Processing and Assembly of Materials Supplied by Foreign Businessmen" has adhered to the "one-window" principle in dealing with foreign businessmen. The "Office in Charge of the Processing and Assembly of Materials Supplied by Foreign Businessmen" has made the management and service concerning trade talks, contract signing, industrial and commercial registrations, customs declarations, issuance of import and export permits, and direct transportation between Dongguan and Hong Kong a coordinate process. Usually, the "Office in Charge of the Processing and Assembly of Materials Supplied by Foreign Businessmen" can complete the procedures regarding a project within one day. And it only takes one week for the "Office in Charge of the Processing and Assembly of Materials Supplied by Foreign Businessmen" to complete the entire process from the holding of trade talks to the delivery of equipment. In order to increase work efficiency, the various institutions carrying out economic contacts with foreign cities have coordinated and supported one another in their work. In 1987, some 82

enterprises were branded as "enterprises which can be trusted" by the customhouse and were granted exemption from the customs examination. The government organizations in Dongguan City have also actively cooperated with and provided various services to the foreign invested enterprises in Dongguan City and have done their best to meet the foreign businessmen's requirements on the variety, quality, and date of delivery of certain products. Once a lingerie factory in Houjie Town, which is a foreign-invested enterprise, could not deliver the products to its client on schedule because it had accepted a too big production quota. Therefore, the factory would be fined and even go bankrupt. As soon as the Houjie Town Government heard this, it tried to get help from other clothing factories in the town. As a result, other clothing factories asked their workers to do overtime work to help the lingerie factory fulfill its production quota on schedule. In the meantime, the Houjie Town Government also asked the Kowloon Customhouse to postpone its closing time. As a result, the lingerie factory delivered the products to its client on time. The Hong Kong investors were very grateful to the Town government. They not only immediately increased their investment in the bust and clothing factory but also prompted other Hong Kong businessmen to set up enterprises in the town. Dongguan City has also actively helped the foreign businessmen who have made investments to run their enterprises well. The city has tried its best to establish an enterprise management structure favorable to the implementation of standard international enterprise management practices. Moreover, over the past 9 years, Dongguan City has been able to maintain public order and enjoy social stability. The criminal crime rate has dropped from 8 per 10 thousand between 1980 and 1982 to below 4 per 10 thousand at present. All the people living in Dongguan City now feel a sense of safety. This is also an important aspect of the fine "soft environment." Some foreign businessmen gladly said: "Dongguan is the paradise of investors." Now, after some small and medium-sized Hong Kong business undertakings have made investment in Dongguan City, some big and medium-sized foreign companies have also come to make investment in Dongguan City or negotiate possible cooperations with Dongguan City. Some of these foreign investors are big entrepreneurs from Japan, the United States, West Germany, Taiwan, and other places.

At present, Dongguan City's export-oriented economy is still being rapidly developed. Since 1978, the number of export-oriented enterprises in Dongguan City has greatly increased. Especially since last year, because of the changes on the western stock market, the number of trade agreements signed between foreign businessmen and Dongguan City has sharply increased. For example, the number of trade agreements signed between foreign businessmen and Dongguan City increased from 559 in 1986 to 729 in 1987. The processing fees involved in these trade agreements increased from \$200 million in 1986 to \$400 million in 1987. From January to June of this year, some 794 agreements on the processing of

materials supplied by foreign businessmen were signed between foreign businessmen and Dongguan City, an increase of 160 percent over the number of agreements of the same nature signed in the corresponding period of last year. Since the beginning of this year, Dongguan City has signed 105 agreements with foreign businessmen on establishing joint venture enterprises and cooperative enterprises, an increase of 370 percent over the number of agreements of the same nature signed in the corresponding period in 1987. This year, Dongguan City has built and is building some 300 square meters of factory buildings. Some 70 percent of these factory buildings have already been rented out. The present situation is that if the city can build more factory buildings, more foreign entrepreneurs will come to the city. One gratifying situation is that the development of the export-oriented economy of Dongguan has been gradually upgraded. Many foreign entrepreneurs have planned to carry out their operations in China for a long time. Some of the foreign entrepreneurs have already signed some 30-year contracts with Dongguan City; The projects to be built by foreign entrepreneurs or through the cooperation between the foreign entrepreneurs and Dongguan City have also been upgraded. The products produced by the joint venture enterprises and the foreign invested enterprises in Dongguan City have been upgraded from the simple products to the sophisticated and technological products. The technology of the joint venture enterprises and the foreign-invested enterprises has also been upgraded. The investment in the joint venture enterprises and foreign-invested enterprises in Dongguan City has also greatly increased. It seems that the joint-venture enterprises and the foreign-invested enterprises in Dongguan City will gradually develop into some specialized enterprise groups.

Whether Dongguan City's export-oriented economy can continue to develop rapidly will be determined by whether our country's labor can remain as cheap as it is now for a long time to come in the future. The situation of Dongguan City shows that the wages of the workers of Dongguan City are only one fifth or one sixth of the wages of the workers in Hong Kong whereas the wages of the workers in Hong Kong are only one third of the wages of the workers in the United States. Over the past 9 years or more, the wages of the workers of Dongguan City have remained at this level. One of the successful experiences of Dongguan City is that they have made full use of the labor force of the hinterland.

By the end of 1987, more than 300,000 young people had come to work in Dongguan City from the hinterland. The hinterland of our country is very big and has great potential in carrying out the labor transfer. Therefore, the labor force in the hinterland is a strong reserve force which can support the development of the export-oriented economy in the coastal areas for a long time to come in the future. This advantage of our country is something the "four small dragons in Asia" do not have. Secondly, as far as the products are concerned, most of

the enterprises in Dongguan produce such daily necessities as toys, plastic flowers, plastic products, clothes, and low-grade and middle-grade household electric appliances. With the rise of the world living standard, these commodities have become the daily necessities of the broad masses of the people of the developed countries and relatively developed countries in the world. Therefore it is impossible that the demand for such daily necessities will greatly decrease. It is equally impossible that these commodities will become technologically more advanced in the near future. The present situation of the international market will remain as it is for a long time to come. Thirdly, at present, the export-oriented economy of our country still accounts for a small proportion of the international market. This situation shows that our country's export-oriented economy still has a great potential in its development. At present, what our country should do is to push forward with the various types of reform, especially the reform of the foreign trade structure, make full use of the opportunities provided by the changes in the international market, and make redoubled efforts to develop the export-oriented economy so as to enlarge the proportion of our country's export-oriented economy in the international market. Only by doing things in this way will it be possible for our country's coastal areas, which have a population of 200 million, to successfully enter the international market.

Of course, to develop the export-oriented economy does not merely mean to develop the low-tech industries and labor-intensive industries. To develop the export-oriented economy means to eventually develop the high-tech industries and participate in the international exchange and international division of labor. Dongguan City has been making headway in this area over the past few years. Facts have proved that the economic development strategies put forward by the CPC Central Committee for the coastal areas conform with the realistic situation of the coastal areas of our country and are the correct strategic policies for the realization of socialist modernization in our country.

3. Readjust the Industrial Structure and Greatly Develop Agriculture Which Can Help To Create More Foreign Exchange

Over the past few years, two thirds of the rural labor force of Dongguan City have been engaged in non-agricultural trades and professions, but the Dongguan City's agriculture has still been developing very rapidly. Over the past 9 years, Dongguan City has been able to maintain its annual grain output at 0.45 million tons and has been able to accomplish the task of annually purchasing 193,000 tons of wheat and rice. Dongguan City has also greatly developed its forestry, animal husbandry, sideline production, fishing industry, and especially its fruit production. In 1987, the fruit output of Dongguan City reached 360,000 tons, ranking the first among all the areas at the county level in the whole country. Dongguan City earned a total of 392 million yuan from its fruit production, an increase of 240 percent over that of 1980.

In 1987, the outputs of Dongguan City's forestry, animal husbandry, side-line production, and fishing industry also increased by 200 percent to 500 percent over those of 1980. The rise and rapid development of the agriculture which can help to earn more foreign exchange is an important aspect of the development of the export-oriented economy of Dongguan City. Over the past 9 years, Dongguan City has earned a total of \$360 million by exporting its farm, side-line products, and processed products. In 1987, Dongguan City earned a total of over \$52 million by exporting its farm, side-line products, and processed products. The farm products and processed products which have helped Dongguan City to earn over \$1 million a year include lychee, live cattle, lean-meat pigs, vegetables, rice of good quality, and so on, altogether 19 types of commodities. Now, Dongguan City has basically formed a sound basis for the development of modernized commodity agriculture and agriculture which can help to earn more foreign exchange.

Over the past 9 years, Dongguan City has successfully and greatly developed its agriculture. The main reason is that Dongguan City's CPC Committee and People's Government have always placed agricultural development in a strategically important position when carrying out the economic development and social development. A few years ago, people in the rural areas of Dongguan City often said: "agriculture is a bowl of rice while industry is a set of cooked dishes." The peasants lacked enthusiasm in farming the land. In some rural areas, the "young and middle-aged peasants went to work in the factories while the old and weak were left home farming the land." Facing such a situation, the Dongguan City's CPC Committee came to understand that an economic growth realized at the expense of agricultural development could not last long. So, Dongguan City's CPC Committee adopted measures to increase the input in agriculture, enable industry to support agriculture, and actively guide the peasants to develop agriculture. In the past, Dongguan City had a very irrational agricultural structure. The cadres and masses of Dongguan City said that Dongguan's agricultural production "was mainly grain production." As a result, other trades and professions of Dongguan City failed to develop. The peasants of Dongguan City were very poor. In order to solve this problem, Dongguan City's CPC Committee and People's Government made great efforts to readjust the internal structure of agriculture, implemented various types of responsibility systems in agricultural production, gave active support to the operation of the specialized peasant households and the development of production combines, and gradually specialized and commercialized the agricultural production. As a result, all the people in the rural areas of Dongguan City began to develop the commodity agriculture and the agriculture which can help to create more foreign exchange. In carrying out the development of the commodity agriculture and the agriculture which can help to create more foreign exchange, the peasants of Dongguan City have mainly developed forestry and fruit production and have made full use of local natural resources. As a result of the implementation

of the various types of contract systems, such as the public bidding system and so on, some original wasteland was contracted by the peasants and became cultivated land. Even some small stretches of land near the ditches and dams were made full use of by the peasants. Some peasants even went to the neighboring counties to contract land. As a result, the growing trade, breeding industry, and various other trades and professions rapidly developed in a coordinated way in Dongguan City.

The main measures and experiences of Dongguan City in readjusting the agricultural structure and developing the agriculture which can help to create more foreign exchange are: First, to develop the local advantages in readjusting the internal structure of agriculture. Dongguan City has a very convenient transport system. The fresh and live products can be transported from Dongguan City to Hong Kong in several hours. Some of Dongguan's peasants have been engaged in the growing trade and breeding industry for a long time and are very experienced in these trades and professions. Therefore, Dongguan City's People's Government adopted measures in light of the local conditions and encourage the areas which are suitable to grow grain to grow grain, the areas which are suitable to grow fruit to grow fruit, and the areas which are suitable to develop animal husbandry to develop animal husbandry. While grasping well the development of the grain production, Dongguan City's People's Government has also taken measures to readjust the land utilization structure. As a result, the ratio between grain and economic crops was increased from 72 to 28 in 1978 to 55 to 45 in 1987. In the meantime, the peasants of Dongguan City were encouraged to grow the economic crops on the mountains. New fish ponds were built on the mountain slopes and near the valleys. As a result, the fruit growing area and the area of the fish ponds were greatly increased. This is an important characteristic of the agricultural development of Dongguan City. Now, Dongguan City fruit growing area has been increased from 93,200 mu to 0.61 million mu. In Dalingshan Town, the per capita of orchard is over one mu.

Second, Dongguan has taken steps to rationalize the industrial structure according to the demand of the international and domestic markets and according to the law of value. Dongguan City's relatively rational agricultural structure has been gradually formed according to the demand of the market. Over the past few years, Dongguan City has built over 2,100 farm and sideline production and processing bases according to the demand of the international market, among which 46 farm and sideline production and processing bases have been directly invested by China's Ministry of Foreign Economic Relations and Trade or have been jointly operated by Dongguan City and China's Ministry of Foreign Economic Relations and Trade. In order to meet the market demand, Dongguan City's People's Government has taken measures to teach the peasants the scientific farming methods so that the peasants of Dongguan City have been able to grow a large variety of

quality products which can create good economic results. Dongguan City has also built more than 800 nurseries of young fruit trees and provided quality varieties of young fruit trees to the peasants engaged in the fruit growing trade. Dongguan City has also made great efforts to popularize the fine varieties of livestock, poultry, and aquatic products among the peasants. For example, the number of fine varieties of lychee, which is "the king of fruit," among all the varieties of lychee has been increased from 30 percent before 1980 to 60 percent at present. The fine varieties of livestock, poultry, and fish have also been greatly increased. These fine varieties of livestock, poultry, and fish have found a good market in Hong Kong.

Third, Dongguan has made great efforts to invigorate the circulation. The state organs, collectives, and individuals of Dongguan City have all been engaged in the commercial activities of the past few years. At present, more than 90,000 people of Dongguan City are engaged in the commercial circulation. Dongguan City has already set up fruit sale networks in 27 provinces and municipalities in the whole country and some 60 big and medium-sized cities in the whole country. In 1987, Dongguan City sold a total of 400 million jin of fruit through these fruit sale networks, which accounted for some 57 percent of the total number of fruit sold by Dongguan City in the same year. Dongguan City has also paid great attention to providing necessary before-production and after-production services to the peasants engaged in the fruit production. For example, Dongguan City's People's Government has been able to provide the latest market information to the peasants engaged in the fruit production and has been able to provide technological guidance to the peasants with regard to the methods of storing, processing, and keeping the fruit fresh, and so on, thus creating favorable conditions for the development of commodity agriculture and the agriculture which can help to create more foreign exchange.

The coordinated development of the rural economy has brought about enormous economic results and social and ecological benefits to Dongguan City. As a result, the proportion of agriculture among all trades and professions has become more rational than before. The rationalization of the proportion of agriculture among all trades and professions has greatly invigorated not only the various essential factors of the agricultural production but also the entire rural economy of Dongguan City. This has, in turn, pushed forward the development of other trades and professions of Dongguan City. The diversification of the rural production structure has provided various types of employment opportunities and various types of opportunities for earning money to the broad masses of the peasants of Dongguan City, thus paving the way to common prosperity. The rationalization of the agricultural structure and improvement of the ecological environment have also helped to harmonize the relationship between man and the nature.

4. To Develop Education and Cultural Undertakings at Various Levels, Through Various Channels, and in Various Forms

The development of productive forces and the consolidation of economic strength have laid a solid foundation for the development of education. The development of education has also provided qualified personnel and labor force to the further economic development and the further development of various other undertakings. Dongguan City has basically made the junior secondary education universal. Last year, 99 percent of all the children at the school age went to school. Some 90.6 percent of the primary school graduates continued their studies in the secondary schools. At the same time, the educational structure of Dongguan City has become more rational than before. After the readjustment of the educational structure, last year, Dongguan City had a total of 17 vocational senior secondary schools (including the ordinary senior secondary schools which have vocational training classes) with a total of 4,254 students, which accounted for 42 percent of the total number of senior secondary school students of Dongguan City; Last year, Dongguan City also had a total of 148 adult educational institutions and short-training classes with a total of 29,356 students. Dongguan City has basically established a comprehensive education system composed of kindergarten education, pre-school education, primary education, secondary education, vocational education, and adult education.

One of the basic experiences of Dongguan City is to mobilize all the forces in the society to develop education at various levels, through various channels, and in various forms. The people of Dongguan are very willing to spend money on the development of education. Over the past 3 years, Dongguan City has spent a total of 107.32 million yuan on the development of education, which is 460 percent more than the funds allocated by the state to Dongguan City for the development of education. Over the past 9 years, Dongguan City's expenditure on education accounted for an average of 31 percent of its total financial expenditure. In 1978, Dongguan City's per capita education expenditure on the secondary and primary school students was only 25.2 yuan. However, Dongguan City's per capita education expenditure on the secondary and primary school students was increased to 218.6 yuan in 1987. Commenting on the source of the education funds, the comrades of Dongguan City said that Dongguan City's education funds mainly come from the "state finance," the "local (city and town) finance," the financial support provided by the various units in the city, the donations made by the masses and the Hong Kong and Macao compatriots, and the money earned by the students themselves by doing part-time jobs. Dongguan City collected a total of 83.88 million yuan from the above mentioned sources for the construction of the school buildings between 1978 and 1987. In 1987, Dongguan City was elected as a "Special City," which had no dangerous buildings but enough classrooms and desks, in Guangdong Province.

The stability of the teachers' contingent is an important link in the development of education. Over the past 2 years, a large number of teachers of Dongguan City have left their posts. The main reason is that the teachers' wages are lower than those of the local staff and workers. In order to tackle this problem, Dongguan City's CPC Committee and People's Government immediately adopted some effective measures and decided that from January of 1988 onwards, all the teachers of Dongguan City would each receive an increase of not less than 50 yuan per month. The funds would mainly come from the appropriations of the people's governments at various levels and from the school fees paid by the parents of the students (the one-term school fee for a primary school student is 15 yuan while that for a junior secondary school student and a senior secondary school student are 20 and 30 yuan respectively). Now, the wages of the teachers of Dongguan City are slightly higher than the average income of the staff and workers of Dongguan City. Thus the broad masses of the teachers of Dongguan City are now satisfied and the teachers' contingent has become stable. The measures adopted by Dongguan City to improve the teachers' treatment and solve the problem of unfair treatment towards mental workers in the light of the actual situation of the economic development of Dongguan City and in the light of the average income of the staff and workers of Dongguan City have attracted the attention of the relevant leading departments. In a big country like ours, the situation differs from one place to another. Therefore, it is impossible to increase the education expenditure and improve the teachers' treatment merely by implementing a unified method formulated by the state. The only way to solve these problems is to do things as Dongguan has done, which means to raise funds to carry out the development of education through various channels in light of the actual local conditions and the actual local economic strength.

The modern socialist civilization not only means a big rise of the standard of the people's material life but also means a richer and more colorful cultural life for the people. For 30 years before the 3d Plenary Session of the 11th CPC Central Committee, Dongguan City had only a small number of cultural facilities. Peasants just "had three meals a day and a sleep at night" while the young people just "had three meals a day and played cards in the evening." Apart from seeing a few movies a year, the peasants had no more recreational activities. Now, fundamental changes have taken place in the rural areas of Dongguan. Dongguan City has spent four times as much as the total amount of funds it spent on the development of cultural facilities in the 30 years before the 3d Plenary Session of the 11th CPC Central Committee and built 20 public libraries (public library rooms), 14 multi-functional theaters, a city museum, a city television station, a city broadcasting station, a city newspaper, and an over-4,000-square-meter cultural service building. The 34 towns (and prefectures under the jurisdiction of Dongguan City) have also built many cultural and physical recreational centers. Now, the total area of the various cultural and recreational centers in Dongguan

City has reached more than 65,000 square meters, an increase of 360 percent over that in 1978. Moreover, the enterprises, collectives, and individuals of Dongguan City have built a total of more than 400 cultural and physical recreation centers. As a result, a relatively comprehensive social cultural market has taken shape in Dongguan City. Nearly all the households in Dongguan City have television sets. All the urban and rural areas of Dongguan City can receive the television and radio programs broadcast or relayed by the Dongguan City Television Station and Broadcasting Station. It can be said that the people of Dongguan City are now living a diversified and colorful spiritual and cultural life. Now, the cultural and recreational life of Dongguan's people has been greatly improved both in quality and quantity. Dongguan City has a total of eight societies, including literature, folk art, drama, music, dance, accordion, guitar, piano, and some other societies. Dongguan City and various towns under the jurisdiction of Dongguan City also hold various types of concerts and dancing and singing contests every year. Every year, during the Chinese New Year, the 1 May Festival, the Dragon Boat Festival, the Mid-Autumn Festival, and other traditional Chinese festivals, a large number of mass cultural and recreational activities are held in Dongguan City and the towns under the jurisdiction of Dongguan City. The Bida Gymnasium of Dongguan City is the first privately run gymnasium in China. In 1987, the Bida Gymnasium held a national "Bida Cup" Gymnastic Competition and a top-grade men and women gymnastic competition. The cultural and recreational activities of Dongguan City have diversified forms and contents. People can choose what they like to enrich their own cultural and recreational life.

The people of Dongguan think that the great changes that have taken place in their cultural and recreational life are the result of the positive influence of the foreign culture. In the meantime, the people of Dongguan City have taken effective measures to manage their cultural markets, resist the decadent and backward foreign culture, and guarantee the healthy development of their own cultural life. The view that the Zhujiang Delta, including Dongguan City, is an "economically prosperous but culturally backward" area which is strongly influenced by the decadent culture is an incorrect view.

5. To Foster the Ideological Concept Which Conforms With the Development of Export-Oriented Economy

The transformation of people's ideological concept is the key to the success of the reform and opening up to the outside world. However, the thorough transformation of the people's ideological concept depends on the deepening of the reform and opening up to the outside world and on the development of the socialist commodity economy. The process of the people's ideological emancipation is not only the process of the people's ideological transformation but also the process of building the socialist spiritual civilization. Compared with many areas of the hinterland of China, Dongguan City has a

relatively developed economy. However, the natural economy and semi-natural economy are still the mainstay of Dongguan's economy. The rural economy of Dongguan City has not yet been completely commercialized and socialized. The broad masses of the cadres and people of Dongguan City still lack a strong sense of commodity economy. Under such circumstances, Dongguan City's CPC Committee has been actively guiding the broad masses of the cadres and peasants to shake off the yoke of the ideology of small-peasant economy, foster a new ideology, strengthen the concept of value, the concept of market, and the concept of competition, which are conformable to the development of the commodity economy and the export-oriented economy, among the broad masses of cadres and peasants, and teach the broad masses of cadres and peasants to observe the law, discipline, and professional morality in carrying out all the activities which are aimed at pushing forward with the development of the commodity economy. Dongguan City's CPC Committee has regarded the above mentioned measures as the important components of the building of the socialist spiritual civilization.

In today's Dongguan City, the ideology characterized by the natural economic production method, the closed economic pattern, and the lack of pioneering spirit has been and is being replaced by an open and modern ideology which conforms with the development of the commodity economy and the export-oriented economy. At present, generally speaking, the majority of the Dongguan people are trying their best to "become prosperous and learn new technology and knowledge" but "are afraid of a change in the current state policies." The following ideological changes in the Dongguan people have attracted the people's attention:

- The concept regarding the criterion of productive forces has been fostered. Now, the people of Dongguan City seldom view the various types of economic phenomena in terms of "socialist" or "capitalist," but appraise the various types of economic phenomena by seeing whether these economic phenomena are conducive to the development of the productive forces and the prosperity and happiness of the people or not.
- The concept of "not allowing one's water to flow into the field of others" has been discarded. The people of Dongguan City have come to realize that in carrying out cooperation with foreign businessmen, it is quite normal that not only the foreign businessmen will earn money but also they themselves will earn money. If they are afraid that their "water will flow into the field of others," they will never earn money. If they are jealous of others earning money and refuse to cooperate with others, they will suffer losses in the end.
- The concept of fairness has been gradually fostered. Because the rapid economic development has brought actual economic benefits to the people of Dongguan City and provided more opportunities and a relatively fair environment for competition to the people of

Dongguan, more and more people of Dongguan have got accustomed to the gap between the incomes of the individuals. They say that some people earn more money because they are more capable. Other people should not be jealous of these people. If some people are jealous of others earning more money, what they should do is to try their best to earn more money because they also have the same opportunities. In Dongguan City, the individual operators have their social status and you can hardly hear people speaking ill of the "10,000-yuan households."

- The concept of employment has been changed. Now Dongguan's labor market has been formed. People have more job opportunities and more freedom to choose their jobs. Moreover, because there is no big gap between the incomes of the people working in various trades and professions, the people of Dongguan City think that there is not much difference in income between the workers and staff working in the enterprises owned by the whole people, the workers and staff working in the collective enterprises, the contract workers and staff, and individual operators, and the peasants. As a result, the people of Dongguan no longer fix their eyes on a small number of units when looking for jobs, but choose their jobs according to their own interest, preferences, and abilities. When looking for husbands or wives, the young people also tend to prefer those who are engaged in lawful trades and professions and who are "professionally competent." People in Dongguan do not hesitate to change their jobs when they have better opportunity.
- The concept of "holding government posts" and the concept of "transferring from agricultural sector to the non-agricultural sectors" are getting blunted. Now, in Dongguan, the peasants are no longer interested in entering the city to become workers. On the contrary, some workers of the urban areas have resigned and become individual operators running a farm or an orchard in the rural areas. The actual incomes of the cadres in the rural areas are directly linked with the economic development of the rural areas. So long as the economic results are increased, the incomes of the cadres in the rural areas can also be increased and become higher than the incomes of the cadres of the towns. In the same way, the incomes of the cadres of the towns can also be higher than the incomes of the cadres of the cities. Now, very few cadres at the grass-roots level want to be transferred to the higher levels. The number of malpractices concerning the job transfer and cadres' promotion has greatly decreased. Now you can seldom hear people complaining about these malpractices.

In one word, reform and opening up to the outside world have caused profound ideological changes among the people of Dongguan and have enabled the people of Dongguan to adopt views quite different from those of the people of some other places on a lot of social questions. As far as the question of price is concerned, in Dongguan, the state control over most of the prices has

long been relaxed. At present, although people of Dongguan are discussing the question of price, they are accustomed to fluctuating prices. People of Dongguan City say that prices have gone up, but people's incomes have also increased and the living standard of the people has been raised.

The reform and opening up to the outside world have not only caused fundamental changes in the ideological concepts and mental attitudes of the people of Dongguan but have also helped to train a large number of qualified personnel who have a strong sense of the commodity economy, are technologically competent, and have managerial experiences.

In 1987, among more than 7,500 town and township collective enterprises, the enterprises carrying out "three forms of import processing and compensation trade," the Sino-foreign joint venture enterprises, and the Sino-foreign cooperative enterprises employed a total of 8,000 managers, factory directors in charge of technology, and technological and managerial personnel from Hong Kong, Macao, and foreign countries. Other town and township collective enterprises in Dongguan City were managed by the cadres of the former people's communes and production brigades and by the local peasants "who are competent in managing the enterprises." These local cadres and peasant entrepreneurs have closely cooperated with the managerial personnel from Hong Kong, Macao, and other countries and learned modern managerial experiences and technologies from the managerial personnel from Hong Kong, Macao, and other countries. These local cadres and peasant entrepreneurs have also carried out ideological and political work among the staff and workers and have done a lot of logistics work and other types of administrative work to ensure the effective operation of the enterprises.

Now, a new generation of entrepreneurs, who were cadres of the people's communes or ordinary peasants in the past, are training themselves, learning knowledge, and developing their skills and talents in the development of the commodity economy. For example, Lin Xiaojuan, Director of the Chashan Clothing and Toy Factory, was an ordinary woman sewing worker in the past. Now, she is in charge of an export-oriented enterprise which has nearly 3,000 workers. In 1987, Lin Xiaojuan was elected one of the successful woman entrepreneurs in China. Now, Lin Xiaojuan is learning some foreign languages and planning to directly sell the products of her factory on the international market.

6. To Bring Into Full Play The CPC's Role As The Core Of Leadership In The Reform And Opening Up To The Outside World

The party organizations at various levels have played a very important guiding role in the development of Dongguan over the past 9 years. Over the past 9 years, more than 1,800 party branches in Dongguan have been standing at the forefront of the reform and opening up to the

outside world and have been playing a very important guiding role in the development of Dongguan. A large number of advanced personnel, who know technology, have managerial experiences, and are capable of leading the broad masses of the people to shake off poverty and become prosperous, have emerged from among some 40,000 party members in Dongguan. These party members have been playing a vanguard and exemplary role in the entire process of the reform and opening up to the outside world. Some 98 percent of these party members have been able to observe the law and discipline. Only 1.6 percent of these party members have been punished by the law or disciplined by the party organizations. Because the party organizations have made great achievements in leading Dongguan City to carry out the economic development and shake off poverty and have brought actual benefits to the masses, the party's prestige has been unprecedentedly enhanced and the party organizations have been greatly vitalized.

Dongguan City's CPC Committee believes that whether the party organizations at the grass-roots level can stand at the forefront of the reform and opening up to the outside world and lead the broad masses of people to advance forward depends on whether or not the party organizations at the grass-roots level can resolutely carry out the line formulated by the 3d Plenary Session of the 11th CPC Central Committee and push forward with the economic development. If the party organizations at the grass-roots level cannot resolutely carry out the line formulated by the 3d Plenary Session of the 11th CPC Central Committee and push forward with the economic development, even if the party organizations at the grass-roots level worked very hard, the masses would still not listen to them. Over the past few years, the party organizations at the grassroots level of Dongguan City have paid great attention to guiding the cadres to clearly understand the basic task of the party organizations at the grassroots level during the new historical period and enhancing the consciousness of the cadres at the grassroots level to resolutely carry out the line formulated by the 3d Plenary Session of the 11th CPC Central Committee. The economic development of Dongguan has been accelerated simply because the cadres working at the grassroots level have been resolutely carrying out the line formulated by the 3d Plenary Session of the 11th CPC Central Committee and have been actively leading the broad masses of people to develop the economy, improve the living standard, and increase the funds of the collectives. In the places where the cadres working at the grassroots level have been resolutely carrying out the line formulated by the 3d Plenary Session of the 11th CPC Central Committee, the party's prestige has been enhanced and the relationship between the party organizations and the masses and the relationship between the cadres and the masses have been improved. The economy in some areas has been developing very slowly mainly because the cadres working at the grass-roots level in those areas have not been resolutely carrying out the line formulated by the 3d Plenary Session of the 11th CPC Central Committee. As a result, the masses often

complain about the cadres, the party's prestige has been damaged, and the relationship between the party organizations and the masses and the relationship between cadres and the masses have deteriorated. Therefore, the key to the economic success lies in whether the party organizations at the grass-roots level can firmly stick to the central task of carrying out the economic construction or not. The party committees at the city and town levels of Dongguan City often guide the cadres to carry out the following "two comparisons": One is to make comparison between various collectives with regard to the industrial and agricultural development standards so as to examine the gap between the backward collectives and the advanced collectives; The other is to make comparison between individuals and collectives so as to see how many houses they have built, how many pieces of equipment they have purchased, and how much money they have saved over the past few years. By carrying out education among the broad masses of cadres, the majority of the members of the leading organs at the grass-roots level have acquired a clear understanding of the central task of the party organizations at the grass-roots level during the new historical period, have led the masses to implement the policy of reform and opening up to the outside world, carry out the economic development, shake off poverty and become prosperous in the light of the actual local conditions, have strengthened the cadres' sense of responsibility and sense of professional responsibility in doing their work at the grass-roots level, and have played an important role in organizing and leading the masses to develop the production. Because a greater risk is involved in the development of the commodity agriculture, the masses had worries in carrying out the development of the commodity agriculture at the very beginning. Under such circumstances, more than 700 party cadres at and above the level of a member of a party branch in the rural areas took the lead in contracting the mountains and slopes to plant trees and grow fruits. Ye Qin Hai, a young party member of Dalang Town, led his family to contract more than 200 mu of land on the mountains and slopes, carried out scientific experiments on the new varieties of lychee and longan with a view to reaping a good harvest of lychee and longan and stabilizing the outputs of lychee and longan, and also provided young plants and technological services to a lot of peasants. Under the leadership of the party organizations, the masses in the rural areas of the whole city have gradually shaken off their worries and thrown themselves into the development of the commodity agriculture.

Dongguan City's CPC Committee has paid great attention to reforming and strengthening the ideological and political work, uniting and leading the broad masses of the people to participate in the reform and opening up to the outside world. Dongguan City's CPC Committee thought that in the past, under the influence of the "Left" ideology, its ideological and political work was very weak. The method of "forcibly carrying out ideological and political work" was not welcomed by the broad masses of party members and people. Therefore,

both the contents and form of the ideological and political work should be changed, otherwise it would be impossible to really strengthen the party's ideological and political work. When reforming and strengthening the ideological and political work, Dongguan City's CPC Committee has made great efforts to integrate the ideological and political work with the economic work and propagandize the party's policies in the light of the "flash point" questions in the reform and opening up to the outside world; Second, Dongguan City's CPC Committee has resolutely discarded the traditional contents of the era characterized by "grasping the class struggle as the key link" and greatly carried out education on patriotism, the revolutionary traditions, ideals and disciplines, professional morality, and so on in the light of the changes of the ideological concepts, methods of thinking, and ideals of the broad masses of the people so as to have greatly strengthened the condensation and attraction of the party; Third, Dongguan City's CPC Committee has made great efforts to open up more channels for the ideological and political work and gradually establish a network for carrying out the ideological and political work. They have created the enterprise culture, the village culture, and the social culture, carried out the ideological and political work in various forms and through various activities, and socialized the ideological and political work; Dongguan City's CPC Committee has also gradually formulated a series of visible and invisible practical methods of carrying out the ideological and political work and brought into full play our party's rich experiences in carrying out the ideological and political work, thus arousing the enthusiasm of all sides.

Dongguan City's CPC Committee has also successfully explored a way to fight against corruption among the party cadres by carrying out the reform and building the relevant systems. First, Dongguan City's CPC Committee has established and perfected various types of management systems. Dongguan City's CPC Committee and People's Government have turned the past practice of the senior leaders being responsible for making major decisions into the present practice of all the relevant leaders being responsible for making major decisions after collective discussions. For example, in the past, Dongguan City's construction market was inefficiently managed and was in a great disorder. Some sub-contractors illegally gained profits by bribing the cadres in charge of the construction market. In some areas, when the construction of the factory buildings of the collectives was completed, the construction of the houses of the relevant cadres was also completed. In order to solve this problem, Dongguan City's CPC Committee decided: All the construction projects must be collectively discussed and approved by the leading bodies concerned. The construction plans must be jointly discussed by the leaders, the representatives of the masses, the scientific and technological personnel concerned. Public bidding system should be implemented to decide who should

contract the projects. These measures adopted by Dongguan City's CPC Committee have effectively straightened out the malpractices on the construction market; Second, Dongguan City's CPC Committee and People's Government have implemented the system of competition on the basis of equality and have boldly introduced the mechanism of competition into the management of administrative affairs and the management of the social and public affairs. In the past, when the local people wanted to rent a market place to sell things, they usually submitted their applications to the relevant leaders for approval. Thus, the applications submitted by those people who were friends of the leaders or had relations with the leaders would usually be approved first. Now, the public bidding system is implemented. The city authorities announces the date of a public bidding meeting and the lowest prices of the market places. The lowest prices of the various market places are usually formulated on the basis of the amount of money spent on the construction and decoration of these market places. After the applicants enter their bids, the city authorities will announce the results of the public bidding. When the son of a leading comrade of the Industrial and Commercial Administrative Bureau of Dongguan City was defeated by other contenders in the public bidding and failed to rent a market place, he was sincerely convinced. The broad masses of the people of Dongguan have also been very happy with the implementation of the public bidding system; Third, Dongguan City's CPC Committee and People's Government have made public the principles governing their work. In the past, Dongguan City's CPC Committee and People's Government did not make public the principles governing their work, thus causing a lot of inconveniences in their work and providing some opportunities for some staff members to seek private gains by abusing their power. Over the past few years, Dongguan City's CPC Committee and People's Government have made public their work principles and procedures so as to make things more convenient for the masses and allow the masses to supervise their work. For example, the requirements on application to go to Hong Kong and the actual procedures to get approval to go to Hong Kong have been made public. Moreover, the authorities will inform the applicants about the result of their applications by a fixed date. These measures have effectively put an end to the malpractices in the government work; Fourth, Dongguan City's CPC Committee and People's Government have gradually raised the salaries of the cadres in the light of the actual achievements made by the cadres and the actual local economic strength. Apart from strengthening education among the cadres and perfecting the cadre system, Dongguan City's CPC Committee and People's Government have gradually raised the salaries and improve the welfare of the party and government cadres in the light of the actual standard of the local economic development and the improvement of the people's living standard. Beginning from 1984, each year, Dongguan City's CPC Committee and People's Government has assigned the economic growth quotas and specific work

requirements to the various organizations at the grassroots level and various functional departments and at the end of a year, award the cadres according to the actual achievements they make. At the end of 1987, the party and government cadres of Dongguan City each received a bonus of several hundred yuan. According to the local economic strength, each year, Dongguan City's People's Government allocates a certain amount of money from the local finance to the party and government cadres as price subsidies. Moreover, since 1980, Dongguan City's CPC Committee and People's Government have built a total of 30,100 square meters of cadre dormitories, thus greatly improving the living conditions of the cadres. The comrades of Dongguan City said that these measures are aimed at "opening the front door and closing the back door," arousing the enthusiasm of the cadres, and combating corruption among the cadres. Now, in Dongguan City, the relationship between the party and masses and the relationship between the cadres and the masses have been greatly improved.

Over the past 10 years, Dongguan City has not only greatly implemented the policy of reform and opening up to the outside world and boldly carried out explorations but also achieved enormous success in all fields. However, their present achievements are only the initial achievements. By carrying out the "three forms of import processing and compensation trade" and the development of the export-oriented economy, they have been able to rapidly develop their economy without running a big risk. However, what they have done is nothing more than "borrowing a boat to go to sea." Therefore, Dongguan City still need to make greater efforts to grasp the opportune moment to accumulate funds and managerial experience, carry out overall planning, establish their own backbone enterprises and produce their own fist products, and enable their products to independently enter the international market so as to turn "borrowing a boat to go to sea" into "building a boat to go to sea." Dongguan City should also make greater efforts to accelerate the reform of the foreign trade structure, remove the obstacles hampering "high volume of imports and exports," and accelerate the training of qualified personnel and the import of advanced foreign technologies according to the demands of the development of the export-oriented economy and the commodity economy so as to push forward with the scientific and technological progress of Dongguan.

The enormous achievements made by Dongguan City in the process of reform and opening up to the outside world have once again proved that our party's theory of building socialism with salient Chinese characteristics is correct. Just as Comrade Xiaoping has pointed out: "Our building of modernization must proceed from China's reality. When carrying out the revolution and construction, we must learn from the experiences of the foreign countries. However, we will never succeed if we only mechanically transplant the experiences and practices of the foreign countries. We have learned many lessons in this respect. To integrate the universal truth of Marxism

with the concrete reality of our country, take our own road, and build socialism with salient Chinese characteristics are our basic conclusion after summing up our long-term historical experiences." "Now, we are taking a correct road. The people are happy and we also have confidence. Our policies will not change. If there are some changes, the changes will be good changes and our policies will only become better."

The successful experiences of Dongguan City have universal characteristics, specific characteristics, and local characteristics. Other areas of our country can refer to the successful experiences of Dongguan City in the process of reform and opening up to the outside world. However, other areas of our country should not mechanically transplant the experiences of Dongguan City but should learn from Dongguan City's experiences in the light of their actual conditions. Only by doing things in this way will all the areas of our country be able to complement one another, bring out the best in one another, and develop one another's strong points to offset one another's weak points so as to promote the overall development of our country's reform and construction.

Vice Governor of Guangdong Stresses Taxation Work

HK0808044388 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 8 Aug 88

[Text] Vice Governor Yu Fei repeatedly stressed at the provincial taxation work conference which opened yesterday: The government at all levels must vigorously support the taxation departments in implementing the Tax Law and levying taxes, and strive to ensure that the province's industrial and commercial tax revenue this year exceeds 10 billion yuan.

In view of the current problems in taxation work, Yu Fei stressed that the government at all levels must support the taxation departments in implementing the state Tax Law and according in accordance with jurisdiction over tax collection management; they must not indiscriminately grant tax waivers and reductions and preferential taxation treatment. In drawing up regulations involving tax waivers and reductions, it is essential to first solicit the views of the taxation departments. All enterprises, undertakings, units and individuals must pay their tax on time in accordance with the Tax Law regulations. Those who evade tax or refuse to pay tax must be severely punished. The judicial departments should act swiftly to hold accountable those involved in violations of criminal law in such cases.

Guangdong Reports Economic Successes, Problems

HK1108052988 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 11 Aug 88

[Text] Yesterday afternoon, the third meeting of the seventh Provincial People's Congress Standing Committee heard a provincial government report on the current

state of the province's economy and the implementation of plans. Wang Guiying, director of the provincial planning commission, reported on behalf of the provincial government. His report showed that Guangdong maintained relatively high economic growth rate in the first half of this year, and its self-sufficiency capacity was strengthened to some extent. At the same time, the province is facing many difficulties. Economic returns of the enterprises are not good enough; the shortages of energy, communications, and raw materials have worsened; and prices have risen too much.

In his report, Wang Guiying said that, according to comparable prices, the province's gross domestic product in the first half of the year rose by 14 percent compared with the same period last year, while industrial output value rose by 31 percent. Without allowing for the price factor, exports rose by 34 percent, social retail sales volume rose by 38 percent, and financial revenue rose by 28.6 percent. The rural economy developed steadily, and the early rice harvest was good.

Liaoning Improves First-Half Economic Results

SK2208034088 Shenyang LIAONING RIBAO in Chinese 5 Aug 88 p 1

[Excerpts] Recently the provincial statistical bureau held a press briefing on the national economic development in the first half of 1988. At the briefing the bureau's responsible personnel pointed out that our province achieved a steady and stable increase in the national economy in the first half and created a gratifying trend of a turn for the better in overall economic results. According to preliminary statistics, the province's gross national product may reach 31.3 billion yuan, about a 10-percent increase calculated in term of comparable prices over the corresponding period in 1987. Its national income may reach 24.37 billion yuan, a 12-percent increase over the corresponding period in 1987, and its local financial revenues reached 5 billion yuan, a 5.5-percent increase over the corresponding period in 1987.

In the first half of the year, the province's industrial enterprises continuously readjusted the structure of products, export commodities, and credits and loans in order to meet the need of markets and brought about a good trend of stable increase in industrial production and economic results. The province realized 49.43 billion yuan of total industrial output value, a 15.9-percent increase over the corresponding period in 1987. [passage omitted] The province also brought about a better situation in opening Liaodong peninsula to the outside world. In the first half, the province's export volume reached \$2.3 billion, a 13.3-percent increase over the corresponding period in 1987. The total value of export commodities was \$2.07 billion, a 12.7-percent increase over the corresponding period in 1987. [passage omitted]

In the first half of the year, the province scored an overall increase in the procurement, sales, and stocks of social commodities. The total retail sale of social commodities was 17.89 billion yuan, a 20.7-percent increase over the corresponding period in 1987. [passage omitted] In the first half, wage withdrawals from banks reached 10.2 billion yuan, a 20.4-percent increase over the corresponding period in 1987. According to the estimation of sample investigation data, the per capita income of urban areas was 499.74 yuan, a 51.6-yuan and 11.5-percent increase over the corresponding period in 1987, or basically equal to the 1987 figure excluding the factor of price hikes. Per peasant income was 360.73 yuan, a 13.4-percent increase excluding the factor of price hikes over the corresponding period in 1987.

The agricultural input increased and production conditions improved further. The arrangement of agricultural crops tended to be reasonable and the production situation was better than that of 1987. The accumulated loans for agricultural production in the first 6 months were 3.54 billion yuan, a 22.1-percent increase over the corresponding period in 1987. The total volume scored by peasants in buying production means was 1.88 billion yuan, a 23.6-percent increase over the corresponding period in 1987. The province's total sowed acreage of agricultural crops reached 53.4 million mu and that of grain and soybean crops was 46.05 million mu, which were equal to the standard of 1984 in which the province reaped a bumper agricultural harvest. The sown acreage of cash crops scored a larger increase in which the cotton crop showed a 1.7-fold increase and the beet crop showed a 66.4-percent increase. Hog production rose again and by the end of 1988, the hog supply will be basically ensured.

FINANCE, BANKING

Diversification of Financial Institutions Discussed, Advocated

40060419 Kunming JINGJI WENTI TANSUO
[INQUIRY INTO ECONOMIC PROBLEMS] in
Chinese No 4, 20 Apr 88 pp 48-50

[Article by Xing Yuzhuo 6717 3768 0587: "Issues Pertaining to the Diversification of Financial Institutions"]

[Text]

1. The Implications of Diversification of Financial Institutions

The diversification of financial institutions is the restructuring of finance and banking at the microeconomic level. The focus, while preserving the original specialized banks, is setting up another group of supplemental and regional financial institutions, including civilian financial institutions, which is independent of the state's specialized banks, to balance against those banks and diminish their monopolistic status. The idea is to form a multi-level system of financial organizations under the

leadership of the People's Bank, a system which consists of a variety of financial institutions, including specialized banks, regional banks, and a host of other institutions. Within this system, except for the People's Bank, all institutions are business-oriented; some are comprehensive, others are sole-purposed. The financial institutions are not under the jurisdiction of the specialized banks; their relationship may be forged in the fund market, and they can cooperate on economic matters as equals.

2. The Significance of Achieving Diversification of Financial Institutions

1. It is necessitated by the development of the commodity economy. During the restructuring of the financial system, from the cities to the villages, the structure of the ownership system has changed drastically. Meanwhile, as the economy develops, we need ample funds, and we need flexible and diverse financial operations. The different levels of development of the productive forces and different kinds of ownership systems demand the setting up of different levels of financial institutions as well as a banking format which suits the collective economy and the individual economy. Only then can the requirements of economic reform be met.

Meanwhile, the development of lateral economic ties has brought new finance and banking problems. The lateral flow of goods and materials and technologies among enterprises must be backed by funds, especially the lateral flow of funds. Only by adding new institutions and new fund channels can the fund gathering activities complement the development of lateral economic ties.

2. It expedites the abolition of the fund supply system. We have long mistakenly thought that banks must lend enterprises money whether they deserve it or not. Banks too have long felt that they could not refuse a loan in fear of causing the enterprise to shut down. If there are more fund channels, enterprises will not have to rely on one credit institution, and banks will have less psychological pressure when they reject a loan. To turn banks from administration-oriented into business-oriented institutions, we must change the way they are responsible for enterprise funds.

3. It reinforces financial adjustments at the macroeconomic level. Financial institution's diversification satisfies the goal of establishing a financial base at the microeconomic level to provide proper external environment and conditions for making indirect adjustments. With only a few specialized banks which do not operate like enterprises and are highly monopolistic, it is very difficult for the state to make macroeconomic adjustments with the monetary credit instruments. Enterprises have no other fund relations except that with the banks, and they are heavily dependent on banks; therefore, when the state controls the credit volume, it produces direct and rigid effects on enterprises which leave no room for maneuvers. Often, it puts a stranglehold on the economy and

halts its development. If fund gathering channels can be expanded and increased, this result can be avoided, and enterprises can seek new fund sources to better withstand fund contractions in society.

4. It promotes the enterprise-like operation of specialized banks. If monopoly by specialized banks is not abolished, the banks can retain absolute control over the source and the use of funds, and despite the reforms, they can still monopolize all the profits. There will be no pressure, and inefficient fund use and bureaucratic style will prevail. To facilitate changes, we cannot seek breakthrough from within the specialized banks. The key lies in diminishing their monopolistic status and placing them in a competitive environment. This environment is attainable only through the diversification of financial institutions.

5. It facilitates the development of the fund market. At present, although there is a fund market, it is still in its fledgling form, because as yet there is absent a fund circulation mechanism which responds to fund supply and demand conditions. Many fund gathering activities have a strong administrative flavor to them. Some fund exchange activities are long on form and short on substance, and are entirely dispensable. One of the reasons is the absence of lead players in the market, or in other words, there are too few financial institutions. Because there are few financial institutions, and the specialized banks are too powerful, in fact, there is no need for specialized banks to participate in market activities, they can use their status to maintain or even expand the scale of fund utilization, and therefore there is little competition to speak of. Only by increasing the number of participants in the market, and only if they find it necessary to participate in the market activities, are conditions ripe for developing the fund market.

The Present State of Efforts To Bring About the Diversification of Financial Enterprises

Since the economic and financial reforms, there has been an increase in the varieties of financial institutions. There are internal organs set up by specialized banks, and there are financial organizations which, at least in name, are set up under different levels of ownership systems. But we are still far from having the kind of diversification we need. Most of these financial institutions cannot participate in market activities as economic entities. Specifically, the problems are manifested in the following areas:

1. Collective financial organizations newly set up by the specialized banks cannot operate autonomously. For example, urban credit cooperatives are the most popular form of financial institution in the cities in recent years. In name, they are collectively-owned, but they lack mass appeal and democratic character; they are highly bureaucratic, and in reality, they are an extension of the specialized banks and are not bona-fide collective financial organizations. Some banks even treat these as places

to put their family and relatives to work. On administrative, personnel, and business matters, the urban credit cooperatives are subject to the three-fold leadership of the Labor Services Company of the Industrial and Commercial Bank, the Individual Enterprises Bureau, and the Bank Offices Bureau. Savings deposits account for 50 percent of all their deposits, but they only serve as agents of the specialized banks and have no right to use those funds. Under the situation, these credit cooperatives cannot expand business according to their own wishes and objective needs. Their distribution system does not link staff and worker income to the profit level, so it makes no difference whether they are making money or not, they all "eat out of the same big pot."

2. The old collective financial institutions subject to the specialized banks cannot be themselves and serve their own interest by breaking away. This is especially true for the rural credit cooperatives. As cooperative financial organizations for the masses, they have no right of self-determination and have become primary-level organs of the Agricultural Bank instead, and they are administered as state banks. How they handle their business and whom they hire or dismiss are decided for them by the Bank. They have no internal responsibility system, nor do they have any business pressure. Democratic management exists in name only, and in fact they are alienated from the people. Nowadays, the rural economy is rapidly turning into a commodity economy, and the closed natural economy is no more, and neither the specialized banks nor the credit cooperatives can supply all the necessary funds for economic development. As a result, there is a proliferation of individual civilian usurious loan activities. In recent years, reforms of credit cooperatives have been brewing, but existing problems have yet to be solved. Although these credit cooperatives are widely dispersed in the rural areas, they have yet to give play to their role as independent financial organs.

3. Government-run non-bank financial institutions cannot keep up with the needs of economic development. In recent years, urban and rural district or village governments have set up some financial institutions, but they have tried to turn these institutions into mini-financial ministries and regional mini-banks. They do not embody the characteristics of economic entities, and most of them have no economic responsibilities. The most popular among this type of organs are the village multi-purpose guidance stations (they exist throughout the nation under different names.) Some comrades call them civilian credit institutions. This is not exactly right, because they are organized and headed by the village government, and are the internal organs of the village government, and their leaders are village cadres. Their source of funds is the accumulation and public welfare funds of the production brigades. Their use of funds often is inconsistent with state policies and is not supportive of local agricultural developments. Their loan practices are arbitrary and questionable. And they maintain an improper allocation system: the village cadres get 40 percent of the profits.

4. Non-bank financial institutions fail to receive support from the banks in launching their business. At present, some non-bank financial institutions have accounts in the specialized banks, and they also rely on the specialized banks to clear transactions. The People's Bank has not provided them with favorable terms. Under the situation, they are tolerated as long as their credit activities do not affect the specialized banks, but if the banks' interests are threatened, they will use non-economic measures, such as refusal to set up or settle the accounts, to restrain these institutions. This puts a stranglehold on the institutions—not only are they unable to expand, they may even have to shut down.

5. Collective financial institutions under government jurisdiction and under the jurisdiction of specialized banks tend to perform poorly. These institutions not only disperse most of their profits, but because government and business are not separated, and because they are not autonomous, these institutions are poorly managed. Some rural credit cooperatives are money losers. In some localities, one-third of the credit cooperatives are but empty shells; some even have more liabilities than assets. Even the newly formed urban credit cooperatives are beginning to show similar symptoms. Overdue loans are common phenomena; sometimes as much as 25 percent of all loans are overdue. Fund losses are prevalent. In some cases, there can be 30 percent more bad-debts than profits. For some rural multi-purpose guidance stations, 75 percent of their loans are bad loans.

6. Civilian credit institutions are unlikely to attain legal status. In some commodity collecting and distributing hubs and some areas which have a relatively well-developed commodity economy, individual businessmen or enterprises, or even public agencies, have started up their own financial institutions engaging in the savings and loan business. Because they do not have the backing of the government or the specialized banks, and because fund utilization is risky, they are more careful with management, and they also tend to be more profitable. But they are faced with the problem of getting approval from the People's Bank, and sometimes these institutions operate without a license.

7. The financial sector has yet to establish business ties with the small collective and the individual economies. Except for the civilian credit cooperatives, most financial institutions, including state banks and collective financial institutions, are very inflexible in handling business and are not geared to the small collective and the individual economies. Small collectives and individuals find it difficult to obtain loans from these institutions, and they in turn are reluctant to deposit their idle funds in them. According to survey, only 10 percent of the funds in these institutions are gathered from individuals and small collectives; only 13 percent of all individual households have accounts in these institutions. Because of the absence of close relationship, the individual economy is not getting the kind of support it needs,

and so it seeks civilian personal credit instead. At present, this kind of civilian credit interest rate is as high as 30 percent.

To sum up the above, at present, financial institutions are not fully diversified; some new institutions exist in name only, and basically the whole arrangement is but a duplication of the old fund supply system. Therefore, we must delve deeper into the issue of diversification of financial institutions.

4. Ways To Achieve Diversification of Financial Institutions

Trying to understand better the issues is the key to attaining diversification of financial institutions. We should not overestimate the present production level, and we must understand the positive role a diverse economy plays in economic development. The old method which simply emphasized planning does not suit the commodity economy. Past practices of concentration of credit and monopoly have been proven to be defective. Especially during the exploratory phase, some new activities may be in conflict with the old system and old regulations, and that makes it even more important for us to seek reform and blaze new trails. We must not continue to embrace the outmoded and preserve the outworn and seek the so-called "stability." We must widen our search path and quicken our pace, and implement some substantive reforms. Specifically, there are several ways:

1. First, separate government from enterprises in the urban and rural credit cooperatives, and free them from the specialized banks and the government organs. This aspect of reform should not stop at devolving administrative power, but should restore the true nature and characteristics of credit cooperatives. The idea is to thoroughly separate the credit cooperatives from the specialized banks on personnel, administrative, and business matters, and to turn them into economic entities which are autonomous, which keep separate accounts, and which are financially responsible. They should be economic partners of the specialized banks, and the existing leadership relationship should be eliminated. Credit cooperatives must manifest their true nature as mass organizations, and hold democratic elections. They can adopt one of the following two formats. One, set up an independent credit cooperative system, and merge a number of credit cooperative institutions. Two, each credit cooperative acts independently and is directly under the leadership of the People's Bank. On personnel matters, staff selection and hiring should be based on merit and not nepotism. Credit cooperatives with excessive losses must put their business in order and must be reorganized. Lost funds should be taken care of by the specialized banks and the government organs.

2. We should actively develop civilian collective financial institutions. At present, reforms in the country's finance and banking system are sluggish. It will take a

while before credit cooperatives can gain independence from the specialized banks and the government. Therefore, to expedite the diversification of financial institutions, we must rely on developing non-bank financial institutions, and civilian collective financial institutions should be an important part of this effort. Their emergence immediately has brought with them a clear sense of risk and a strong sense of responsibility. Their operation is autonomous, with little administrative intervention. They reflect more fully the characteristics of a collective than the so-called collective financial organizations set up by the specialized banks and the government. Facts prove that they pay attention to where their loan funds go, and they seldom incur losses. They do not pattern their business operation after the specialized banks. They are simpler and more flexible. Small collective and individual economies can easily obtain funds from these institutions. They generate good benefits for themselves and for society as a whole. Under the present situation where the financial institutions have not adapted themselves to the diverse economy, it is even more meaningful to develop a pluralistic economy. Moreover, monetary credit has been recognized as a form of commodity, and therefore there is no reason to limit this kind of business. Some comrades feel that some civilian collective financial institutions charge exorbitant interest on loans, and individual profits are too high, and such operations should be deemed abnormal. This indeed is worth discussion. First, these institutions must bear their own risks. Under the situation where there is a shortage of state bank funds, it is normal for them to charge a higher rate of interest. Second, individual and collective income cannot be gauged by absolute standards. It must be looked at from the point of benefits they generate for themselves and for the country. In this respect, the state can use the tax law to ensure its own revenues and rely on regulations to ensure collective accumulation, and after that, the individual is entitled to the residue, no matter how substantial. The state can also limit the interest rates. This is an administrative problem. Besides, these institutions are charging an interest rate far below what the civilian individual lenders are charging. Everywhere, civilian individual lending rates are being depressed by the presence of these collective financial institutions.

3. Active development of enterprise fund gathering institutions. This is a new kind of fund gathering organization. At present, there are only a few of them, and they generally fall into two categories: one type are finance companies set up by enterprises in the same trade, and the other are financial syndicates set up jointly by banks and enterprises. Their emergence is geared to the need of economic reform. The restructuring of the economic and financial systems forces enterprises to become less dependent on banks. They must create possibilities to expand fund sources and channels. This also facilitates the specialization of investments and expedites the formation of industry syndicates. It also reinforces the process of division of labor and cooperation. When enterprises engage in fund gathering activities, because

they have taken out a substantial amount of bank loans, it may cause a shift in bank loans. This should be permitted, because enterprise fund gathering activities play a special role in developing lateral economic ties, a role bank credit cannot replace. Besides, they are bound to generate good economic results.

4. The People's Bank should do more to accommodate the diversification of financial institutions. The objective is to give all financial institutions equal status and equal opportunity under competition. First, we need to ease control, especially on the civilian collective financial institutions. Instead of ignoring them or resisting them, they should be allowed to operate legally as long as they meet the basic standards. Second, improve service and guidance. One, we should make it easy for financial institutions to open bank accounts, and allow them to open accounts at the People's Bank. Two, we must promptly establish bank clearinghouses to solve some of the clearing problems faced by the financial institutions. Three, the People's Bank can extend support in the form of loans. This will solve some of the fund problems of the financial institutions and at the same time allow the Bank to intervene by economic means when necessary. In addition, we must perfect the legal system and enact specific regulations and pinpoint problems in financial institutions, so that the new institutions will have laws to follow and will not deviate from state policies, and we can ensure that the financial institutions' legal rights are not violated amid competition.

12986

Treasury Bonds To Be Marketed Nationwide
OW0708092688 Beijing XINHUA in English
0727 GMT 7 Aug 88

[Text] Beijing, August 7 (XINHUA)—The market of State Treasury Bonds will be open nationwide beginning the end of this year after experiments in 61 cities in the first half of the year, according to the Chinese Ministry of Finance.

The attempt aims at eliminating black-market deals and protecting the interest of holders, a spokesman for the ministry said.

After the opening of some bonds markets, speculators began to purchase treasury bonds at prices lower than their face values, he explained.

At the beginning, he said, some holders were eager to sell the bonds. But as they are more profitable than any kinds of saving deposits, quite a number of shrewd holders in Beijing, Shanghai and Shenzhen have begun to buy the bonds in bulk.

The annual interest rate of treasury bonds issued in 1985 was nine percent while those issued in the next two years were 10 percent.

Bank of China To Sell 2.7 Billion Yuan Bond Issue

*OW1108012388 Beijing XINHUA in English
1440 GMT 10 Aug 88*

[Text] Beijing, August 10 (XINHUA)—The industrial and commercial Bank of China will sell bond issues worth 2.7 billion yuan beginning this month.

Two billion yuan worth of the bonds will have a minimum term of five years. They will earn progressively higher interest rates starting at nine percent and rising one percent a year thereafter.

The other 700 million yuan will be [word indistinct] bonds with a fixed term of three years and three months and earning an annual interest rate of 10 percent.

The bonds will be sold at the face values less interest earnings that would be due at maturity.

They will be offered in units worth 100 yuan, 500 yuan and 1,000 yuan.

Shanghai Improves Banking Environment

*HK0408124788 Beijing CEI Database
in English 4 Aug 88*

[Text] Shanghai (CEI)—The Shanghai branch of the People's Bank China, acting as the local central bank, has been paying attention since 1984 to strengthening the enforcement of financial and banking laws while developing money markets, thus improving the environment of monetary market in the city.

The bank has so far made and announced 40 laws and regulations concerning financial institutions, money market, money supply, and macro-adjustment and control according to the economic development in the city.

The laws and regulations include "the trial measures on re-discount service," "the regulation on dealings at stock counter," "temporary regulations on issue of certificates of deposit with high face-value," "regulations on identifying capital" and "the temporary measures on controlling the short term bonds" and so on.

Many of the regulations are among the first being stipulated and implemented in China. They have not only supported the development of the financial business, but also promoted the building of financial law system.

Besides, the bank has also made regulations like "the temporary measures on management of Shanghai enterprise bonds," "the temporary measures on management of stocks in Shanghai," "temporary measures on mortgage for the renminbi loans in Shanghai," "temporary regulations on mortgage for the foreign currency loans,"

"the temporary regulations on controlling the foreign currency in the leasing business in Shanghai," and "temporary regulations on management of bills and securities in Shanghai".

At present, Shanghai People's Bank is continuing to improve financial laws and regulations and strengthen the inspection on the implementation of the laws for a better investment environment.

MINERAL RESOURCES

Major Gold Production Base Planned

*OW0908045488 Beijing XINHUA in English
0144 GMT 9 Aug 88*

[Text] Beijing, August 9 (XINHUA)—An area bordering Sichuan, Gansu and Shaanxi Provinces will be built into a major gold production base.

A report in today's METALLURGICAL NEWS said the area, known as China's "Golden Triangle", covers 32,400 sq. Km. And has about one-third of the three provinces' total gold deposits.

Currently, there are only two state-owned gold mines operating in the area. Several new mines are to be opened and by 1990 the area will turn out 38 percent of the three provinces' total gold output, the paper said.

INDUSTRY

Tibet Industrial Output

*Lhasa Tibet Regional Service in Mandarin
1330 GMT 15 Aug 88*

[Summary] Thanks to the efforts to deepen enterprise reforms and tap potential in production, enterprises under the Tibet Regional Industry Department and Electric Power Department yielded a gross industrial output value of 23.5 million yuan in the first 6 months of this year while the region's mines declared a total output value of 19.4 million yuan.

SMALL-SCALE ENTERPRISES

Article States Private Enterprise Needs Laws, Regulations

*40060421 Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese
No 22, 6 Jun 88 pp 12-13*

[Article by Yang Zheng 2799 1513: "Formulating Laws and Regulations a Priority Concern For Developing Private Enterprise in China"]

[Text] The recent First Plenum of the Seventh National People's Congress drafted a constitutional amendment to the effect that the state permits the existence and development of the private sector of the economy, and established the legal status of the private sector. The

constitution stipulates that the state permits the private sector of the economy to exist and develop within the limits of the law. The private sector is a supplement to the socialist public sector of the economy. The state will protect the legitimate rights and interests of the private sector of the economy, and guide, supervise, and control that sector.

This matter has aroused widespread interest. It will contribute to reform, and help to change a system of ownership which is a holdover from the initial stage of socialism.

A Circuitous Route

Private enterprise in mainland China primarily consists of small-scale businesses in the manufacturing, transport, mining, construction, commercial, and food and beverage industries. Their development has been the result of a circuitous process.

After the socialist system was established on the mainland in 1949, most of the urban industrial and commercial ventures were taken over by the state, and the rural areas were gradually collectivized. Individual private industrial and commercial businesses were grouped by trade and managed by the government, which gradually reduced their scope and weakened their role in society. At the end of the 1950s and during the 10 years of the cultural revolution, nearly all individual industrial and commercial businesses were banned.

After 1979, the government raised the issue of reinstating and developing individual industrial and commercial businesses. Subsequently, it explicitly called for appropriate development of the individual sector of the economy, in an approach where the individual sector would join the state and collective sectors in mitigating the serious unemployment of the times. Building on this, the government encouraged the peasants and city dwellers to develop tertiary industries, and promoted leasing and contracting by individuals. This expedited development of the private sector of the economy and resulted in the emergence of a number of private businesses.

By the beginning of the 1980s, in regions with developed commodity economies, the first peasants to become wealthy sought out capital funds. Integrating these capital funds with social requirements bred strong social productive forces, and the emergence of private businesses really transformed possibility into reality. At the end of the 1970s, one or two enterprises were engaged in the weaving trade in a township in Guangdong's Nanhai County. As a result of a continually increasing number of individual ventures and expanded scale, the town now enjoys an annual production of 100 million meters of synthetic fiber cloth. In somewhat economically backward Anhui Province, from among the more than 200,000 specialized households of various types scattered throughout the province there have emerged in recent years many private businesses with a given

amount of capital funds and hired workers, while the number of private businesses with assets in excess of 1 million yuan has increased to more than 5000.

It is difficult to calculate precisely the number of private businesses in China today, or the number of workers they employ, or the amount of property they possess. There are in excess of 115,000 registered private businesses nationwide which have more than eight workers, employing more than 1.847 million people. Actually the number of private businesses is greater than this. For example, of the 283,000 cooperative ventures throughout the country, approximately 60,000 should be categorized as private businesses. In addition, there are at least 50,000 private businesses nominally operating as collective ventures. Consequently, it is estimated there are in China today some 200,000 to 300,000 private businesses. Of the private businesses spread across China's broad urban and rural areas, 70 percent are located in the countryside, and most of these are in the coastal areas and in regions with relatively developed commodity economies. In terms of industries, most are engaged in manufacturing, transport, mining, and construction. Not many of the private businesses are purely commercial ventures. In terms of number of employees, the vast majority employ from 8 to 30 workers, while only a few employ more than 100 workers. In terms of money, more than 60 percent have less than 100,000 yuan, while only a small number have more than 1 million yuan.

Private enterprise has developed rapidly in recent years, but its output value accounts for less than 1 percent of the gross value of industrial output nationwide. It has yet to assume the role it should in the national economy.

Objective Functions of Private Enterprise

The private sector of the economy in China today is developing in a situation where the dominant role of the public sector is a given. It is evolving during the course of transforming the Chinese economy from a single-product economy to a multiple-product economy, and coexists with the planned commodity economy. The private sector is a necessary and useful supplement to the public sector, and is by no means an illegal entity. It is suited to the objective requirements, helps to integrate funds, technology and labor power, and constitutes a social productive force. Briefly, the principal functions of the private sector of the economy are as follows:

1. The private sector promotes economic development. Since China is now in the initial stage of socialism, economic development cannot be effected entirely by the state-run sector of the economy. The state must apply its limited capital funds to essential construction for the most part, and mobilize the state-run, collective, and individual sectors to function in unison. It is only through this approach that it can expedite the development of productive forces. For example, Lin Jindou [2651 6855 6258] and his two brothers started up the Putian Electro-optics Plant in Fujian Province in 1984, which now has fixed assets of 5 million yuan, more than 600 employees, and a share of the international market.

In 1987 the plant generated more than \$1.3 million in foreign exchange for the state. A transport team organized by Liu Xigui [0491 1585 6311], a peasant from Taoxian village, Shenyang city, Liaoning Province, cleaned up waste dirt from urban and rural construction sites. Liu now owns 26 motor vehicles, and concurrently operates 3 factories as well. His total assets amount to more than 5 million yuan. He also plans to operate a livestock farm. Wenzhou city in Zhejiang Province, without a cent from the state, has now organized 133,000 individual households to set up jointly-run factories, and the private sector of the economy accounts for 20 percent of the gross value of industrial output.

2. *The private sector assimilates a large number of workers, which help to relieve the state from having to find jobs for that segment of the population.* Each year there is a large surplus of labor in the urban and rural areas for which jobs must be found. Every worker absorbed by a state-run enterprise requires an average investment of 15,000 yuan, which is a considerable burden. The total number of hired workers employed in the private sector presently exceeds 3.6 million. The flourishing private businesses not only have energized the economy, they also have provided employment for a large number of people, to the benefit of the state. A survey has shown that if the output value of private enterprise were to account for 10 percent of the nationwide gross value of industrial output, the employment needs of 36 million people would be met. On the other hand, the excess labor force in China's rural areas has grown to 150 million. It will prove difficult to meet their employment needs if we rely on the state and collective alone.

3. *Private enterprise has provided society with a large quantity of commodities, stimulated circulation, and enlivened markets.* At the same time, it also has provided the state with considerable tax revenues, and has increased accumulation.

Eliminate Prejudice and Encourage Development

Chinese society today still has an inaccurate understanding of private enterprise, which impedes development of the private sector. Some people feel private owners get their money without working for it, and are free to plunder at will. The private businesses which have just been established must swallow insults as they offer up money, and meet rudeness with a smile. A private business in the suburbs of Zhengzhou, Henan, has contributed 50,000 yuan to the village since beginning operations. The hospitals in some cities have unexpectedly doubled medical treatment fees for private enterprise owners.

Many private businesses worry about being tagged as "capitalist," which has led to some peculiar phenomena. Take for example the Changjiang Industrial Company in Wuhan, Hubei. This private business began operating on the investment of 7 or 8 people, and now employs more than 300 workers. It undertakes a lot of interior decorating jobs, but is actually licensed as a cooperative enterprise. A private business in Ningbo, Zhejiang, employs

150 workers and produces television transformers. Last year its output value amounted to 7.5 million yuan, while on its business license it is listed as a township enterprise.

Many private enterprise owners invoke a township or cooperative organization cover as a means to avoid the capitalist label. They are suspicious, and are not convinced there is a place for them in a socialist system. This is the fundamental reason why private businesses try by every means possible to come up with a cover organization. They do not mind paying a handling fee in exchange for being labeled a collective enterprise.

Private businesses are characterized by a scarcity of capital funds, but the financial sectors of some areas display an uncooperative and distrustful attitude toward them, and consider private enterprise owners to be unreliable and endlessly in debt. Such is actually not the case.

These worries of private businesses reflect society's prejudice toward them, as well as some people's misinterpretation of governmental policy. Of course some private businesses do not operate in the normally accepted manner, but evade taxes and show no concern for such issues as workers' labor insurance and welfare. Consequently, from now on we must continue to improve and unify our understanding of the private sector, and encourage and guide the sound development of that sector. As a result of effecting thoroughgoing reform of the economic system, it appears that people are getting a better and better understanding of the objective necessity and function of the private sector. People gradually have come to understand that although private businesses are prone to blindly pursue profits and expand illegal income, this can be handled through policy guidance and necessary legal constraints.

Formulating Laws and Regulations a Priority Concern

It is a matter of top priority to formulate laws and regulations applicable to private enterprise as quickly as possible, and promote the sound development of private businesses. Encouraging and developing the private sector of the economy in the initial stage of socialism is not expedient. Therefore, the First Plenum of the Seventh National People's Congress passed a constitutional amendment to establish the legal status of private enterprise amid the socialist system of ownership, and provide a constitutional foundation. At the same time, it is in the process of drafting a document called "Provisional Regulations Governing Private Enterprise in the People's Republic of China." These regulations will clearly define the legal status of private enterprise in China, and protect its legitimate rights and interests. This will play an important role in developing private enterprise, and in enhancing guidance, supervision and control of it.

Many areas have announced specific measures to encourage the development of private enterprise. For example, some areas have instituted provisions to make

it easier for private businesses to get business licenses and loans, reduce taxes in a discretionary manner for private businesses which manufacture new products and develop new technologies, protect the legitimate rights and interests of private enterprise managers, prohibit various governmental departments or state employees from using the power of their offices to create difficulties for, blackmail, bribe, or accept bribes from private businesses, and require those departments and employees to provide services. Jingdezhen city in Jiangxi also welcomes private businesses to buy shares and invest in state-run and collective enterprises. Furthermore, it calls for private businesses to pool resources to build markets, and on approval by higher authorities can have their construction taxes reduced. The repairing and service trades which make good on omissions and deficiencies can have their business taxes reduced for a set period as warranted. Private enterprise managers are to be treated socially on a par with state-run and collective enterprise employees.

China's constitution sets forth new interpretations and provisions regarding the private sector of the economy, and legislation pertinent to private enterprise will soon catch up.

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Exports From Township Enterprises Up
OW1607083088 Beijing XINHUA in English
0559 GMT 16 Jul 88

[Text] Beijing, July 16 (XINHUA)—Export products from China's township-run enterprises increased by 50 percent in the first half of this year, according to today's PEOPLE'S DAILY.

Township-run enterprises exported five billion U.S. Dollars-worth of products in 1987, about 17 percent of the country's total exports.

Exports from township enterprises will make up 20 percent of the total national exports if the momentum in the first half of this year is kept up, said the paper.

More and more township enterprises are engaged in processing with supplied materials, parts and samples. The majority of their products are for export.

To make their products more competitive on the world market, enterprises in some coastal cities have increased varieties according to market needs and given priority to product quality.

A committee under the auspices of the State Planning Commission was set up earlier this year to help these enterprises conduct interregional economic cooperation and coordinate their efforts.

The state has issued 100 million yuan in low-interest loans to help profitable township enterprises build up their capacity for further development.

The paper said that a series of policies and regulations will soon be promulgated by relevant government ministries to ensure the township enterprises enjoy the same rights as state-run enterprises in taxation and foreign exchange earnings.

COMMERCE

June Purchases of Social Commodities Reported
HK1208095388 Beijing CEI Database
in English 12 Aug 88

[Text] Beijing (CEI)—Following is a chart of domestic net purchases of social commodities in June 1988, according to CSICSC [China Statistics Information Consultancy Service Center] of State Statistical Bureau:

Item	Unit	Volume	
		6/88	6/87
Grain	10,000 tons	1164.0	908.3
Edible vegetable oil	10,000 tons	62.0	70.9
Pig and pork	10,000 head	804.4	988.2
Egg	10,000 tons	9.4	10.1
Aquatic products	10,000 tons	13.4	15.9
Salt	10,000 tons	115.3	92.8
Sugar	10,000 tons	10.4	11.6
Cigarettes	10,000 cases	243.8	232.9
Alcohol	10,000 tons	56.7	54.2
Cotton cloth	100 million meters	6.0	5.9
Cotton and synthetic	100 million meters	2.9	2.9
Blend Synthetic fabric	100 million meters	0.8	0.9
Wool fabric	10,000 meters	1654.9	1844.9
Silk and satin	10,000 meters	8358.8	7795.3
Knitted underwear	100 million pieces	1.5	1.4
Soap	10,000 cases	400.6	468.7
Detergent	10,000 tons	8.0	6.1
Sewing machine	10,000 sets	67.2	66.4
Wrist watch	10,000 pieces	269.8	297.8
Bicycle	10,000	265.7	275.8
Semi-conductor radio	10,000 sets	84.9	118.9
TV set	10,000 sets	161.7	98.3
Tape recorder	10,000 sets	77.7	63.6
Fan	10,000	383.6	281.9
Washing machine	10,000 sets	69.5	66.9
Refrigerator	10,000 sets	31.4	21.9
Coal	10,000 tons	1675.4	1456.2

FOREIGN TRADE, INVESTMENT

Discussion on Expanding Trade Between Northeast Region, Soviet Union
Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese
No 4, 30 Apr 88 pp 17-21

[Article by Li Xiao 2621 2556, of Jilin University's Department of International Economics, under the rubric "Sino-Soviet Trade": "My View on Expanding Trade Between Northeast China and the Soviet Union"]

[Text] Northeast China is an important base for energy resources, heavy industry, and agricultural and forestry production. Foreign trade development in this region has a major role to play in implementing China's strategy for opening up to the outside world. In recent years foreign trade has developed rapidly in the northeast, particularly trade with Japan and other Western nations. But since the advent of the 1980's, as we have made progress in Sino-Soviet economic, trade, and technological exchanges, and we have forged new paths for the purpose of developing foreign trade in northeastern China, which borders on the Soviet Union. This has given northeastern China the prospect of becoming the "locomotive" of development in Sino-Soviet trade.

I. Progress in Sino-Soviet Economic Relationships Has Provided the Prerequisite for Developing Trade Between Northeastern China and the Soviet Union

In the 1950's the Soviet Union was China's largest trading partner. In 1955 Sino-Soviet trade comprised 56.9 percent of China's total foreign trade volume. Because of the deteriorating relationship between the two countries in the 1960's, Sino-Soviet trade declined sharply. By 1970 the volume of Sino-Soviet trade had declined to its lowest level, totalling no more than 42 million rubles,¹ which accounted for only 1 percent of the total volume of Chinese foreign trade. Since the advent of the 1980's, as relations between the two countries have improved, economic, trade, and technological contacts have been rapidly restored and developed. The foreign trade volume between the two rose from 400 million Swiss francs in 1981 to 2.6 billion Swiss francs in 1984. In 1985 the scale of growth was even greater. Not long after our two countries reached a trade agreement worth 2.6 billion Swiss francs per year, we agreed on an additional supplementary trade bill worth 1 billion Swiss francs. Thus, in one fell swoop we boosted Sino-Soviet trade volume to 3.6 billion Swiss francs and created a new 25-year record.

Of particular note, in December 1984 First Deputy Chairman Ivan Vasil'yevich Arkhipov of the USSR Council of Ministers visited China, and in July 1985 Vice Premier Yao Yilin returned the visit. The two sides entered into a very effective series of talks and signed an "Economic and Technical Cooperation Agreement," a "Scientific and Technical Cooperation Agreement," an "Agreement for Establishing a Sino-Soviet Commission on Economic, Trade, Scientific, and Technical Cooperation," and a "1986-1990 Agreement on Exchanging Goods for Cash." Between 15 and 21 March 1986, Arkhipov led a delegation to China to participate in the first meeting of the Sino-Soviet Commission on Economic, Trade, Scientific, and Technical Cooperation. During this meeting the two sides signed a summary of the conference minutes and an agreement on the conditions for mutual assignment of engineers and technicians. As agreed upon in the five documents above,

between 1986 and 1990 the total volume of import and export trade between China and the Soviet Union will reach 35 billion Swiss francs. Moreover, the Soviet Union will technically upgrade 17 factory enterprises in China, thus establishing a foundation for long-term Sino-Soviet cooperation in economic, trade, scientific, and technological spheres.

Simultaneously, in 1982 China and the Soviet Union restored border trade between China's Heilongjiang and Nei Monggol Autonomous Regions and the U.S.S.R.'s Khabarovsk, far eastern coastal region, Amur, and Chita. At the end of 1983 the trade volume had reached 9.3 million rubles, rising to 15.6 million rubles in 1984. The trade volume rose again to 24.2 million rubles in 1985² and 30 million rubles in 1986,³ greatly expanding Sino-Soviet economic contacts.

Trade relationships between China and the Soviet Union are mutually beneficial. China's major exports to the Soviet Union are mineral products, agricultural and livestock products, textile goods, and various kinds of everyday consumer goods. The Soviet Union supplies China primarily with machinery and equipment—including technical civil aviation equipment, various forms of transport, mining equipment, and power plants—as well as steel, cement, chemical fertilizer, and lumber. As exploitation begins in the eastern Soviet Union, and as China's national economy develops, this kind of mutually complementary trade relationship seems to grow more critical day by day.

As the national economies of China and the Soviet Union develop, Sino-Soviet economic, trade, and technical exchanges will progress rapidly, and conditions for trade between northeastern China and the Soviet Union will mature.

II. Trade and Technical Exchanges That Develop Between Northeastern China and the Soviet Union Must Meet Economic Development Needs in Each Respective Region

In the 30-plus years since the PRC was founded, the rapid economic development in the northeast has been a powerful aid to socialist construction in China. But economic development in the northeast is also hampered by a series of difficulties—inadequate energy resources, backwards technical equipment, and shortages of transportation facilities—that urgently need to be resolved. But in foreign trade, the Western trade protectionism in vogue right now has imposed all kinds of limits on China's export commodities, and this has severely affected foreign trade development in the northeast. Therefore, the northeastern region needs to take positive steps to revise its market strategy. As it enhances economic ties with Western nations it should make great efforts to develop economic and trade contacts with the Soviet Union, directing commodities restricted in the West—especially light textile products—toward this huge, stable market. For another thing, since the advent

of the 1970's, because energy and natural resources in the western portion of the Soviet Union have begun to run out, exploiting the eastern region has become an important strategic measure in developing the Soviet national economy. In particular, the Soviet Union is increasingly focusing on economic development in the Altai region, and exploiting Siberia and the far eastern section of the country has become a major key to its social and economic "accelerated development strategy." However, abominable physical conditions in the eastern region of the Soviet Union and severe shortages of equipment, labor power, and everyday consumer products have affected the course of development. If this predicament is to be alleviated, the Soviet Union must invest a huge volume of capital. However, production of petroleum, which has historically been the Soviet Union's primary export for producing foreign exchange, suddenly declined in 1984. Production declined again in 1985, to 2.9 percent less than in 1984.⁴ In addition, international petroleum prices have slumped in recent years, causing a sharp drop in Soviet foreign exchange receipts and exacerbating difficulties in developing the eastern portion of the country. Moreover, Soviet foreign trade has recently been hit by the dual assault of a declining dollar exchange rate.⁵ This has worsened the decline in Soviet foreign exchange receipts. Faced with this situation, the Soviet Union urgently needs to, and is willing to, strengthen barter transactions and compensation trade with China. To China, which is similarly short of foreign exchange, this is extremely advantageous. Obviously, this also creates favorable conditions for improving the economy of northeastern China and for developing foreign trade.

First, rapid Soviet development in its eastern region has opened up an enormous foreign commodities market for northeastern China.

The Soviet Union's 27th Party Congress clearly reiterated that: "In the future we will make a greater effort to develop Siberia and the far eastern region of the country." But in the process of developing the far eastern region the Soviet Union must cope not only with inadequate funding and technical facilities and increasing shortages of everyday necessities, but also with the great distance that separates the western and eastern portions of the country. Allocating and transporting goods from west to east requires an endless freight trip, and this not only exacerbates the shortage of transportation facilities, it also raises costs to the point where freight charges to the east account for 30 to 40 percent of expenses.⁶ This is twice as high as the average freight cost in the Soviet Union. As a result, compared with the west, the cost of living in the east is 9 to 20 percent higher and overall food procurement costs are 29 percent higher. Consequently, the Soviets want to "Develop imports suitable to meet far eastern residents' needs for fruits, vegetables, and commodities that, because of natural conditions, the Soviet Union cannot produce, or cannot produce in sufficient quantity." They also feel that "We can accept

supplements to bolster our own economic base."⁷ Northeastern China borders on the eastern portion of the Soviet Union. Two railroads link the two, and there are also highways and ports for water transport. Ocean shipping is also very convenient. Besides, in recent years, under guidance to "open up to the outside world and stimulate the domestic economy," the northeastern economy has developed steadily and rapidly. In addition, northeastern crops and cash crops have been plentiful and animal husbandry has flourished, providing ample supplies of goods to develop light industry and to produce the light textile goods, food products, and everyday necessities the Soviet Union needs.

Second, the labor shortage in the eastern Soviet Union is our potential labor market.⁸

The eastern Soviet Union covers an area of 12.7 million square kilometers, encompassing over two-thirds of the nation's natural resources, but it has a population of only 29 million people—only one-tenth of the total Soviet population. The population per square kilometer figures to only 5 people in western Siberia, 2 people in northwestern Siberia, and 1 person in the far eastern region. This population density is extremely poorly suited to large-scale economic development. Because of the abominable climate, population growth in the eastern region is slow and mobility is high. Although the Soviet Union has espoused a policy of intensive production since the 1970's, eastern development is in the nature of "broadening sources." For some time to come, not only will labor demands not decrease, in fact they will rapidly increase. And, because labor resources are also short in the west, it will become more and more difficult to transfer laborers east.

As a result, in recent years the Soviet Union has constantly recruited laborers from friendly nations to work in its eastern region opening up petroleum and natural gas deposits and engaging in agricultural and forestry production. To a certain extent it has remedied its labor shortage, and as a consequence the Soviet Union believes that "As the socialist economy grows in scale on the world scene, we can find a way to develop labor cooperation in the far eastern region."⁹ In the past few years the Soviet Union's second eastern railway—the Beia [6296 7093] Railway, has begun to be used, but as of the end of 1985 only one quarter of its total length was in use.¹⁰ In addition, a series of future engineering projects—multiple track systems and electrification projects, and so forth, are also planned. The Soviet Union has also drafted a plan to invest 1.5 billion rubles to establish composite production systems and industrial bases, as well as 58 residential areas, in 11 territories along the Beia [6296 7093] rail line. The construction project is enormous.¹¹ It is possible that the Soviets will bring in a large quantity of foreign labor to complete it. Moreover, because the decline in international petroleum prices has created a "reverse oil crisis" for Middle Eastern oil-producing countries, the Middle Eastern labor market is shrinking. Under these circumstances,

the eastern Soviet Union is becoming the world's prime potential labor market. This shows that northeast China has great possibilities for exporting labor to the eastern region of the Soviet Union. Northeastern Chinese workers possess a high level of technical skills, and besides they are adapted to the frigid climate and physical conditions that exist in the eastern Soviet region. Moreover, the distance to be travelled is short and transportation is convenient, so much can be saved on expenses. In addition, in recent years the various labor exporting companies and contracting companies in northeastern China have earned a favorable reputation in cooperation with Western nations and developing nations. Right now, since we cannot directly enter the Soviet labor market because political relations between China and the Soviet Union are limited, we can adopt indirect, roundabout methods and cooperate through a third nation. We can subcontract part of a project or provide a certain number of laborers to act as a breakthrough point for us to enter the Soviet labor market. And we should think of a way and prepare early to use commodity exports to stimulate labor exports, thus building a good foundation for entering the Soviet labor market in the future.

Third, developing trade and technical exchanges with the Soviet Union will help economic development in northeastern China.

The northeastern region is China's energy production base, but at the same time it is also the region of China that has the highest energy consumption. In 1985 it was estimated that 116 million tons of non-renewable energy resources were used in the northeast—approximately 20 percent of the nation's total. Because the region is short on coal and electricity, approximately 20 percent of its production capacity cannot normally be engaged, and this has a 20-billion-yuan effect on the value of output.¹² But energy resources are plentiful in the eastern Soviet Union: Siberia has ten billion tons of petroleum reserves and 4 billion steres of natural gas reserves, and there are 900 billion tons of coal in the Kuzibasi [1655 5417 1572 2448] region alone. As Soviet industrial production moves east, these energy resources will be a focus of development. Consequently, to a certain extent northeastern China can engage in trade and use its plentiful agricultural and sideline products and light textile products to exchange for needed petroleum, natural gas, and coal resources.

In addition to its energy shortage, forested area in northeastern China, which is China's forestry base, has declined by a large margin due to exploitation, indiscriminate cutting, and unsuitable protection measures. This has led to a shortage of goods in northeastern and Chinese timber markets. By contrast, the eastern Soviet Union contains 70 percent of all forest resources in the Soviet Union. There is a vast quantity of timber. It has become the Soviet Union's primary foreign-exchange producing export, producing an export volume worth

2 billion rubles per year. But because production conditions are poor and transport facilities cannot keep pace, since 1985 output and exports have begun to decline, and as a consequence the Soviets are anxious to expand exports. In light of its superior geographic position and convenient transportation, northeastern China can exchange products urgently needed in the Soviet Union for the timber China needs to support economic construction in the northeast and throughout the country. This can also greatly alleviate the exploitation of northeastern forests and allow them to recuperate and multiply, thus protecting our forest resources.

On the other hand, economic construction in northeastern China requires a large quantity of mechanical equipment, high-tension electric lines, steel products, freight conveyances, and other facilities, and it is precisely these products that are the best Soviet exports. In the 1980's the Soviet Union's export strategy stressed manufactured goods, particularly mechanical equipment. And in order to open up the market the Soviets lowered prices—the prices of some mechanical goods are 20 to 40 percent lower than prices for comparable Western goods. In the wake of scientific and technical advances, the technical level and quality of Soviet export goods has risen continuously. Consequently, northeastern China has an opportunity to use its own advantages to correct its own inadequacies—to "exchange light industrial products for heavy industrial products" and enhance its economic strengths. At the same time, there are a large number of established enterprises in northeastern China that urgently need to be rejuvenated and upgraded. Although we can import advanced technological equipment from developed, capitalist Western nations, on the one hand this requires a significant outlay of foreign capital, and on the other hand these nations often place numerous restrictions on us. Moreover, the technological level in China lags 20 to 30 years behind that of Western nations, whereas it lags only 10 to 15 years behind that of the Soviet Union. In addition, the major basic industries in northeastern China consist of a main force of 156 large projects that were built with Soviet aid in the 1950's. Thus, at the same time as we make good use of advanced Western technology, we should strengthen technical cooperation with the Soviet Union and import the more suitable Soviet technology, which conforms more to existing levels of science and technology and to economic development needs in the northeast.

Fourth, developing trade with the Soviet Union will forcefully promote the development of foreign trade in northeastern China.

Trade between northeastern China and the Soviet Union, particularly the development of trade in Heilongjiang and eastern Nei Monggol with Soviet border ports, will not only promote economic development in border and minority regions, it will also open up new foreign trade channels for northeastern China. This will give northeast China access to international markets on the east, south, and north. It will also establish an overall

foreign trade unit in which the North—centered on Manzhouli, Heihe, and Suifenhe—and the South—centered on Dalian—echo each other. This will accelerate the development of foreign trade.

In addition, since the 1970's the Soviet Union has used the Trans-Siberian Railroad to develop freight business on the trans-Eurasian "land bridge," but because eastern development has created a transportation shortage, the Soviet Union also urgently needs China's Northeastern Railroad to participate in this international freight business. As a result, as the northeastern region intensifies renovations and construction on the southern Liaoning harbor complex centered around Dalian, it should also make a great effort to alter the shortage and backward state of rail transportation and to develop a composite freight system. It should make the best use of the two international railroads, as well as developed highways and water transport, to develop this freight business, earn more foreign exchange, and help us to open up to the outside world.¹³

Obviously, northeastern China and the Soviet Union will develop trade and technological exchanges because their product mixes are not the same. The two sides have very few products that compete with each other—each has its own needs, and each has a role to play. This classic "mutually complementary" trade relationship is a rare thing on the international scene, and it is under these extremely advantageous conditions that northeast China can develop trade with the Soviet Union.

III. Adopt Vigorous Measures To Expand Trade With the Soviet Union

Seeing that northeastern China possesses exceptionally advantageous conditions for developing trade with the Soviet Union, we should adopt the following measures to enhance economic strengths and expand that trade.

First, we should develop economic and technical cooperation between this region and other economic regions of China, so as to promote trade with the Soviet Union.

Right now what the Soviet Union needs most to import is light textile products, whereas northeastern China has historically developed heavy industry. Although light industry has developed rapidly in recent years, it is still relatively backward in all regions of the northeast except Liaoning. For example, although in 1982 Heilongjiang ranked 13th among Chinese provinces in terms of the overall value of light industrial output, it ranked only 24th in terms of the percentage of output value garnered from light industry. The backwardness of light industry in the northeast will undoubtedly affect trade development with the Soviet Union, so we must enhance technical cooperation between Liaoning and Heilongjiang, Jilin, and Nei Monggol. Moreover, we must strive to develop technical cooperation with Shanghai and other developed light industrial cities and regions in the south.

It is important to note that the northeast should also use its advantageous position with respect to Soviet trade development to stimulate the development of overall Sino-Soviet trade. Northeastern China is temporarily unable to produce some of the light industrial products that the Soviet Union needs, but some other areas of China can do so. We must actively organize the supply of goods and put the northeast's inherent resource advantages and superiority in heavy industry to good use by vigorously developing "compensation trade" and "barter transactions" with other economic regions of China. We can exchange available goods for the light textile products needed in the Soviet Union, and thus expand exports. This method will certainly enable us to use development in a specific area to promote development throughout China.

Second, we must establish various kinds of export processing bases.

The northeast is rich in products and resources, agriculture and animal husbandry are well-developed, and there are excellent conditions present for developing light textile, food processing, and pharmaceutical industries. We need to work hard to change the raw state of area exports by establishing various kinds of export processing bases. For example, rice, fruit, and aquatic products are plentiful in Liaoning, corn is abundant in Jilin, soybeans and sorghum are prolific in Heilongjiang, and leather, furs, meat, and milk are produced in abundance in the eastern portion of Nei Monggol. The Soviet Union wants to import all of these products. We should build export processing bases in these areas, bring in advanced domestic and foreign technology, and institute primary or finished processing in the areas that produce the raw materials. This will raise the level of productive forces and processing capacity throughout the northeast, gradually perfect the export processing system, ensure that each region achieves production of its own "hot" products, and expand trade with the Soviet Union.

Third, we must accelerate the construction of trading ports for Soviet trade, increase the transferability of commodities, and build an economically developed region.

Given the current status of trade with the Soviet Union, we should expand the scale of construction on ports at Manzhouli, Heihe, Tongjiang, and Suifenhe in order to meet the needs of expanded Sino-Soviet border trade. Manzhouli faces Chita, the capital of Chita Oblast in the Soviet Union, and is connected by rail with the Trans-Siberian Railroad. It has a fairly strong handling capacity—right now it handles a freight volume of over 2.5 million tons per year. Heihe lies opposite Blagoveshchensk, the capital of Amur Oblast in the Soviet Union. It possesses convenient water transport and is a good port city for trade with the Soviet Union. Tongjiang, situated at the confluence of the Heilong Jiang and the Songhua Jiang, looks eastward toward Khabarovsk, the political, economic, and cultural center of the eastern

Soviet Union. Here the water surface is broad, the river channel behaves well, and it has a good utilization value. The developed water transport system gives Tongjiang the expectation that it will become an important port for Sino-Soviet trade. The Zhongdong Railroad will go into use at the end of this century, and Suifenhe will change from an out-of-the-way, small mountain village to a city of international commerce. It can connect with Khabarovsk, Ussuriysk, and Vladivostok in the Soviet Union, and it is an important port for Sino-Soviet trade. Its estimated handling capacity in 1985 was 1 million tons. Consequently, northeastern China should focus on developing and building up these port cities, improving transport conditions, and expanding freight handling capacity. The Soviet Union has expressed the opinion that, in the process of developing border trade between northeastern China and the far-eastern Soviet Union, northeastern China has "real potential" for expanding trade contacts with the Soviet Union, "not only with respect to commodities it has traditionally supplied to the far-eastern Soviet Union, but also in organizing other forms of cooperation, such as professional cooperation based on compensation trade and on raw material consignments for further processing."¹⁴ To this end, the northeast should work hard to import advanced technology and develop industrial production, strive to develop these ports to become China's northern economically developed region, and expand commodity processing and export capacity targeted toward the Soviet market.

Fourth, we must accelerate the pace of enterprise renovation, develop heavy industrial production, and strive to increase exports of mechanical goods to the Soviet Union.

The Soviet Union needs a large quantity of mechanical equipment to develop its eastern region. However, climatic conditions are abominable there—the temperature difference between summer and winter often reaches 100 degrees Celsius—so not only is a large quantity of heat-preserving machinery and equipment necessary, but cold resistant properties in mechanical goods must also be high. Western-made machinery and equipment usually cannot meet these demands. The engineering industry is well developed and there is a solid technological force in northeastern China. Moreover, it is located in the Asian frigid zone, so production conditions and products are suited to the Eastern Soviet climate and environment. Thus, northeastern China should intensify imports of advanced western technology, adapt it to local characteristics and accelerate technological upgrading in enterprises. It should focus on the frigid conditions in the Eastern Soviet region and integrate Chinese and Western technology to gradually expand production of heat-preserving equipment and cold-resistant machinery and equipment. This way, it can make a name for itself and break into the Soviet market. Right now northeastern China possesses enormous potential, and we should give it high-level consideration.

Northeastern China has already made significant progress in establishing trade with the Soviet Union, forging a new road toward expanding foreign trade. As Sino-Soviet economic and trade contacts flourish, the northeast will be able to make breakthrough advances in trade with the Soviet Union.

Footnotes

1. [Soviet Union] "Foreign Trade," No 3, 1986.
2. Ibid.
3. [Soviet Union] "Foreign Trade," No 1, 1987.
4. [Japan] "World Weekly," 26 Aug 1986.
5. Soviet foreign exchange earnings on exports have historically been made in dollars, but imports have come primarily from Western Europe and Japan, paid for with Western European currency and Japanese yen. But after the five-member economic summit in September 1985 the American banks devalued the dollar. Sixty-five percent of Soviet imports from Western Europe were paid for with Western European currency, and 15 percent with Japanese yen. Thus the dollar exchange rate declined and the yen appreciated. The import currency appreciated and the export currency declined, and thus the Soviet Union was hit with an invisible double assault.
6. JINGJI YANJIU CANKAO ZILIAO No 147, 1985.
7. [Soviet Union] "Foreign Trade," No 3, 1986.
8. For details, see my article "The Eastern Soviet Union Is a Potential Labor Market," DONGBEI JINGJI BAO 15 July 1986.
9. [Soviet Union] "Foreign Trade," March 1986.
10. [Japan] "Overseas Markets," 1 April 1985.
11. For details, see my article "Economic Development Strategy on the Soviet Union's Beia [6296 7093] Railroad Line," FAZHAN ZHANLUE BAO 19 August 1986.
12. DONGBEI JINGJI BAO 11 January 1986.
13. For details, see my article "Develop Transport Business On the Eurasian Land Bridge and Promote Economic Development in Northeastern China," DISANCHANYE BAO, 22 July 1986.
14. [Soviet Union] "Foreign Trade," March 1986.

Agreement Signed To Set Up TV-Assembling Plant in Canada

OW0908233088 Beijing XINHUA in English
1117 GMT 9 Aug 88

[Text] Beijing, August 9 (XINHUA)—Today's economic news briefs: TV Plant in Canada

China is to open a color television assembling plant in Canada, according to an agreement signed recently by the Huanan branch of the China Electronics Import and Export Corporation and a Canadian firm.

The plant will produce 100,000 sets of color televisions annually, after it goes into operation on March 15, 1989.

Situation, Problems Absorbing Direct Foreign Investment

40060437 Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 6, 30 Jun 88 pp 45-47

[Excerpts from a lecture given at the University of International Business and Economics by Wang Yongjun 3769 3057 6874, Deputy Director of the Foreign Investment Administration of the Ministry of Foreign Economic Relations and Trade; compiled by Zhu Guangyao 2612 0342 5069, Cai Bing 5591 0365 and Ji Dejiang 4764 1795 3068. Passage in italics as published.]

[Text] [Editor's note: On 29 March of this year, Deputy Director Wang Yongjun [3769 3057 6874] of the Foreign Investment Administration of the Ministry of Foreign Economic Relations and Trade came to our school to lecture, at the invitation of the Department of International Economic Cooperation. In his lecture, he discussed conditions and views with regard to such issues as China's absorption of direct foreign commercial investments, the foreign exchange balance, the investment climate, and enterprise management. We have here extracted for our readers the main points of the lecture, based on the transcript.]

1. Three Stages and One Rise and Fall

Since 1979, direct foreign commercial investments absorbed by China have grown at a basically steady pace. By the end of 1987, the Government of China had approved 10,016 direct foreign commercial investment projects, the negotiated amount of foreign commercial investment was \$23.3 billion, and actual capital input was \$8.35 billion. By now, over 4500 foreign-funded enterprises have already been established.

In over eight years, China's absorption of direct foreign commercial investment has generally gone through three stages:

The first stage, 1979-1983: the state emphasized and augmented legislation which utilized foreign capital, and established foreign capital management organizations.

Most foreign-funded enterprises in this period were in the process of grouping and experimentation. Viewed as a whole, utilization of foreign capital was still in a preparatory stage.

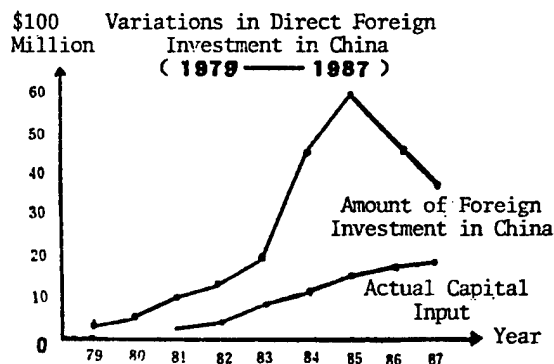
The second stage, 1984-1985: investment in China by foreign enterprises increased very rapidly; the number of foreign-funded enterprises (including offshore oil development) approved in 1985 alone almost equalled the total number of the previous six years. This period can be called the period in which China's use of foreign capital increased relatively quickly.

The third stage, 1986-1987: as the state carried out macroadjustment of the national economy, China's utilization of foreign capital gradually reached the stage of healthy, stable growth.

During these three stages, the amount of foreign commercial investment in China showed a distinct curvilinear variation (see following table and graph):

Variations in Direct Foreign Commercial Investment in China, 1979-1987

	Number of Projects Approved	Negotiated Amount of Investment (in U.S. \$100 Millions)	Amount of Actual Investment (in U.S. \$100 Millions)
First Stage	1,392	63	18
Second Stage	4,929	105	28.5
Third Stage	3,695	65	37
Total	10,016	233	83.5



We can see from the above graph that on the one hand, from 1985 to 1986, the negotiated amount of foreign commercial investment in China showed a rather large rise and fall, while on the other hand the amount of actual capital input showed slow growth. What was the cause of this? Deputy Director Wang Yongjun believes that the sharp decline in foreign commercial investment in 1986 is most closely interrelated with domestic economic adjustment.

In 1984 and 1985, domestic inflation, the loss of macroeconomic control by the central authorities, and the overly rapid start of a number of construction projects

created an economic growth imbalance, thereby influencing the utilization of foreign capital to a certain degree, and spurring a sudden surge of foreign-funded projects. The returns from foreign commercial investment projects were not very high during this period, and of the investment contracts concluded at that time, over 700 projects have yet to be implemented. After 1985, the state adopted a policy of economic austerity, carried out macroadjustment of the national economy, and strictly controlled the growth of capital construction and the consumption fund, thereby allowing a corresponding change to occur in the scale of China's absorption of foreign capital. In 1987, the state began vigorous encouragement of foreign commercial investment in export production projects and advanced technology projects, and reduced investment in nonproductive industries, thereby allowing investment to pick up somewhat. After two years of adjustment, foreign commercial investment in China was tending toward rationality, and favorable changes occurred in the investment structure. In 1986, of the foreign commercial investment projects approved by the state, productive projects accounted for 76 percent, and in 1987, productive projects accounted for 85 percent, changing the former situation in which nonproductive projects exceeded productive projects.

2. Fund Utilization Structure

At present, the direction of fund flow of foreign commercial investment has roughly three special characteristics:

(1) One-third of funds (about \$2.7 billion) is invested in offshore oil development. This includes the Bohai Wan oilfield cooperatively developed by China and the Nippon Oil Co., Ltd.: the Gulf of Tonkin oilfield developed jointly with France's Elf Aquitaine Chine and Total Oil Corporation; and the South China Sea Yingge sea region developed with the U.S. companies Arco and Sante Fe (mining). (2) About one-third of funds (about \$2.5 billion) is invested in the construction of tourist service facilities, such as hotels, guesthouses, and the like. There are at present some in society who feel that using foreign funds to construct tourist facilities is an "outflow of profits". With regard to this, Deputy Director Wang Yongjun believes that construction of these tourist service facilities is necessary, since in order for foreign businessmen to be willing to come to China to invest, there have to be accommodations and recreational facilities which are acceptable to them and which are similar to what they are used to. China's domestic construction fund is tight, and the state cannot provide up to \$10 billion in funds in a short period of time to construct these facilities. Therefore, using foreign funds may, after all, be an effective way of doing this. The problem is that actual demand must be taken into consideration; we cannot blindly build hotels and guesthouses. (3) One-third of funds (about \$3 billion) is invested in industrial production projects.

3. A Great Improvement in the Foreign Exchange Balance Problem

It may be stated that, at present, the foreign exchange balance problem of foreign commercial investment enterprises is no longer the main problem of investment. Through bringing in foreign advanced technology and management experience, as well as through the efforts of Chinese personnel, the management efficiency of the three kinds of partially or wholly foreign-owned enterprises has improved greatly, and enterprise vitality has been strengthened.

The export volume of foreign investment enterprises in China has increased yearly since 1985, showing an upward trend. In 1985, the amount of export-created exchange was \$340 million, by 1986 it had risen to \$680 million, and in 1987 it had reached \$1 billion. At present, 605 export production-type foreign-funded enterprises have been approved by the state, along with 226 advanced technology-type foreign-funded enterprises. These enterprises can enjoy the preferential treatment outlined in the State Council's "Stipulations Concerning the Encouragement of Foreign Commercial Investment".

4. On the Problem of Improving the Investment Climate

Generally speaking, China's investment climate has improved somewhat, and its power of attracting foreign funds is increasing. During the previous period, China primarily adopted tax reduction and profit concession measures toward the three kinds of partially or wholly foreign-owned enterprises in order to encourage foreign commercial investment, but foreign commercial investment still did not leap upward. If we seek the causes for this, we find roughly three: First, China's level of administrative management is low, its administrative efficiency is not high, and its examination and approval procedures for foreign commercial investment are many and diverse; this is currently the crux of the problem of China's utilization of foreign funds. Second, Sino-foreign joint ventures lack operational autonomy; enterprise managers receive too much interference from all quarters, making it difficult for them to exercise their true function, and this has affected the operational efficiency of enterprise. Third, although China has already established relevant laws and regulations relating to foreign economy and foreign investment, there exists a large number of cases of noncompliance with the law, and of authority overriding the law, which have weakened the law's binding force. Additionally, the transparency of China's current economic policies and market is relatively low, and there are a rather large number of unjustified fee collections from joint ventures, making it difficult for foreign businesses to conduct investment feasibility studies, and preventing them from gaining a clear idea of the actual conditions of China's investment climate, thereby obstructing, to a great degree, foreign commercial investment in China.

5. On the Problem of Internal Management of Joint Ventures

At present, everyone says of the three kinds of partially or wholly foreign-owned enterprises that "management by both sides is better than management by the Chinese side, and management by the foreign side is better than management by both sides." This shows that there definitely exists a problem in our management control. The crux of the problem is that the Chinese managers cannot be masters of themselves or of the enterprises; behind the managers there are still bigger "managers", and some managers are fired for failing to follow their leaders' "baton". Additionally, the enforcement of our laws, rules and regulations is also very chaotic, and there is often "a law behind the law". Foreign businessmen often report that the "22 Articles" promulgated by the State Council cannot be implemented, and that the enterprises' internal rules and regulations often exclude or negate them. In order to radically change the chaotic condition of our enterprises' management control, and raise the level of control, we can make a bold breakthrough and turn enterprises over to the direct control of foreign businesses, allowing them to run the enterprises according to their own formulas, and according to international standards. All systems of foreign-funded enterprises should be established in accordance with international practice, and keep up to international standards. This requires that we have correct understanding; we cannot always be afraid of foreigners earning our money, or afraid of a "outflow of profits". We should liberate our thinking, and let foreigners make money; only by first letting foreigners make money can we make money, otherwise no one else will come.

13387

New Policies To Promote Exports *OW1408064388 Beijing XINHUA in English 0142 GMT 14 Aug 88*

[Text] Beijing, August 14 (XINHUA)—China will promote the development of more export-oriented industrial groups in the next 10 years to earn more money for its modernization program.

According to today's CHINA DAILY, special policies are being drawn up to help these future giants grow from the infancy stage, including an overall contract system with the state, raising capital through the issuance of stocks and bonds, and greater autonomy over the use of their financial resources and trading abroad.

Statistics show that of the more than 60 Chinese industrial groups, the 35 biggest turned out a total production value of 19.7 Billion yuan (about 5.2 Billion U.S. Dollars) and earned 380 million U.S. Dollars last year by exporting brand name products.

The government is considering allowing the industrial groups to operate entirely separately from central control and implement the contract systems in its various forms, said the paper, quoting He Guanghui, vice-minister of the State Commission for restructuring the economy.

The conglomerates may also be permitted to get capital from abroad: the decision will be theirs alone if they introduce foreign capital of 30 million U.S. Dollars or less, he said.

The government is already planning to give the conglomerates more powers in their investment on fixed assets. They may be given decision-making powers in investing 30 million yuan or less and the use of 10 million or less in foreign currency.

The industrial groups may also have their own say on their export decisions, and on investing, buying stocks, and setting up factories and branches abroad, he added.

'Most Advanced' Optic Fiber Production Line System in Operation

*HK1308083288 Beijing CHINA DAILY in English
13 Aug 88 p 2*

[By staff reporter Zhang Yuan]

[Text] China's biggest optic fiber production line, imported from Great Britain, was officially put into operation yesterday in Beijing.

The Beijing No 605 Factory, a major maker of quartz and monocrystalline silicon products in the country, spent about 22 million yuan to import the optic fiber production line and test the equipment.

Experts say that the system is the most advanced in the country.

The factory is the country's third optic fiber maker—the others are in Shanghai and Huainan and Anhui Province—and produces about 10,000 kilometres of fiber a year, equal to the combined total of the other two.

Tang Bingwu, an official from the State Council, said at the inauguration ceremony that optic fiber telecommunications in china has an unlimited and bright future.

Modernizing China's telecommunications system is now regarded as an important step toward improving its foreign investment environment.

Many of China's present 53,000 long distance telephone lines still are very backward and need improving, Tang said.

An ordinary telephone line can only be used by 60 people at most. But one optic fiber line can allow thousands to talk at the same time.

The next step will be to improve provincial-level telecommunications by laying more optic fiber lines.

In the past few years, China has imported about 3,000 kilometres of optic fiber and laid 813 kilometres of such lines. But only 20 percent of the lines used domestically-made optic fiber, said Gao Wenming, vice-chief engineer of the factory.

Gao estimated that by 1990 China's annual optic fiber production ability will be 100,000 to 150,000 kilometres.

Though the country's optic fiber industry is just getting on the road with imported advanced technology and equipment, it already is facing severe competition from abroad. Many domestic users will import foreign-made fibers rather than choosing domestically-made ones in the belief that the foreign product is superior and more trustworthy.

Medicine Exports, Ventures Increase

*OW1408013488 Beijing XINHUA in English
0047 GMT 14 Aug 88*

[Text] Beijing, August 14 (XINHUA)—High quality and good after-sales service have helped China increase export of its traditional and modern medicine, according to today's CHINA DAILY.

The China National Pharmaceutical Foreign Trade Corporation (CPIC) is the first nationwide foreign trade and industrial corporation under the state pharmaceutical administration of China. It has expanded its business scope to include bulk imports and exports, formulations, intermediate trade, raw and subsidiary materials, Western and Chinese traditional medicines, medical apparatus and sanitary supplies.

CPIC has also widened its scope to include the arrangement of joint ventures, co-production, processing with foreign-supplied materials and compensation trade.

A CPIC official said that the corporation has also started offering to provide consultancy services and stage exhibitions and technical symposiums.

She said the corporation will organize "Pharm Expo 88", an international exposition on pharmaceuticals and health products and their technologies and equipment, this September in Shenzhen, one of China's four special economic zones. A four-month exhibition on Chinese traditional medicine, drugs and a healthy life will follow in Japan.

Since the establishment of the corporation under its old name in 1981, it has set up business and cooperative relations with hundreds of foreign companies and manufacturers.

Five of the joint venture projects organized by the corporation have been among the most successful Sino-foreign ventures in the process of opening to the outside world.

Writer Argues for Importation of Software Over Exports

40060447 Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 627, Jun 88 p 16-18

[Article by Han Shangxiao 7281 1424 4562: "Shall We Try to Force Things, or Can We Let Them Grow Naturally?—Discussing the Current Stage of Earning Foreign Exchange Through Exports and the Importation of Software"]

[Text] For reasons that are everywhere apparent, in some areas and sectors of China there has been a problem whereby blind importing and excessive repeated importation of an inferior grade have led to unnecessary economic losses for China. In those circumstances the state strengthened its overall control of import commerce, and at the same time, placed earning foreign exchange by exports at a high priority level. But it is worthwhile pointing out that this might be a case of one tendency covering up another. By that I mean that we are emphasizing the current stage of earning foreign exchange through exports while neglecting efforts at importing the software that would create the foundation for that activity. In reality, as we are controlling blind importation, we are also controlling the importation of software, and is this not "throwing the baby out with the bath water?" Today, we are looking more soberly at this, and if we undertake a serious reappraisal of the current stage whereby importing software is "cold" and earning foreign exchange through imports is "hot," we are certain to discover the value of this reappraisal and the part it can play in stimulating the revitalization of China's economic trade.

Strong development of earning foreign exchange through exports abroad is one measure by which to resolve our lack of foreign exchange. That being so, what gives one pause is that at present the level of our science and technology is low, our productive forces are lagging, and our commodity economy has not yet developed. In such a situation, it is natural that low grade products will be in large proportion among exports, and in fact, in 1986 the value of our low grade product exports was 43.7 percent of the total values of exports, higher than the international average. There are probably three contributing factors: first, we have a large population and per capita resources are relatively inadequate. We must face the facts that our arable land is one-third that per capita throughout the world; our forested area is 17 percent that per capita throughout the world; our natural resources are 30 percent of those per capita throughout the world, so to export resources that are this limited would be to kill the goose that lays the golden egg. Second, long-term volume export of low grade products and roughly processed manufactured goods is of no benefit to making the

most of China's full supply of labor and gives one a feeling of "taking care of one thing but ignoring a much bigger thing." Third, in international trade the prices of low grade products and roughly processed manufactured goods tend to be lower, which is of no use in fully utilizing our limited resources, and also causes people to seek the quick profit and to look for petty advantages while suffering great losses. Earning foreign exchange and making profits are two different concepts, and they cannot be confused as one. The former is to obtain "hard currency," not necessarily while making a profit; making a profit means obtaining profit, and is not necessarily accomplished through the gaining of "hard currency." Modern trade works under the premise of reciprocity. Earning foreign exchange should not be the goal; rather, the advancement of economic revitalization and development, and the consequent attainment of a wealthier people and a stronger state, should be the goals. China's current commodity structures for earning foreign exchange through exports abroad are primarily of three types: low grade products, textiles, and electromechanical products. Low grade exports is a lower, more primitive mode for earning foreign exchange, while the exporting of finished goods (and especially mechanical products with high added value) is a higher level and more modern way of earning foreign exchange and profits. When comparing the foreign exchange earned by these three major categories with the enormous amount of capital and foreign exchange needed by China's drive toward modernization, it is woefully inadequate, and it will be hard to effect an economic upswing and attain the level of "comfortably well-off." It would appear that we cannot consider that to be the fundamental means by which to realize the goals we have just described. Our excessive attention to and large scale involvement in earning foreign exchange through exports, while neglecting and giving "the cold shoulder" to the importance of software imports would appear to be choosing trifles over the essential. It is only with finished products, and especially large volume export of high value-added products, that we will fundamentally strengthen our capacity for earning foreign exchange and profit volumes. The export of large quantities of finished goods in turn relies upon advanced science and technology, while advanced science and technology is not something we are going to get just by closing our doors and pounding our brains. The information age is already upon us, and nowhere in the world is there even one country that can completely rely upon its own intelligence, or can rely solely upon its own efforts to grow and develop. That is why the importation of software has become a "necessity."

The major countries of the modern world earning foreign exchange from exports may be generally divided into three types. One is the country that exports finished products and where its advanced science and technology serves as its reserve strength, as for example Japan and West Germany. Another is where their abundant natural resources are their reserve strength for earning foreign exchange, as for example, the primary oil producing countries like Saudi Arabia and Kuwait. The third kind

is a mixture, one that has both advanced science and technology and also abundant natural resources, as for example Canada and Australia. The third kind is more the ideal. Frankly speaking, we are deficient in both natural resources and advanced science and technology and are in an inferior position regarding each. Viewed from the actual situation regarding population density and per capita natural resources, China is developing toward the first category (i.e., highly industrialized), and that is feasible and quite reasonable. In that case, let us look at where Japan has been in hope that we might learn something of use.

Beginning in the 1950s, Japan began full scale importation of western science and technology (primarily from the United States and Western Europe), as well as placing an emphasis on domestic skilled personnel and education. When Japan had been defeated in the Second World War, it was on the verge of economic collapse. There were only two routes Japan could take—survive or perish. Japan took the first. To invigorate their economy, they pooled nearly all their limited capital, not hesitating to borrow and be in debt for large amounts. By all means and sparing no effort, they imported and copied advanced western science and technology. And in less than 20 years time they had absorbed and assimilated the results of 50 years of research and technological development by the western countries, until they have gradually eclipsed the strong economically developed countries of the world. Especially in the areas of electronics, electrical equipment, machinery, and vehicle manufacture, they have become a strong new force, have attracted the envy of the world, and have nearly monopolized the majority of markets in the world. It is worth noting that Japan did its importing purposefully and selectively, choosing to concentrate its imports on major industries so that they might take root with one effort. On the one hand, as they used small quantities of foreign exchange to import a portion of their hardware machinery (primarily, complete sets of equipment), they also concentrated large quantities of foreign exchange on software (primarily, patents and technological secrets) and on the development and importation by component manufacturing enterprise groups of a particular industry, which constituted a strong integral whole. They gradually got to the point where everything was domestically produced, which allowed the entire industry to step simultaneously into the highest levels of an industrial structure at a favorable point in the great international circle. They borrowed the crystallization of western knowledge, diligently studied, innovated, applied a great deal of Western high level technology to civilian products, and used all this to create a "perceptible" economic value. The path taken by Japan was certainly not an isolated straight line, but rather was formed and restricted by complex and particular multiple paths and factors. The Japanese are the same as the Germans in having a very strong sense of growth, consciousness of competition, and desire to win. From their youth they receive that kind of upbringing; if you want to live, you must engage, struggle, and compete. In contrast, it would

appear that we have never truly instilled this sense of crisis, but rather are ingrained with a self-satisfied, self-sufficient, and smug attitude. From a historical perspective, for a people to flourish requires a sense of growth and a thorough revamping of perceived values. In China, our sense of growth is weak and passive, as our traditional culture and its economic perspective only requires of people that they go on living. If our people are to prosper, we must throw off our old ways of looking at things. We have not been able to extricate ourselves from a conservation and indulgence in stressing the quintessence of Chinese culture nor from our self-intoxication with a long-standing history and national culture. How, then, can we enrich our people? We cannot tolerate a neglect of skilled personnel, education, and the importation of software. Can we bring that enrichment by relying on the current stage of earning foreign exchange through exports? What is the basis upon which we base that policy of our current stage? Is it new technology, new materials, and new techniques, or will it be the selling off of our limited resources? It is our belief that if we are to bring China's economic growth into a favorable international circle, the following points should be considered.

1. Gather our foreign exchange to manage the import of software, including increasing the proportion of foreign exchange earned in this current stage. There are many sources for capital: trade income and non-trade income, including tourism, projects contracted with foreign interests, and the export of labor and technology; shifts of income, including remittances from overseas Chinese; use of foreign investments, including government loans, joint ventures, and debts.

2. After bringing in software, we must stress its absorption and assimilation and the rapid adjustment of export commodity structures to allow low grade products to quickly become finished goods; in the process of absorption and assimilation, we must work toward making the technology Chinese.

3. We must use the advantage of a full labor force, and on the basis of product manufacture, institute cyclical production putting both ends abroad (that is, import software and raw materials, then process into finished products before exporting to earn foreign exchange).

4. We must restructure domestic industrial structure to intensify competitiveness among enterprises, to survive through competition, and to seek growth.

5. To further expand the production and export of finished products (especially high value-added mechanical products), as we bring in software, we should also import resources.

The 1986 value of imported software and sets of equipment was only 12.8 percent of total import values. Because importing complete sets of equipment was expensive, the proportion of that of software could not

have been great. The unreasonable nature of this example conveniently shows the degree to which we have failed to respect the importation of software. Certainly, we should control and be selective in our importation of software, and we should consider the relative stages when it comes to the adjustment and development of industrial structures, for some things must precede others, and some things must have greater weight than others. Japan's stages of growth and emphasis on stages can provide perspective:

The 1950s: machinery, foodstuffs.

The 1960s: chemical engineering, metallurgy.

The 1970s: vehicles, electronics (household appliances).

The 1980s: high technology, microelectronics, computers, bioengineering.

Our own stages of development are worth looking at. During the 1960s, we developed high technology, as for example the atomic and hydrogen bombs. There were leaps and bounds in our economy, but uncoordinated curves. Our high technology moved forward, but because China is still a developing nation, the level of science and technology was generally lagging throughout the country. If we simply stress the bringing in of software while neglecting the importance of skilled personnel and education, then the importation of software will itself become divorced from its roots. As we import software, we must develop our own technology, but importing is still more important than our own efforts at development, and it is even more concerned with economic results. If we want to be even faster, if we want to accomplish more, if we want to be wiser, then why not go ahead? For example, in the early stages, if we blindly bring in large quantities of things we should not, there is no advance from what we have brought in, and from an overall perspective we will have erred; if we go about madly earning foreign exchange from exports, then that would lead to a wasteful run-off, for to export a large quantity of things we should not, there will be no outlet for the things we should export. In accordance with the foregoing analysis, putting all our efforts into earning foreign exchange through exports as we currently are is to ruin things by too much effort. If we are to export in quantity to earn foreign exchange and to reap profits, we should first of all bring in software, which after absorption and assimilation will improve the level of our science and technology, the manufacturing industry will naturally follow along. Conversely, large scale exports of manufactured goods will greatly stimulate earning foreign exchange through exports and the gaining of profit. Only in this way can we get to the bottom of the problem.

Fujian Vice-Governor on Improved Investment Climate

40060395a Beijing GUOJI SHANGBAO in Chinese
23 Jun 88 p 1

[Article by reporter Li Hongmei 2621 4767 2734: "Total Output Value of Fujian's Sino-Foreign Joint Ventures Accounts for 12.5 Percent of the Province's GVIAO: Vice-Governor Chen Mingyi Said That Fujian's Investment Climate Has Clearly Improved."]

[Text] On 21 June, at a forum on Sino-U.S. industries, trade, and development, Chen Mingyi [7115 0682 5030], vice-governor of Fujian, while briefing a group of U.S. representatives on Fujian's utilization of foreign funds, said, "through the end of first quarter of 1988, Fujian has signed 1,400 contracts which absorb foreign funds. They are worth a total of \$1.4 billion. Fujian has also authorized the operation of 1,140 foreign funded enterprises, 600 of which have already gone into production and have been generating some economic benefits. In the first quarter of this year, the total output value of Fujian's Sino-foreign joint ventures made up 12.5 percent of the province's GVIAO, and they have earned \$100 million in foreign exchange.

Chen Mingyi said, throughout the 9 years since our opening to the outside world, Fujian has dedicated itself to improving the investment climate. Investments in infrastructure alone have topped 4.6 billion yuan. Today, Fujian is able to guarantee ample electricity. It has added new ports and facilities to augment the freight handling capacity, and has established a fleet of 148 oceangoing liners and freighters. The freighters have a total capacity of 190,000 tons. Overseas transportation has been improved substantially. Xiamen has also established its own airline and has opened 16 international and domestic routes. Fuzhou's airport has opened 11 international and domestic routes to serve frequent travellers. As for communications, new program-control telephone exchange systems have been installed in Xiamen, Fuzhou, Changzhou, Quanzhou, and Jinjiang, and there are direct telephone lines to the U.S. and countries in Western Europe and Asia, as well as to more than 90 cities within the country. These conditions facilitate foreign merchants who have brought their investments to Fujian. Furthermore, Fujian guarantees that foreign funded enterprises will be administered according to international practices. Foreign-funded enterprises are favored with low taxation and low fees, and the province offers quality service and efficient handling and other preferential treatment to joint-venture enterprises.

With regard to U.S. investments in Fujian, Chen Mingyi said that among the more than 600 foreign-funded enterprises, only 23 are U.S. companies. This shows that the Americans do not know Fujian well enough yet. He hopes that the meeting will foster better understanding. Chen said that on 12 July, Fujian will host a trade session in Hong Kong to announce new projects which

utilize foreign funds, and on 8 September, Xiamen will host a trade talk on foreign investment and trade, and it is hoped that many U.S. businessmen will attend.

12986

Guangdong Improves Foreign Cooperation

HK0408125788 Beijing CEI Database
in English 4 Aug 88

[Text] Guangzhou (CEI)—Guangdong Province has witnessed a rapid development in economic and technical cooperations with foreign countries and regions this year.

In the first six months of this year, the province's utilization of foreign investment totalled 803 million U.S. dollars, 85 percent more than the same period of last year.

The wholly foreign-owned enterprises, joint ventures and contractual businesses in the province exported 470 million U.S. dollars of goods in the first six and half months of this year, 260 million U.S. dollars more than the same period last year.

Processing business with supplied samples, materials and designs and compensation trade also expanded. Preliminary statistics show that in the first half this year the processing and assembly industries earned 176 million U.S. dollars of foreign exchange, while export volume of compensation trade was 3 times more than the same period of last year.

Specialized industrial areas have been formed in some places, including "toy city" in Dongguan and "electronics city" in Fanyu.

Export of technologies also started in the province. At the business and trade talks held in Hong Kong last March, the province had signed contracts of 5.4 million U.S. dollars out of 213 export items. Among which, export of technology and technological products amounted to 4.1 million U.S. dollars, equalling to 107 percent of the total technology exports from 1980 to 1987.

Inner Mongolia Exports

SK1208040088 Hohhot Inner Mongolia Regional
Service in Mandarin 1030 GMT 11 Aug 88

[Excerpt] By the end of July, the volume of foreign export trade of Inner Mongolia had reached \$177.11 million, amounting to 91.55 percent of the annual target, and showing a 39.9 percent growth over the corresponding period of last year.

Shandong Takes New Steps To Hasten Development of External Economy

40060345b Beijing GUOJI SHANGBAO in Chinese
17 May 88 p 1

[Article by Cao Shoujiang 2580 1108 3068: "Governor Jiang Chunyun Issued a News Release in Beijing Announcing that Shandong Will Adopt New Measures To Accelerate Development of an Externally Oriented Economy—Export Processing Districts Will Be Established in Eight Cities"]

[Text] On 16 May the government of Shandong held a news conference in Beijing to discuss opening the Shandong Peninsula to the outside world. Shandong's Governor Jiang Chunyun [1203 2504 0061] announced state-approved provisions to make Shandong increasingly more accessible. He also reported on Shandong's improved investment climate and announced a series of preferential policies and measures to expand economic cooperation between China and the outside world.

The new measures announced include the following: certain provisions for Shandong to develop an export-oriented economy, certain provisions pertaining to the establishment of export processing districts in Shandong, certain policy stipulations to open up banking in Shandong, trial methods of importing materials to Shandong for export processing, and several suggestions for utilizing foreign funding to renovate older enterprises.

Governor Jiang said the government has recently approved a plan to establish a Shandong Peninsula Open Economic Zone, to encompass the seven cities of Qingdao, Yantai, Weihai, Weifang, Zibo, Rizhao, and Laizhou, and 44 counties (municipalities or districts). It will cover 50,000 square kilometers in area, contain a population of 26 million people, and encompass approximately one-third of the province. The number of open ports will be increased to six: Qingdao, Yantai, Weihai, Longkou, Shijiusuo, and Lanshantou.

Governor Jiang pointed out that the central government has formulated a series of policies to make Shandong more accessible. At the same time, it has also given the Shandong government a great deal of authority. We must exercise this authority well, make active and sufficient use of the government's policies, and expand our achievements. To this end, the Shandong provincial government will focus on the following efforts:

1. To the greatest degree possible, Shandong will expand authority to examine issues and grant approval, and it will pass this authority on to the lower levels. Enterprises will be given the authority to arrange processing and assembly of provided materials, and the power of examination and approval will be passed on to the county level. Enterprises will also be authorized to process and export purchased materials. The enterprise's supervisory department will examine and approve the use of foreign capital to renovate older enterprises. The authority to

approve Sino-foreign joint enterprises, Sino-foreign contractual joint enterprises, and wholly foreign-owned enterprises, as well as to approve contracts for foreign cooperation in engineering and services, will go to the cities.

2. Shandong will institute tax reduction or remission policies. Tax reduction or remission policies will be instituted for processing and assembling provided materials, for processing and exporting purchased materials, for projects utilizing foreign capital, for projects to import technology, and for enterprises in which there is foreign commercial investment—each according to its different circumstances.

3. Shandong will guarantee lawful foreign commercial rights and interests. Supplies of water, electricity, fuel, and so forth necessary for production and operations will be guaranteed for enterprises in which there is foreign commercial investment. Housing, transportation, correspondence, medical services, and entertainment issues for foreign investors will be resolved on a priority basis. Indiscriminate apportionment will be strictly forbidden in enterprises in which there is foreign commercial investment. Legal income that a foreign business earns may be freely remitted abroad.

4. Shandong will actively improve its investment climate. In the open economic zone, deregulated real estate markets and financial markets will permit foreign financial organizations to establish branch organizations or set up Sino-foreign cooperative banks. Cities in the open economic zone will institute foreign affairs organizations to handle official business and simplify procedures for foreign merchants to enter and leave the country and to handle their affairs. Ordinary matters should be handled as they come up, and important matters should be handled within 10 days.

When he discussed export processing zones, Governor Jiang said that Shandong has already decided to establish export processing districts in eight cities, as follows: Qingdao, Yantai, Weihai, Weifang, Zibo, Longkou, Rizhao, and Jinan. Any domestic or foreign company, enterprise, or individual can, in compliance with the overall plan, set up an enterprise, manage real estate, or establish a permanent representative organization in the processing district.

When he discussed the relationship between open economic zones and regulated economic zones, and between Shandong and other provinces, Jiang said that Shandong is opening up in a multilevel, multidirectional fashion—the process is moving gradually inland from the coast and spurring deregulation in the hinterland. As it develops its externally oriented economy, Shandong cannot proceed without the support and help of inland provinces. We are willing to enhance horizontal associations with other provinces so that Shandong, the hinterland, and all the northwestern provinces can perform a "Yellow River Cantata" for economic development.

Digital Telephone Venture Launched in Shanghai
*HK1108112788 Beijing CEI Database
in English 11 Aug 88*

[Text] Beijing (CEI)—A digital telephone equipment joint venture was launched in Shanghai on August 10.

The 15-year contract, calling for a registered capital of 4 million U.S. dollars, was signed by CITIC Technology Inc., factory 520 under the Chinese Ministry of Post and Telecommunications, GEC-Plessey Telecommunication (GPT) Ltd. OF Britain and Lityan Development Private Ltd of Singapore.

Under the contract, GPT will transfer the design, manufacturing and maintenance technology of the ISDX digital stored program control systems. It will also train Chinese engineers to produce the system independently.

The venture plans to produce 100,000 lines a year for sale on both domestic and international markets.

The Chinese and British sides had agreed to establish a service center for the isdx digital systems here during the visit of Britain's Queen Elizabeth to China in 1986.

ECONOMIC ZONES

Discussion of Socialist Market Economy for Hainan

*40060415 Chongqing GAIGE [REFORM] in Chinese
No 3, 10 May 88 pp 74-78*

[Article by Shen Liren 3088 4539 0086: "A Tentative Model for Hainan—a Socialist Market Economy"]

[Text] When discussing Hainan's economic development strategy, one tentative plan for economic system reform is implementation of a "socialist market economy". This tentative plan is aimed at open coastal regions and special economic zones, and also provides inspiration for reform of other regions. It has provided a new train of thought, and merits further exploration.

The Immense Impetus Given Reform by Opening

The central authorities' decision to make Hainan a province and to set up China's biggest special economic zone there was an important strategic decision. Hainan's development depends on opening, and also depends on reform. The relationship between the three is that development is promoted by opening, and protected by reform. In Hainan's opening there exists a sharp disparity between the low starting point and high targets. Extraordinary methods are needed to achieve extraordinary economic growth. Aside from providing more open, more special, and more preferential policies, this depends primarily on building an entirely new economic system, different from both the traditional model and

those of other regions. Of course, if the system really can effectively liberate market forces and develop a commodity economy, then its degree of influence and application will under no circumstances be limited to Hainan. After all, this is at least much closer and much more intimately related than drawing on the experience of other countries.

Not only is Hainan's old system, like China as a whole, part of a rigid model which excludes commodity relations and market mechanism, but also, because of its lack of an economic base, its typicalness is all the more conspicuous compared with most regions, and its progress in reform has been relatively sluggish in recent years. At present, thorough implementation of opening requires thorough reform. The impetus given reform by opening is shown in the following: (1) the meaning of "opening" is internationalization of the national economy, i.e., gradual participation in the division of labor, competition, and cycles of the international market. This requires adopting the current regulations of the international market, and these are incompatible with the traditional system. The system must be thoroughly remolded—in particular, enterprise must have adequate vigor—before it can assume a place in the international market. (2) Developing Hainan will be based primarily on utilization of foreign funds, and requires creation of a favorable investment climate. The economic system is an intangible aspect of the investment climate which is indispensable in assessing that climate, and to a great extent indicates the attraction for foreign capital and foreign technology. (3) Utilizing foreign capital and bringing in technology on a large scale, a number of fairly advanced enterprises financed by foreign capital are created, and these are managed according to modern methods. This requires a perfected market system and a sound market mechanism, without which foreign technology and capital could not be brought in and used, and it would be difficult for them to play their full role. These requirements will actually also be made sooner or later of coastal open cities and open regions whose new strategy is the development of export-oriented economics, as well as large- and medium-sized inland cities brought into the overall pattern of opening up to the outside.

Based upon the above-stated requirements, as Hainan absorbs the interior region's reform experience, it will by no means simply follow in the interior region's footsteps. Another reason is that this demands great urgency, and cannot be done slowly; Hainan must switch to the new system as soon as possible. Therefore, among many tentative plans, one plan is to adopt the model of a "socialist market economy". This has a double significance. On the one hand, adhering to socialism reflects the commonality of Hainan and China as a whole. On the other hand, upholding the market economy reflects the special characteristics which distinguish Hainan from the interior. The latter is a further advance beyond the "market regulation as basis" of Shenzhen and other special economic zones. Hainan is a very small province, and is also isolated by the sea, so that bold reform may be

implemented with limited risks. As a special economic zone, Hainan bears the important responsibility of serving as pathfinder for the interior and for China as a whole.

The Basic Framework of "Socialist Market Economy"

Generally speaking, the economic movement mechanism of this model is also "the state regulates the market, and the market guides enterprise". However, there is developmental exploration at all three levels—enterprise, market, and state—in line with the need for thorough reform. Its basic framework is as follows.

1. Diversified Microfoundation

The microfoundation of the economic system is its ownership structure, which determines the mechanism and method of economic movement. The staple of the traditional system was increasingly unitary public ownership, especially state-owned and operated enterprises, and there was no separation between the responsibilities of government and enterprise, or between ownership and management; directive-type plan models were implemented, causing a considerable decrease in operational efficiency, and becoming the root of various abuses under the old system. The opening of Hainan will be accompanied by the emergence of four trends in Hainan's ownership structure: (1) the widespread existence of foreign-funded enterprises, extending to almost all sectors, such as industry, agriculture, commerce, services, and tourism; (2) considerable growth of individual economy and private economy, with a higher proportion of these in the interior; (3) relatively fewer whole people-owned enterprises, which will not occupy a principal position in some sectors; (4) each of the various mixed ownership systems will have its unique strengths, and the forms of these systems will become more diverse day by day. Therefore, although it is still a diversified ownership system with various economic components existing side by side, it is not necessary to reemphasize taking public ownership as the principal part. This is suited to the imbalance and multi-level form of local productivity growth, and can bring into play every internal and external positive factor, and form a vast panorama of free competition, allowing the various economic components to show off their strengths and make up for their shortcomings, with each component playing its own role.

Will the socialist character of the whole economy be affected by not emphasizing taking public ownership as the principal part? Certainly not. Of course, the so-called "principal part" or "non-principal part" can be understood either in terms of a quantitative amount or in terms of the size of the role. In the case of the former, emphasizing taking public ownership as the principal part inevitably affects the existence and development of other economic components; in the case of the latter, as long as the state controls the main lifelines of the national economy and the people's livelihood (such as

railroads, post and telecommunications, banks, and certain parts of the infrastructure) it can control the overall situation. In some sectors, including agriculture and retail commerce, non-public ownership has accounted for a fairly large proportion all along; but, aside from wholly foreign-owned enterprises, all Chinese-foreign joint ventures and cooperative ventures receive state and local investment. It is apparent that this kind of diversified microfoundation is fundamentally different from capitalism, and has not departed from socialism

2. The Shareholding System of Enterprise Organization

In their interconnection with the ownership structure, the enterprise system and its organizational form will also change constantly. Among the original state-run enterprises, most of the small enterprises and a minority of the large and medium-sized enterprises will undergo a reorganization of their ownership and management, through such methods as charter, lease, or sale, but these will not account for a large proportion of the entire economic system. The large proportion will be new and expanded enterprises, for the most part Sino-foreign joint ventures or cooperative ventures and joint or cooperative ventures between Hainan and other regions, generally taking the form of a shareholding system. This will be formed because of the diversity of investment sources and the mutual infiltration of various ownership systems, becoming various shareholding enterprises, enterprise colonies, and groups of enterprises. Moreover, there are various forms of shareholding systems, such as government asset management institutions, investment fund institutions, various kinds of financial institutions, and social fund institutions, as well as individual residents, all of which may hold or participate in shares, allowing appropriate dispersal or circulation of share rights. All of these enterprises are on an equal footing, and the government treats them all equally without discrimination. At a time when endless debate over shareholding systems goes on in the interior, it appears that it is the only viable alternative in Hainan and other special economic zones.

There is no need to continue to pursue, in parallel with the shareholding system, contract management or other responsibility systems with regard to whole people-owned enterprises. As the various types of enterprises increase, it is naturally possible to draw on the experience of foreign-funded enterprises in pursuing various kinds of organizational forms accustomed to in the present age, follow a rational line in achieving independent management, assuming sole responsibility for profits and losses, achieving self-accumulation and self-development, and becoming independent commodity production managers. In this kind of competitive environment, there is no "common pot" to eat out of. The overwhelming majority of enterprises will be able to call forth all their vigor; otherwise, they will be eliminated. The new generation of enterprises will grow like spring bamboo after the rain.

3. The Open Market System

In vitalizing enterprise and vitalizing the economy, it is very important to establish and perfect a market system, giving full play to the role of market mechanism in assessing, stimulating, restraining, optimizing, and regulating economic movement. At present, the market system is fragmentary, and market organization is incomplete, and they rely solely on administrative measures to "organize the market" and "establish the market", so that they cannot fulfill the above-stated need. However, with opening, there will be a constant increase of enterprises importing from abroad and cooperating with units in the interior, and capital, technology, and talented personnel will constantly flow in, not only eagerly awaiting market development, but also forcefully promoting it. As long as action is adroitly guided according to circumstances, and no artificially-imposed obstacles are set up, the process may gradually accelerate. This market system is open; that is to say, it must be inter-linked with the international market. It must have whatever markets exist internationally, and however these international markets move, the corresponding domestic markets must move the same way. Under open conditions, the market system will develop relatively soundly, and will not become lopsided. It can be predicted that not only will the consumer goods market be completely opened, but will also gradually form markets for such production factors as capital goods, banking, foreign exchange, technology, information, consulting, talented personnel, labor force, real estate, and the like. With regard to the money market, to take one example, there is both a short-term and a long-term market; in the labor force market there is both the workers' freedom to choose their employment and the hiring units' recruitment of the best applicants. Enterprises rich in vitality need a perfect market system in order to be in their element; at the same time, as the principal part of the market, enterprises are also the effective force providing impetus for the development and ripening of the market system

In order to perfect the market system and make market mechanism sound, it is necessary to gradually decontrol prices, including commodity prices and such production factor prices as interest, wages, rents, adjusted exchange rate, land use fees, and the like. Naturally, this requires active creation of conditions in order to maintain relative stability in adjusted prices. The key lies in making an effort to increase economic returns in the course of promoting a moderate amount of economic growth, through a complete set of reforms, and, on the basis of increasing labor productivity and lowering costs, simultaneously increasing fiscal revenue, enterprise income, and staff and workers' income, and increasing the endurance of government, enterprises, and individuals. Guangdong Province and several special economic zones have provided examples. Hainan can do this, as can other regions after preparation. After overcoming the price barrier, other reforms are easy to enact.

4. Guidance Macrocontrol

Implementing the above-stated reforms does not by any means imply that the government can discard or weaken macroeconomic regulation and control. On the contrary, it is after abolishing direct government controls on enterprise that conditions are favorable for gradually establishing the necessary indirect controls; i.e., guide enterprise through market regulation, and work hard to make micro-action coincide with macro-intentions. This sort of macrocontrol is in the nature of guidance, and relies primarily on economic measures, economic leverage, and economic policies, such as the following: (1) Plans and programs. In line with the selected economic development strategy, guidance-type medium-to-long-term plans, industry programs, regional programs, and city programs are drawn up, providing a basis, definite direction, and definite goals for macrocontrol. (2) Public finance and tax revenue. This is an important tool for national revenue distribution and redistribution, and, through stipulations pertaining to a differentiated tax system, tax items, tax rates, and tax reduction and exemption, guides investment and adjusts the industrial structure. (3) Banking and currency. In coordination with the fiscal budget, funds are collected and distributed through bank deposits and loans and the money market, and the volume of currency issuance and currency circulation is properly controlled, realizing a basic balance between social demand and supply in terms of both total volume and composition.

At the same time that economic measures are applied, attention must also be paid to applying legal measures and the necessary administrative measures. Hainan, as a special economic zone, emphasizes dealing with foreign commerce, which requires legislative and judicial perfection and proper administrative management. Actually, all regions should, and can, fulfill this demand when dealing with domestic commerce.

Theoretical Consideration of Model Comparison

The reforms in the above basic framework are evident when it is compared with the traditional model. The question is, what are the differences and similarities between this and the reform models of the whole nation, and of ordinary regions? Can we hold that they are in accord with regard to major aspects, and can be linked with the interior, while there are clearly some differences with respect to the minor aspects? (1) While maintaining diversified ownership and diversified economic components, the model does not stress the primacy of public ownership, but neither does it reject the primary position and primary role of public ownership, particularly whole people ownership economy, in the important sectors. (2) In dealing with ownership by the whole people, after adopting diversified operational forms, such as charter, lease, sale, and the like, the model stresses the implementation of a shareholding system; the final goal, except with regard to assets, is basically identical with that of foreign-funded enterprises and the like with respect to

the operational mechanism: it is independent commodity production managers. (3) The model calls for setting up multidirectional, unified production factor markets as soon as possible, including a talented personnel market, foreign exchange market, land use rights market and the like, removing all obstacles to market development, and making a perfect market system the pivot of a complete set of reforms. (4) The model calls for decontrol of commodity prices and production factor prices, and creating conditions favorable for giving full play to the role of market mechanism. (5) With regard to macromanagement, the model calls for complete implementation of indirect control, putting an end to all government interference in enterprise, and increased utilization of, and reliance on, economic measures. (6) Corresponding with this, all other areas must implement reform at the same pace, in the same direction, and to the same degree as this, allowing a market mechanism based on full competition to infiltrate all areas of the national economy.

The sum of these is known as a "socialist market economy". There are several theoretical questions regarding this proposition which must be considered:

What is the relationship between a "socialist market economy" and a socialist commodity economy? Naturally, the market and commodities are inseparable. There was a time when market economy and commodity economy were set against each other, and it was maintained that the former was a completely laissez-faire free economy, capitalist in nature, and distinguished in principle from a planned commodity economy. Given these specific implications, this may be all right, but it is insufficiently scientific. Later, many comrades believed that a market economy was identical with a commodity economy. It now appears that, as economic forms, "market economy" and "commodity economy" are basically synonymous; if there is a difference, it is that the emphasis of the market economy is on its movement mechanism and movement method. Therefore, on the premise that socialist economy is a planned commodity, to represent its movement mechanism and movement method as a "socialist market economy" is a reflection of socialist commodity economy on the system model.

Is there any distinction between a "socialist market economy" and a capitalist market economy? Yes. Simply stated, this distinction is merely a difference in the macrofoundation. The former is a public ownership system, and is the main part within the scope of the whole nation, while the latter is a private ownership system. In the initial stage of socialism, because the level of productive force was low, and development was unbalanced, the ownership structure differed greatly in different sectors and different regions. Now, just as the report of the 13th National Party Congress stated, "other economic components have not developed too much, and are still far from sufficient"; later, as the productive force grows, rather than becoming increasingly unified, they will probably become more diversified. As far as

movement mechanism and operation mechanism are concerned, it may be held that both are socialized big production and both are commodity economies, and in this respect there is no essential difference between socialism and capitalism. Naturally, in the initial stage of socialism, commodity economy was still undeveloped, and was not entirely identical with developed capitalism with regard to level; at the same time, it did not reject the restrictions and influences of the different historical backgrounds and cultural characteristics among various countries on economic development.

Where does "socialist market economy" put planning? The discussion concerning "planning and market" is of long standing; after firmly believing in a "planned commodity economy", there are still different interpretations. Understanding and re-understanding of this should be deepened in practice. It now appears that socialist economy is above all a commodity economy, and only after that a planned commodity economy; "planned commodity economy" cannot be inverted into "commodity planned economy". In particular, planned economy or planned regulation cannot be understood as "planning as the main part" or "directed planning as the main part". In the relationship between planning and market, after eliminating the "board-piece theory", we cannot stop at the "infiltration theory" or the "combination theory", but rather should further clarify the "market primacy theory", i.e., that as a movement mechanism, the main part is the market mechanism, not the planning mechanism. The market is dominant and planning is recessive. This is not to negate planning, but we must switch to making guided planning the basis, and the role of this is, therefore, to "conscientiously maintain coordinated development of the national economy in society as a whole", based on price laws. Therefore, "socialist market economy" can also be described as "an economic system model which, based on a macrofoundation or planning guidance, applies the market mechanism to implement coordination."

Is a "socialist market economy" the same as market socialism? "Market socialism" is also an imported item; in discussions over a long period of time, its connotations have not been determined, and there are still many objections, so that it is inadvisable to adopt it. However, "socialist market economy" is indeed an integration of "socialism" and "market economy", and, under the socialist economic system, introduces market mechanism into economic movement, fully utilizing the market mechanism to develop a commodity economy, and trying to achieve increased efficiency of economic movement and rationalization of resource disposition. This is completely different from the traditional model, which excludes commodity relations, price laws, and market mechanism.

Full Preparation, Overall Change of Course, and Gradual Perfection

The economic system reform and reorganization implemented by Hainan, in terms of its rate of progress, has

proceeded from the urgency of developing an export-oriented economy, and cannot adopt a strategy of proceeding at half-step, like the interior. This is not only in view of the fact that a dual system can bring friction and internal waste, which may result in deadlock, but also because on an island, even if the starting point is low, it is still possible to strive to achieve the goal in a single step. However, it is necessary to actively create various conditions. Consequently, there are still three stages of implementation:

1. The first is the stage of full preparation, and the specific tasks involved in this stage are as follows:

- (1) Formulating economic development strategy and mid- to long-range planning, and clarifying the direction, targets, focal points, and rough plan of economic development.
- (2) Formulating and promulgating various special policies.
- (3) Formulating an overall plan for reform of the economic system, and detailed rules and regulations governing its implementation.
- (4) Implementing various laws and regulations pertaining to related economic development, reform, and opening.
- (5) Training cadres, bringing in talented personnel, and organizing a group of higher-caliber work teams.
- (6) Performing necessary and possible laying in of financial and material resources for reform

At this stage, it is possible to implement certain partial reforms for which conditions are ripe, begin experimentation, and accumulate experience. It is inadvisable to devote too much time to this first stage, about two years being the optimum.

2. The second stage is that of overall change of course or trial implementation, i.e., as soon as preparations are made and all necessary conditions are provided, making a complete switch to the start-up of a new system. At this time, the new system is still imperfect, but an imperfect new system is much better than the deadlock of a dual system. Also, precisely because it is imperfect, during trial implementation it requires continuous adjustment, supplementation, review, and improvement. Particular attention must be paid to dealing with problems left over from the old system, and preventing retrogression. This second stage will probably require more than three years.

3. The third stage is that of further perfection or full operation, consisting primarily of consolidating and developing the new system in practice, and firmly establishing it in a position of dominance. It is certain that new circumstances and new contradictions will appear as

the economy develops, and these will have to be gradually resolved, but these are problems of perfecting the new system itself, and are everyday tasks, rather than another round of reforms.

Another thing that should be explained is that, at the same time that the economic system is reformed, attention must also be paid to reforming the political system. Hainan is regarded as a test of reform of provincial first-class institutions, and its chosen model, premised on separation of party and government, and separation of government and enterprise, and in line with the principle of "small government, large society", transforms the economic function of government, handing over to society, the market, and enterprise those things which the government cannot or should not handle, or cannot handle well, thereby overcoming bureaucratism and improving work efficiency. Clearly, only such a capable, highly efficient, and honest government can meet the needs of a "socialist market economy", being advantageous to the vigorous development of a socialist commodity economy, and advantageous to China's economic alignment with the world, the future, and modernization. These tentative ideas can in the same way provide valuable inspiration for reform of other regions, and of China as a whole.

13387

LABOR

Trade Unions Plan Social Insurance

*OW0508132188 Beijing XINHUA in English
0807 GMT 5 Aug 88*

[Text] Beijing, August 5 (XINHUA)—The All-China Federation of Trade Unions (ACFTU) has proposed starting an independent social insurance scheme.

The federation, in a "basic ideas of trade unions' reform" approved recently by senior state leaders, suggested that both trade union members and government officials should participate in the scheme.

Nearly 20 million retired workers are currently living on pensions in China and the workers in all state-owned and most collective enterprises enjoy free medical benefits under an administrative system.

Federation President Ni Zhifu said the current social insurance plans should be reformed in favor of a system that would give benefits to all workers.

"The trade unions are experienced in providing a great number of services in this field," he said.

Choices in Rectifying Relationship Between Prices, Wages

40060481 Beijing JINGJI RIBAO in Chinese
19 Jul 88 p 3

[Article by Song Yangyan 1345 7402 8827 and Wang Haidong 3769 3189 2639: "Overhauling Subsidy Policy Essential to Price Reform"]

[Text]

1. The Skewed Relationship Between Prices and Wages Is the Basic Reason for Price Distortions

China's current prices are highly irrational, as manifested mainly by the mismatch between buying and selling prices of agricultural byproducts, the underpricing of primary industrial goods, and the fact that public enterprises charge very low fees. People often attribute these abnormalities to state price-fixing and conclude that as soon as price control is lifted and the market steps in to regulate prices, price irrationalities will disappear. The practice of price reform, however, shows that price decontrol is often followed by price spirals.

Why? The principal reason is that price irrationalities are caused mainly by the distorted relationship between prices and wages, not state price-fixing.

In a commodity world, the price of any commodity consists of two relationships. One relationship, commonly known as price relationship, is the proportionate relationship between the price of that commodity and the prices of other commodities. The other relationship, commonly known as the relationship between prices and wages, is the proportionate relationship between the price of that commodity and its internal wage costs. The determination of the price relationship does not depend entirely on the absolute price level, but also on the profit level included in the price. When prices are stable, the profit level is determined by the relationship between prices and wages; the higher the proportion of wage costs, the lower the profit level, and vice versa. Overall, therefore, the relationship between prices and wages constitutes the basis for determining all price relationships.

A distinct feature of the relationship between prices and wages in China today is low wages. Whatever the sector, the wage incomes of workers are lower than the costs of labor reproduction, forcing the state and enterprises to offer workers all sorts of non-wage incomes in order to maintain labor reproduction. The coexistence of wage and assorted non-wage incomes has led to the "dualization" of labor incomes. In other words, fixed incomes come from production costs while non-wage incomes such as reward and welfare funds come from the profit that an enterprise is allowed to retain. The advantage of the dualization of labor incomes is that it links a worker's income to the enterprise's profit level, thereby mobilizing his enthusiasm to improve enterprise profitability.

On the other hand, there are definite drawbacks to the dualization of labor incomes. First of all, it violates the basic principle of income distribution, namely that a worker's income should not increase faster than labor productivity. It is well and good for a worker's income to rise and fall with the profit of his enterprise, but a rising profit does not necessarily mean improving productivity. For instance, an enterprise may increase its profit by jacking up the prices of its products or paying less taxes. Secondly, the dualization of workers' incomes weakens the enterprise's capacity for self-accumulation. From the perspective of the enterprise operator, both the reward fund and welfare fund for workers are part of the costs of running the enterprise and should come from its costs. At present, however, both are paid out of the profit retained by the enterprise, thus artificially reducing the profit available for use as accumulation. To enable itself to grow, the enterprise has no alternative but to look for outside help, pleading for bank loans, etc. Furthermore, to help workers with low incomes, the state is forced to keep the prices of certain key products impacting the national economy and people's livelihood at a low or very low level on a long-term basis. As for social services and welfare facilities, the fees they charge are even lower. Finally, the distribution of non-wage incomes spurs consumption, on the one hand, and leads to a shortage of personal consumer goods, which, in turn, pushes up prices and causes inflation, on the other.

In short, the skewed relationship between prices and wages not only has caused excessive administrative interference by the state in the price formation process, but also induced all sorts of irrational behavior on the part of enterprises and consumers. As a result, successive price increases become unavoidable once prices are deregulated, further exacerbating price distortions and giving rise to inflation.

2. Cost Contracting Is an Important Way To Rectify the Relationship Between Prices and Wages

The basic objective of rectifying the price-wage relationship is to raise wage incomes as a percentage of a worker's total incomes so that they approach or roughly equal the costs of labor reproduction. Clearly, the achievement of this objective requires that non-wage incomes paid to workers by the enterprise and the state be gradually phased out and replaced by wage incomes.

This is a difficult assignment that requires several effective measures. At a time when contracting has become widespread in China, enterprises that adopt contracting should make one fundamental change by switching from profit contracting to cost contracting. Under profit contracting, an enterprise turns over some profits to the state and then retains a portion, setting aside part of it as reward and welfare funds for workers. The drawback of profit contracting is that it expands the source of non-wage incomes, thus forcing down the proportion of wage incomes steadily. Under cost contracting, the enterprise turns the reward and welfare funds into part of a

worker's wage income to be added to the original fixed wage, all of which would be incorporated into the costs of the enterprise. Henceforth, a worker's income may go up without pushing up production costs above the set limit. The principal advantage of cost contracting is that it narrows the source of non-wage incomes and makes wages a worker's prime source of income, thereby rectifying the relationship between prices and wages within a product. On that basis, we can then carry out exchange of equal values between various commodities more rationally.

To actually implement cost contracting, we have to take these steps: 1) Consolidate the wage fund, reward fund, and welfare fund as a labor contract fund; 2) Put the factory director in charge of the labor contract fund, which should be distributed among individual workers through the signing of labor contracts; 3) The labor contract fund should come under the costs of an enterprise. When costs go up, the fund may be reduced correspondingly, and when costs come down, the fund may be increased correspondingly; 4) The wages of the factory director and manager should be paid out of the profits of the enterprise by the department in charge, depending on the state of the enterprise. Their wages should not form part of the labor contract fund and naturally should not be counted as part of the costs of the enterprise; 5) A mutual savings fund should be established within the enterprise. Collective welfare among workers should come from mutual savings; 6) The mutual savings fund should be allowed to invest in the enterprise or other enterprises as a legal person and take part in the enterprise's management and profit distribution process up to a point within a specified area.

Under cost contracting, the amount of profit an enterprise retains after fulfilling its obligations in the contract depends on how efficiently it is run, the supply-demand situation on the market, and the resultant price levels. Retained profit should be devoted solely or primarily to accumulation or expanded reproduction to promote enterprise development.

3. Structural Subsidies Should Supplement the Rectification of the Relationship Between Prices and Wages

Because productive forces remain underdeveloped and workers' incomes are rather low in the initial stage of socialism, it is impossible for a worker to support himself

and his entire family on his wage incomes alone. Thus in the interest of the entire people, the socialist state must take effective measures to give some workers appropriate and necessary subsidies.

The subsidy policy of the state must undergo a fundamental change, namely, replacing comprehensive subsidies with structural subsidies. In the past, we offered comprehensive subsidies. The government gave all consumers similar subsidies in the same amount and did not take into consideration differences in individuals' incomes. Comprehensive subsidies not only broadened the scope of subsidy, enlarged the supply-demand gap, and imposed on the state a heavy financial burden, but also completely distorted the prices of certain products. When the government offers structural subsidies, on the other hand, it must first fully study, investigate, and evaluate the workers' incomes and their burdens and, on that basis, make available appropriate and necessary subsidies to a minority of low-income workers, particularly those near the poverty line. Naturally the state's financial burden is much reduced and the supply-demand gap on the market significantly narrowed.

Structural subsidies usually take the form of cash payments to individuals to supplement their purchasing power. If they are price subsidies for certain commodities, therefore, we can then deregulate the prices of those commodities and let the market regulate them, thereby rationalizing price relationships.

It must also be pointed out that as far as the worker is concerned, subsidies are a form of non-labor income. They do not fall within the limits of production and are detrimental to production and the creation of social wealth. Therefore, instead of being paid for by enterprises, subsidies should be completely removed from enterprises and become a social responsibility.

The removal of subsidies from enterprises will certainly further straighten out enterprise contracting, tidy up the price structure, and make price relationships even more rational.

In short, rectifying the relationship between prices and wages is the process of intensifying enterprise structural reform, developing commodity monetary relations, and perfecting market mechanisms. Only when this process is completed can we truly establish orderly price relationships compatible with the new commodity economic order.

Labor Force Statistics for May
HK1008102188 Beijing CEI Database
in English 10 Aug 88

[Text] Beijing (CEI)—Following is a chart of labor force employed by various sectors of the national economy in May, 1988.

Sector	Total	unit: ten thousand persons		Others
		Staff and workers in state-owned units	Staff and workers in collectively-owned units in cities and towns	
National total	13,174.9	9,635.1	3,462.1	77.7
including:				
central organs	2,177.4	2,177.4		
Farming, forestry, animal husbandry, fishery and water conservancy	839.9	792.9	46.4	0.6
Industry	5,952.2	4,073.9	1,815.4	62.9
Geological survey and prospecting	104.3	104.2	0.1	0.0
Construction	978.2	603.6	373.6	1.0
Transport, communication, posts and telecommunications	776.2	574.3	201.0	0.9
Commerce, catering trade, supply, marketing and storage of materials	1,655.0	895.4	755.0	4.4
Real estate management public utilities service trade and consultancy service	345.3	238.5	98.9	7.9
Health, sports and social welfare	366.4	297.5	68.9	0.0
Education, culture and arts, broadcast and tv	1,053.3	1,019.4	33.9	0.0
Scientific research and general technical service	140.7	138.4	2.3	0.0
Banking and insurance	158.1	116.2	41.9	0.0
Government agencies political parties and popular organizations	805.1	780.4	24.7	0.0

'Substantial Labor Productivity' Detailed
HK0408124388 Beijing CEI Database
in English 4 Aug 88

[Text] Beijing (CEI)—Following is a chart of substantial labor productivity of key industries in May 1988, released by CSICSC [China Statistics Information Consultancy Service Center].

Industries	unit	5/88	5/87
1. Coal industry			
a.coal extraction	ton/person	5.180	4.937
b.coal mining	meter/person	0.125	0.125
2. Metallurgical industry			
a.iron-smelting	ton/person	149.00	132.00
b.open-heart steel-smelting	ton/person	54.00	47.00
c.electric steelmaking	ton/person	20.00	20.00
3. Textile industry			
a.cotton yarn	person/ton	30.22	30.16
b.cotton cloth	person/10 thousand meters	96.80	97.35
4. Paper making	ton/person	2.19	2.33

POPULATION

Early Marriage Poses Problem for Family Planning Program

OW0508132888 Beijing XINHUA in English
0809 GMT 5 Aug 88

[Text] Beijing, August 5 (XINHUA)—A recent survey showed China's divorce rate last year was 0.14 percent less than in 1982.

According to the survey by the State Statistics Bureau, China's current divorce rate is 0.69 percent, with most couples split up between the ages of 35 and 39.

Bureau officials call the marriage situation in China "stable," and the main reason for the break-up of a family is the death of a spouse.

The survey also revealed, of 100 married individuals over the age of 50, 15 males and 30 females have lost their spouses. While on the average, in 8.93 percent of the nation's couples one of the partners has died.

The survey showed Chinese are now getting married younger than before, and last year, men were marrying at an average age of 23.6, While women at 21.01,—1.83 And 1.79 Years younger respectively than in 1982.

For boys between 15 and 21 and girls between 15 and 19, who are still under the legal age to get married, 4.91 percent married last year, which is 1.67 percent higher than in 1982.

This trend has dropped the child-bearing age of Chinese women from 25 to 23, which means 40 million women might have children earlier than expected and this could put a strain on the country's family planning program.

The survey also showed China has about 1.16 Million people over the age of 60 who live alone. And the society should take good care of them, the bureau said.

TRANSPORTATION

Feasibility Study on Three Gorges Project Completed

OW0608020888 Beijing XINHUA in English
1227 GMT 5 Aug 88

[Text] Beijing, August 5 (XINHUA)—A Canadian feasibility draft report on China's massive proposed Three Gorges Project has been basically completed, a senior Chinese engineer said today.

Pan Jiazheng, chief engineer of the Ministry of Energy, said the report concludes that the project is technically and socio-economically feasible.

Meanwhile, Pan said, the Chinese government has more than 400 experts in 40 specialties working on feasibility studies of the project, too.

Their studies are expected to be completed before the end of the year before the government is to make its decision about whether to go ahead with the project or not.

The Canadian consultative group (CYJV) responsible for the two-year study recommended a normal pool level (npl) of 160 meters, 15 meters lower than that proposed by Chinese engineers.

The npl is the normal height of the water in the reservoir behind the dam.

The World Bank has endorsed the Canadian group's conclusions.

Pan is chairman of the steering committee organized by the Canadian and Chinese governments and the World Bank to guide the studies.

Pan, who has just returned from the committee's sixth meeting in Montreal, Canada, said the group felt the project could be justified economically for its flood control and power benefits.

The study, funded by the Canadian government, felt the resettlement of the people forced to move as the reservoir grew to a 160-meter level—a major cost component of the project—appeared to be realistic.

The study also believed that the environmental consequences of the project did not appear to be significant.

Pan said that Chinese engineers prefer the final npl to be 175 meters and to be realized in two stages.

The higher level would permit heavier draft barges to reach Chongqing, the economic hub of southwestern China.

He said the npl in the first stage would be 156 meters to give more time to relocate people.

Capital Construction Figures

HK0508132188 Beijing CEI Database
in English 5 Aug 88

[Text] Beijing (CEI)—Following is a chart of capital construction by sectors in the first half of this year, released by CSICSC [China Statistics Information Consultancy Service Center].

		(in 100 million yuan)
Sectors	1-6/88	1-6/87
Industries	269.73	220.29
Agriculture, water supply and gas	18.39	17.96
Transportation, post and telecom.	56.15	53.87
Commerce and foreign trade	14.07	12.53
Finance	4.68	3.10
Science	1.62	1.93
Education, health and medical care	24.05	25.55
City construction	24.92	26.33
Others	42.41	39.98

Anhui-Zhejiang Railway To Begin Construction

HK1307141788 Beijing CEI Database
in English 13 Jul 88

[Text] Hefei (CEI)—Construction of a railway from Xuancheng of Anhui Province to Changxing of Zhejiang Province will start soon. The project is part of the railway from Xuancheng to Hangzhou, capital city of Zhejiang Province.

The 116.9-kilometer-long Xuancheng-Changxing Section goes through Xuanzhou, Langxi and Guangde in Anhui Province and involves an investment of 268.3 million yuan. It is scheduled to be completed in 1990 and put into operation in 1991.

The Xuancheng-Hangzhou railway, when completed, will become the second important railway in eastern China running from Shangqiu, Henan Province, to Hangzhou via Fuyang, Hefei, Wuhu and xuancheng, all in Anhui Province.

Marine Shipping Agency To Expand Services

*OW1308094088 Beijing XINHUA in English
0530 GMT 13 Aug 88*

[Text] Beijing, August 13 (XINHUA)—The China Marine Shipping Agency (Sinoagent) will provide agency services to all foreign vessels calling at Chinese ports.

Under the State Council approval, the agency can render full agency services for all ships with cargo forwarding, today's CHINA DAILY reported.

The agency services will also be extended to all passenger and tourist ships.

In 1987, Sinoagent provided services for 1,800 ships and vessels with nearly five million tons of transportation volume. In the first half of this year, the number of ships it serviced climbed to 1,125, with transportation volume amounting to two million tons.

Founded in 1985, the agency used to limit its agency businesses only to ships, fleets and joint-venture vessels of its parent company, China National Foreign Trade Transportation Corporation.

Heilong River Transport Increases

*OW0308204088 Beijing XINHUA in English
1332 GMT 3 Aug 88*

[Text] Harbin, August 3 (XINHUA)—About 100,000 cubic meters of scorched wood from the Dahinggan mountains and 90,000 tons of coal were transported on northeast China's Heilong River system in the first seven months of this year.

In addition, 50,000 tons of imported timber and 60,000 tons of grain for export were shipped on the river system over the same period.

According to the Heilong Shipping Administrative Bureau, which is responsible for the management of the river system, tonnage transported in the first half of this year was the highest ever.

The Heilong River system, composed of the Songhua, the Heilong, the Wusuli and the Nenjiang Rivers, has a drainage area of 746,000 square kilometers and a total navigable length of 5,100 kilometers.

The administrative bureau has a working staff of more than 12,000, and 300 freighters and passenger-cargo vessels and three shipyards with a shipbuilding capacity of 150 million tons annually.

The bureau has served as a go-between as a result of improved trade relations between China and the Soviet Union, and shipyards subordinate to it have begun to repair ships for the Soviet Union as well as build ships for Hong Kong and some foreign countries in recent years.

In order to expand its shipping capacity, the bureau has also dredged some river courses, including a 35 kilometer long shoal in the Songhua River.

Traffic Accidents Leave 24,000 Dead

*OW0508153688 Beijing XINHUA in English
1139 GMT 5 Aug 88*

[Text] Beijing, August 5 (XINHUA)—Public security officials today again stressed the need to tighten traffic control to reduce the number of accidents.

In an interview with XINHUA, ministry officials reported that 24,000 people were killed and 78,400 injured in traffic accidents nationwide in the first six months of this year.

Traffic accidents last year caused direct losses of property amounting to 27.94 Million yuan. Indirect losses were 10 times as much and accounted for one-tenth of the national income, the paper said.

There are now 10 million motor vehicles, 200 million bicycles and tricycles, and four million tractors in China. Neglect of safety, overloading of passengers, excess speed and unlicensed drivers are major cause of accidents.

About 70 percent of the accidents are caused by motor vehicle drivers.

By the end of last year, the number of privately-owned vehicles had reached 420,000, accounting for 10.4 Percent of the total, and these killed 8,420 people last year, about one-fourth of the total traffic deaths.

Meanwhile, the State Council has just approved the "Regulations on Road Traffic Control of the People's Republic of China", which came into force August 1.

AGRICULTURE

Chemical Fertilizer Production Shows 'Steady Advances'

*HK0908053288 Beijing CHINA DAILY in English
9 Aug 88 p 1*

[By staff reporter Guo Zhongshi]

[Text] Nationwide efforts to upgrade China's chemical fertilizer production have shown steady advances this year.

Output targets have been surpassed, quality and sales have been improved and energy consumption has been cut.

A large number of million-ton chemical mining projects are being built across the country to increase sharply the production of chemical fertilizer in the next several years.

An official of the Ministry of Chemical Industry told CHINA DAILY in an interview that the half-year output reached 42.98 million tons, 980,000 tons more than the target. Sales of fertilizer increased by 7.5 percent over the same period last year.

As part of the State plan to double the country's present fertilizer output by the end of the century, the phosphate, sulphur and potash mines now under construction will play a vital role in raising the country's agricultural production.

The additional facilities are expected to ease the acute shortage of chemical fertilizers and catch up with the world advanced countries in the quality of fertilizer products. This is needed as the population is growing and arable land is shrinking rapidly in the country.

The official said that the three-step State strategic plan to upgrade fertilizer production will bring total national output of chemical fertilizers to 100 million tons by 1990, 130 million tons by 1995 and 150 million tons by 2000—almost double the present figure.

According to the official, the use of high-quality chemical fertilizers to improve farm production is getting more and more vital as another 200 million people are expected to be added to China's total population of 1 billion while arable land will be reduced by 5.3 million hectares by the year 2000.

"The only way out is to increase chemical fertilizers if we want to fulfill the grain output target of 500 million tons by the end of the century," the official said.

China has devoted 30 billion yuan (more than \$7.5 billion) in investment to the fertilizer industry, half the total figure for the construction of the entire chemical industry, the official said. He added that the ministry has started pooling funds to embark on a large-scale technical renovation effort of all its subordinate fertilizer producing enterprises.

The official urged departments concerned to do their best to solve the existing problems in fertilizer production. These include lack of energy, obsolete equipment and irrational pricing and circulation systems. These have led to production below capacity, fatal accidents and speculation.

In order to reduce the middle links between producers and farmers and curb speculation of fertilizers, he urged industrial and commercial departments and price inspection organizations to strictly control the fertilizer market and severely punish those who produce, sell and manage fertilizers without licenses.

Deep-Sea Fishery Production Rises

*OW0208011588 Beijing XINHUA in English
1329 GMT 1 Aug 88*

[Text] Beijing, August 1 (XINHUA)—China produced 3.79 million tons of fish and other aquatic products in the first 7 months of this year, 7.1 percent more than in the same period last year.

This means that fulfilment of the 10-million-ton target for this year is now certain, according to officials at the Ministry of Agriculture today.

The officials attributed the increase in part to the development of deep-sea fishing.

China now has over 100 ocean-going fishing vessels operating in the waters 16 countries under agreements signed with them, they said.

Watermelon Supply Grows, Prices Stable

*OW0108234788 Beijing XINHUA in English
1003 GMT 1 Aug 88*

[Text] Beijing, August 1 (XINHUA)—With heat waves hitting most parts of China this summer, supply of watermelons has soared while the price has remained stable.

Most people think the state is paying subsidies to watermelon producers, but today's ECONOMIC DAILY said this is not the case.

In 1985, price controls on watermelons were lifted, resulting in a boom in production, the paper said, and though prices have fluctuated in recent years, this year's supply has proved lifting price controls can boost production.

The reasonable prices and hefty supply are also the result of more plastic film being used in the fields and better varieties being planted.

Another reason for the increased supply, the paper went on, is better distribution techniques which get watermelons quickly from the fields to the market.

Before price reform started, the local government had to pay out 800,000 yuan in subsidies a day for the buying and selling of watermelons. But now it pays no subsidies, said the paper, quoting an official.

The example of watermelons shows that price reform can be successful, as once price controls are lifted, competition will surface, production will increase and distribution be improved.

Guangdong Early Rice Output

HK1008133488 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 9 Aug 88

[Summary] Despite bad weather and severe natural adversities in Guangdong this year, the gross early rice output of the province increased by 2 to 3 percent, an increase of nearly 2 billion kilos over last year.

Heilongjiang Peasant Income

SK0808043388 Harbin Heilongjiang Provincial Service in Mandarin 0900 GMT 7 Aug 88

[Excerpt] In the first half of 1988, the per capita cash income of farm households throughout Heilongjiang Province was 193 yuan, a 70 yuan increase over the corresponding period in 1987. Incomes earned by selling surplus grains of 1987 accounted for 72 percent of the increase and the rest came from developing second and tertiary industries.

Hubei Peasant Income Rises

HK1108082988 Wuhan Hubei Provincial Service in Mandarin 1130 GMT 10 Aug 88

[Summary] According to a sampling survey conducted by the provincial agricultural survey team, in the first half of this year, both the income and expenditure in

cash of peasant families in the province have increased as compared with the same period last year, and the cash balance has also increased. In the first half of this year, the per-capita income in cash of Hubei peasants amounted to 193.77 yuan, an increase of 36.27 yuan or 23.03 percent over the same period last year; the per-capita expenditure in cash amounted to 225.24 yuan, an increase of 36.88 yuan or 21.52 percent over the same period; by the end of June, the per-capita cash in hand amounted to 158.05 yuan, an increase of 27.36 percent over the same period last year. There are two factors contributing to the increase in peasants' cash income: First, the prices of agricultural and sideline products have increased; second, peasant families nowadays can earn money through a wider range of businesses.

Shandong Aquatic Breeding

OW1008190788 Beijing XINHUA in English 0812 GMT 10 Aug 88

[Text] The area of aquatic breeding grounds in east China's Shandong Province has reached 1.05 million mu (one hectare equals 15 mu) this year, an increase of 300,000 mu over last year's figure. It is estimated that the province will turn out 50 percent more aquatic products this year than last.

WEN HUI BAO on Realism, Reflection in Literature

OW1508024188 Shanghai WEN HUI BAO in Chinese
12 Jul, 9 Aug 88

[Article by Wang Ruoshui: "Issues on Realism and the Theory of Reflection"; speech made by Wang Ruishui at the annual meeting of the Society of Literary Theories held in Wuhu in May 1988 and revised by him at the time of publication]

[12 Jul 88 p 3]

[Text] The theory of reflection has been regarded as a basic theory of materialism as well as the foundation of the theory of knowledge of realistic literature. This is common sense which has been written in textbooks. Should there be any doubt about this?

In 1985, Liu Zaifu wrote an article in WEN HUI BAO, entitled: "In Conducting Literary Research, We Must Take Men as the Center of Thinking." Later he wrote an article in WENXUE PINGLUN [LITERARY CRITIQUE], entitled: "On Literature's Subjectivity," which caused a strong response. In his article, he criticized the prevalent theory on visual reflection [zhi guan fan ying lun 4160 6034 0646 2503 6158], or only paying attention to the intrinsic attributes given by nature to the object while ignoring the attributes of value given by men to the object and neglecting men's feelings and will. He said that literature and art are not only the reproduction and reflection of objective realities, but also a refraction of the spirit of the object. His criticisms were refuted by a number of comrades. Chen Yong said: "Right now, there are some people who are negating the theory of reflection in the field of literature and art. They try to prove in various ways that the theory of reflection is aimed at negating the subjective activities of writers and artists. This is a mechanical and mirror-type action of imitation. This accusation is completely groundless." There was an article entitled: "On Reflection" carried in the 1988 Issue No. 2 of WENYI LILUN YU PIPING [LITERATURE AND ART THEORIES AND CRITICISMS] which expresses the same view. The author of the article also quotes many remarks made by Marx and Engels to show that the theory of reflection is not the kind of mechanical reflection and imitation criticized by Liu Zaifu.

Criticism of the theory of reflection already exists abroad. I do not mean criticism made by non-Marxist philosophers. This is not strange. What I mean is that certain Marxists also make criticisms. Naturally, the criticisms of the theory of reflection have been refuted by many Marxists. In recent years, philosophers in China have also begun to discuss this issue. In general, they are of the following two views:

Lenin Only Stresses Recognition of the Objectivity of Realities, While Marx Holds That We Must Also Understand the Subjectivity of Realities

The article "On Reflection," mentioned above, holds that the criticism of the theory of reflection is caused by

misunderstanding. The article quoted Soviet writer Yevgeniy's Concise Dictionary of Philosophy, in which the theory of reflection is defined: "The essence of this theory of knowledge is to understand one's awareness and thinking as a reflection of an external world which is outside of us and the existence of which is independent of us." The dictionary also says: "Men's feelings and concepts are duplicates of real things and processes in natural world." The article also mentions some remarks made by Stalin. The author of the article says that, regretfully, all these are misunderstandings about the theory of reflection.

However, if authorities in Marxism have misunderstandings, it shows that misunderstandings are not uncommon. Then, here is the question: Where do these misunderstandings come from?

The prevalent thoughts have some good grounds. Let us read Lenin's *Materialism and Empirio-Criticism*. This book repeatedly stresses: "Objects, the world, and the environment are thing which have an existence independent of us." The book also says: "The objective realities ... are duplicated, photocopied, and reflected by our feelings." Lenin regarded "reflection," "duplication," and "photocopying" as synonymous. Is there any "misunderstanding" here? Absolutely not!

According to Lenin's understanding, subject is what Locke described as a blank sheet and is only a container for keeping something; knowledge is only an "object to subject" one-way activity, because the characteristics and activities of the subject cannot and should not seep into the knowledge of the object. This viewpoint has long been overthrown by modern physics and psychology. The theory of relativity and quantum mechanics have proved that the subject's knowledge of the time and space characteristics of an object cannot be divorced from the relationship between the subject and the object and from the series of references selected by the subject. They also prove that in understanding microobjects, it is impossible to exclude the activities manipulated by the subject and the influence of observation tools. Moreover, Piaget's theory on the occurrence of knowledge psychologically explains that knowledge neither originates from the subject nor the object, but that it originates from the mutual reactions between the subject and the object.

The above arguments by Lenin are not only at variance with the conclusion of modern natural sciences, but also contradict the viewpoint of Marx. Although Lenin held that the viewpoint he upheld is not only the basic tenet of "general materialism" but is also the basic tenet of Marxist materialism, the viewpoint had been criticized before by Marx. This can be clarified if the first article of the *Theses on Feuerbach* is read. The first article says: "The principal shortcomings of all forms of materialism of the past—including Feuerbach's materialism—are trying to comprehend objects, reality, perception

through the object or through direct observation, but not trying to comprehend them as man's perceptual activities and practice; that is, not trying to understand them by the subjective method."

Here two phrases need to be explained. The first one is "perception." It does not mean man's subjective sense perception, but the target of sense perception; that is, real and concrete things. At the same time, neither does "perceptual activities" mean man's purely psychological activities, but it means man's practice. The second term is "subjective." What does the phrase "comprehending them by the subjective method" mean? This should actually be translated "comprehending them through the subject" (to parallel with the previous "object"). "Subjective" means man's spirit, while "subject" means real persons.

There has long been a prevailing explanation for the above passage: Man must not only know objective reality but must also react to it after learning about it. This means he should try to transform reality through practice. According to this explanation, only man is the subject, and reality is only an object to be known and transformed. But Marx explicitly said that reality should be understood merely as an object. How can this be explained?

Let me use the table in front of me as an example. It is a material thing, that is, a real thing. The table is also the target of my knowledge; I have an idea about this table, and the idea originates from the object which is the table. Thus, it seems that the table is merely an object, a material thing that exists without depending on man. "The table is first, and the idea about the table is second." It seems that there is no doubt about this argument.

But how did the table come into being? It is not like the sun and stars, which existed before the appearance of human beings. The table is not a natural thing. It was made by man. How did man make the table? He made the table for a certain purpose and according to a plan. Before using wood to make the table, he formed an image of table in his mind. This is the difference between human labor and the labor of bees. The process of man making the table is one of achieving an objective through his labor or through his essential force. In nature, there are only trees, but no tables. When the wood of a tree is made into a table, a "naturally existing thing" is turned into a "thing made for man." In Marx's words, this is a change from the natural thing to a thing made for man. In Engels' words, this is a process whereby man stamps his own will on nature.

This is true not only of the table but also of everything around us. Houses, roads, vehicles, clothing, food, and household electrical appliances are all created by man. They are the crystallization of man's labor and wisdom. Because of this, when we look at them, we should not "see merely the material to the neglect of human

factors." We should see both the material and the human factors. We should see the human factors from the material, or the subject from the object. This is what is meant by Marx's remark that "the subjective essence of wealth is labor." The objective essence of wealth comes from nature, while its subjective essence has its origins in labor.

The Essence of the Universe Is Material; the Essence of History Is Man Carrying Out Practice

In his *Materialism and Empirio-Criticism*, Lenin used the example of Feuerbach to assert that nature had existed before human being appeared. We may also see how Marx criticized Feuerbach. In "The German Ideology," Marx and Engels said that Feuerbach "failed to see that the perceptual world around him was by no means something that existed from the beginning of the universe and remained the same at all times, but a product of industrial and social development, a product of history, and a result of the activities of many, many generations." In addition, they said: "These activities, the continuous perceptual labor and creation, and this kind of production, form a very profound basis for the whole perceptual world that exists. If they ceased to function for only 1 year, Feuerbach would be able to see that not only would an enormous change take place in nature, but the whole human world, his (Feuerbach's) direct perceptual ability, and even Feuerbach himself would be nonexistent."

Lenin also discussed practice in his work *Materialism and Empirio-Criticism*, but he only regarded practice as a means for examining understanding, whereas Marx attached much greater significance to practice. Calling his materialism "practical materialism," Marx believed that, in addition to being the foundation for understanding, practice is also the foundation for the world in existence. He believed that "the perceptual world must be regarded as the common, lively, and perceptual activities of individuals who make up this world." Such being the case, real people and their work have ontological significance. Of course, this is a historical phenomenon which, while not denying the "precedence of the natural world without," stresses that the natural world (earth) on which we live is not a primitive natural world, but one which has been humanized.

Confronted with such a real world, can we still simply call it a primary world which exists without people? The table before me certainly exists independent of my feelings. I cannot say that it does not exist when I cannot feel it. However, this table would not have existed if it was not needed and if there was not the labor of the maker who built it with a purpose. This is beyond doubt.

Is this view idealistic? Let us restudy Engels' famous works on this issue.

While differentiating materialistic criteria, Engels asked: "Which is the origin? The spirit or the nature?" Idealism regards spirit as the origin, whereas materialism regards nature as the origin. Engels said: "Aside from this, these two terms, idealism and materialism, have no other meanings, and here they will not be used other than what they mean." If we "give them any other meaning," they will cause confusion.

The "nature" that Engels refers to here is the nature before the appearance of mankind. What he means is: In the final analysis, the nature precedes the spirit, which is a derivative. This is a view based on cosmo-ontology.

A change took place when Lenin explained his theory. Lenin believed that every object of understanding is primary and is independent of man's objective existence. Such being the case, the table before me can only be directly perceived as an object and not a subject, and cannot be perceived as a product of practice. When Engels said that the natural world was primary, apparently he did not mean things like tables; whereas Lenin included every object of understanding when he talked about "matter," "world," "environment," and "objective existence."

The Theory of Visual Reflection Cannot Explain Value

This theory cannot explain the value of things. Let me again use the table as an example. Tables are useful. We can use a table for dining, reading, and writing. Is the table's usefulness then its objective property? Has this property nothing to do with man? Can it exist independent of man? Is the "usefulness of the table" in our mind a "copy" of the table's objective usefulness? No. The table's usefulness shows the relationship between the table's objective features and man's needs. A table is useful only when it can satisfy man's needs. If man does not need a table, then it simply will not be produced, let alone used. The table is useful only when the natural property of wood is combined with man's "materialized" labor. The usefulness of the table cannot be explained without man's needs and labor.

This is easily understandable. Now let us continue to analyze the issue. This table was purchased. This means that it is a commodity. Marx said: "Once the table becomes a commodity, it is a totally different thing. It can both be felt and not be felt." Just what on earth is this riddle-like nature? A commodity is "social matter," which is of value. The relationship between the form of value and the value of a product of work does not possess physical or chemical value. It is something abstract showing a social relationship between people. This relationship takes the intangible form of a relationship between things. One of Marx's great contributions to political economics is his revelation of the relationship among people—something that is hidden behind the relationship between things—thus solving a problem that has puzzled bourgeois economists for a long time. With a supportive attitude, Lenin relayed this viewpoint

of Plekhanov: "Idealism holds that without an object, there will not be an object, but materialism holds that an object can exist independently from a subject." This viewpoint is based on the rigid confrontation between a subject and an object. In other words, a thing must be either a subject or an object; it cannot be both. Either the subject is dependent on the object or vice versa, but they cannot possibly be mutually dependent and transformative. Hegel criticized this view. He tried to combat such a confrontation by means of the initiative of a subject, but he only acknowledged the spiritual initiative. Feuerbach realized that man, both a subject and an object, is the unity of the two, but that such a unity is motionless. Marx seized the principle of initiative from idealism and introduced it into the materialist system, concluding that initiative is man's practical activity, and that man's social practice is the unity of subject and object and the foundation for their mutual transformation. This was a revolutionary leap for materialism. Lenin's view is a regression of this stand.

The Relationship Between Mind and Material Is Not Merely the Relationship Between Understanding and Being Understood; Emotion and Will Must Not Be Overlooked

What I have mentioned above is only Lenin's viewpoint in his *Materialism and Empirio-Criticism*. Later, in his *Philosophical Note*, Lenin had a new understanding and somewhat changed the original way he addressed the matter. However, Lenin died before he could develop this new understanding and write something about this. The prevalent viewpoint still considered *Materialism and Empirio-Criticism* as classics which must not be doubted. This was the origin of the so-called "misunderstanding."

Those who oppose the criticism of the theory of visual reflection have made two mistakes: 1) They refuse to admit that there is a difference between Marx and Lenin on this subject (if there is any difference, it is only the development of Marx's viewpoint by Lenin); and 2) they consider Lenin's philosophical thought as an unchanging and always correct thing. When they say that the Marxist theory of reflection is not equivalent to imitation and copying and that the theory of reflection has not overlooked subject and is not "seeing things without seeing people," they cite works of Marx and Engels. Sometimes they cite Lenin's works but quote only his *Philosophical Note*. As to the viewpoint of simple reflection repeatedly stressed in *Materialism and Empirio-Criticism*, they seem to look but do not see. (I have skipped Engels here. How to evaluate the viewpoint of Engels and the relationship between his viewpoint and that of Marx and Lenin will be studied separately).

The term "reflection" was also used by Marx. However, its meaning is different from that used in *Materialism and Empirio-Criticism*. I am not saying that we can never use "mirror" or "photograph" as a way of terming something. In a sense, they can be used as metaphors.

However, they cannot be used as scientific explanations. In short, we cannot defend Lenin's viewpoint of the theory of visual reflection as he insisted on it in his *Materialism and Empirio-Criticism*. Evading this question and only criticizing textbooks are also not fair.

When Lenin wrote *Materialism and Empirio-Criticism* in 1908, Einstein had just published his special theory of relativity. The general theory of relativity was not yet born and Planck's concept of quantum physics had not been generally noticed. In addition, at that time, the "Original Manuscript of Economic Philosophy, 1844" "German Ideology," and "Dialectics of Nature" had not been published yet and Lenin did not have the opportunity to see them. Lenin's limitations are understandable. However, if we do not see these limitations and take a dogmatic attitude toward Lenin's viewpoint, we will be held responsible for our conduct.

The theory of visual reflection can neither correctly understand objective things nor correctly understand subjective things. In an article I wrote in 1981, I said: "If we consider the relationship between man and the objective world as merely the relationship between the mind and the material, and consider the mind as merely knowledge, then we will forget that man is an entirety. Man not only uses his mind to establish relations with the objective world, but also uses his body to establish relations with the objective world. Man's mind includes not only sense and ideology but also feelings, desire, and will." I still hold the same view now. Things like feelings, desire, and will can not be described as knowledge, nor can they be described as reflection (in the sense that reflection means copying). Therefore, summarizing the relationship between mind and material as the relationship between understanding and being understood and as the relationship between reflecting and being reflected is quite one-sided. Studying man's mind merely from the viewpoint of knowledge is also inadequate. Feelings, desire, and will are the vast realm of man's mind. However, they have almost no place in our textbooks on philosophy. In fact, Marx made many comments in this regard.

We can study the way of expressing the "theory of reflection," but I think using "On Subject" to replace it will not be proper because it will lead to another extreme. Perhaps "On Practice" can be used as a better way to express the theory.

[9 Aug 88 p 4]

[Text] In the first part of this article, we discussed whether the currently prevailing theory of knowledge contains viewpoints on the theory of visual reflection [zhi quan fan ying lun 4160 6034 0646 2503 6158] or not. We may have understood that the theory of visual reflection does exist and should be criticized. However, can we regard it as the philosophical base for our realistic literature? Can we regard it as the root cause of our literary drawbacks in the last scores of years?

Realism requires a writer to faithfully reflect objective facts and to describe lives as they are. Gorkiy said: "Realism means a true and unwhitewashed description of men and their lives." From this point of view, Lenin's theory of reflection seems to be the basis of the theory of knowledge of realistic literature, just as we learn from literary textbooks.

However, if we apply this theory of reflection to literary creations in a strict manner, we can only say: Since reflection is like taking a photograph, a writer should record realistic lives in a mechanical manner without any selectivity. He should reflect truth as long as what he describes is objective and existent, and the more detailed his description is, the truer it is. He shall not add his own emotional coloring or subjectivism to his works. Nevertheless, all literary textbooks emphatically note that literary works are like taking a photograph, nor are they copies reflected in a mirror, nor are they reproductions of realistic lives. A writer should select, refine, and process materials on lives, and create a typical character in a typical environment. He should integrate his thinking, loves and hates, as well as ideals into his own works. As a matter of fact, all of these are outside the boundaries of the theory of visual reflection. Although the viewpoints of Lenin's theory of reflection are cited as authoritative proof, they are enriched and revised when put into practical use.

If we write under the strict guidance of the theory of photographic reflection, we can only create works of naturalism. Naturalism is what we have always opposed. There are not many naturalist works in the field of literature and art in the past several decades since the founding of New China. Naturalism at least requires superficial truthfulness, but the large volume of our literature and art works in the past were aimed at glossing over and distorting facts. They are worse than photographic reflection!

Naturally, this is also not realism. Engels said that in the *Human Comedy*, Balzac recounted the history of a French society and that we learned more from Balzac than all the historians and economists at that time. However, it would be awful if our descendants or foreigners seek to learn about our history from a novel written or a motion picture filmed some 20 years after the founding of the country. The impression he would get will be that signs of class struggle are everywhere, and the party's leadership is always correct, and that counter-revolutionaries are hidden in most of the factories, carefully plotting how to undermine production. They would think that none of the landlords or rich peasants in the countryside have reformed. They will seek class revenge as soon as they have a chance. They will think that intellectuals are always individualists who ignore political affairs. They may think that the secretaries of all party committees are experts in solving contradictions and models in wholeheartedly serving the people. They could believe that the "Great Leap Forward" created an

amazing miracle, while people's communes brought happiness to the peasants. They may think the "Great Cultural Revolution" is just fine, just fine

All this runs counter to realism. This is false realism. But how do we arrive at this point? Since our literature and art hold high the banner of realism, how can they become something which glosses over and distorts facts? If the theory of visual reflection cannot pinpoint where the maladies of our literature lie, then what do we need to explain them?

From Critical Realism to Socialist Realism

First of all, let us review our history. The realist literature which prevailed in the 1830's was a product in contrast with romantic literature. Romanticism emphasizes subjectivity, while realism stresses objectivity. Romantic writers often seek to idealize facts, while realist writers often portray the true features of things. Although realism is different from naturalism, that does not mean that it pays little attention to facts. It is better to say that it calls for an even greater degree of truthfulness than photographic reflection. Truthfulness is the first principle of realism. It does not necessarily repel tendentiousness. According to Engels' view, tendentiousness is allowed in realist works, but this kind of tendentiousness should be automatically revealed in scenes and plots instead of being pointed out by the writer. This is the kind of situation under which the political inclination of the writer is in the same direction as the development of facts. This kind of tendentiousness inflicts no harm to truthfulness. However, if the two are not in the same direction, the writer should firmly adhere to the principle of truthfulness while sacrificing his own views and belief. Even under such a condition, outstanding realist works can still be created, for example, those by Balzac. The realist literature in the 19th Century was called "critical realism", because it truthfully described the cold facts of the capitalist society and the feudal society.

After Balzac, the school of naturalism, represented by Zola, attempted to get rid of the tendentiousness in the literary works of realism by advocating that writers should maintain a "purely objective" and neutral attitude toward reality and avoid making any (political or moral) value judgment on the facts they portrayed. In the Russian proletarian literature that emerged in the early 20th century, however, tendentiousness was given more and more weight. But the emphasis was shifted from exposure to extollment. Lenin developed tendentiousness by making it a principle of party spirit for proletarian literature. He wanted literature to become a part of the party's cause. Gorkiy declared that old realism "has fallen behind the times," that "the time is now ripe for heroic figures" and that what the people desired "was not the exact image of life but, rather, something nobler, better, and more beautiful than life." It was on the basis of this reasoning that Gorkiy believed that new literature should be a combination of realism and romanticism.

The "Charter of the Soviet Writers' Association" adopted in 1934 affirmed the concept of "socialist realism." In addition, it made the following statement: "As the basic method used in Soviet literature and Soviet literary criticism, socialist realism calls on artists to truthfully and historically concretely portray the reality of the actual development of the revolution. At the same time, truthfulness and historical concreteness of an artistic portrayal must be combined with the task of using socialist spirit to transform and educate the working people ideologically." The point of using socialist spirit to educate the working people mentioned here was Lenin's idea. Lenin said: The working class could not, on its own, bring out any socialist ideas; these could only be instilled from outside. What should literature do to fulfill this task then? It is not enough to simply present reality as "what really is." In addition, literature must portray reality on the basis of "what should be." It is necessary to portray the sublime images of heroes and sing the praises of the selfless labor carried out by the working class and, in order to do so, it is permissible to make the characters appear to be more perfect and beautiful than they are in reality. This therefore calls for a romanticist element. Socialist literature of realism also has a critical task, but this is not a primary task. In addition, Gorkiy said that "its criticism is aimed at the past and opposed to the remnants of the past."

Are Political Character and Truthfulness Naturally in Unity With Each Other?

The theory and practice of Soviet literature has had a profound impact on China. In his famous Talks at the Yanan Forum on Literature and Art, Mao Zedong suggested that literature and art should become "a component part of the whole revolutionary machine," that "literature and art are subordinate to politics" and that literature and art should extol the workers, peasants, and soldiers and expose the enemy. He also held that life as reflected in works of literature and art ought to be "on a higher plane, more intense, more concentrated, more typical, nearer the ideal, and therefore more universal" than actual everyday life. Later, he went a step further by issuing the slogan "combine revolutionary realism with revolutionary romanticism." These basic viewpoints were actually derived from Lenin and Gorkiy and not a development of the Marxist-Leninist theory on literature and art as they have been so appraised in the past.

Of course, Mao Zedong had his own viewpoints. He attached great importance to the political contents of a literature or art work, but he was not equally emphatic on its truthfulness. This gives rise to the question about the relationship between political character (tendentiousness) and truthfulness: Are there any contradictions between the two? Mao Zedong said: When we say politics, we mean revolutionary politics, mass politics, and proletarian politics. He said: "This is precisely why there can be complete unity between the political character of our literary and artistic works and their truthfulness."

Maybe it was precisely because Mao Zedong believed that when there is political character there would automatically be truthfulness that he only set forth two criteria for literary criticism, i.e., political criterion and artistic criterion. He made no mention whatsoever about the point of assessing a revolutionary literature or art work by its truthfulness. In his view, the position of truthfulness is even lower than that of artistic quality. He said: "Works of art which lack artistic quality have no force, however progressive they are politically." However, if a work of art has both political character and artistic quality, but no truthfulness, what then? He did not say. The assertion made by the Soviet Union is that the "truthfulness of artistic portrayal" and the task of education in socialism should be combined. Mao Zedong changed this to mean unity of political character and artistic quality, without mentioning truthfulness. In realist literature, truthfulness always occupied first place. Mao Zedong gave this first place to politics. This represented a major change.

The practice of several decades since the founding of New China proved that political character can not take the place of truthfulness in any case. In spite of the fact that by politics we mean mass politics and proletarian politics which is subject to the leadership of the Communist Party, the party is not immune to making mistakes, and the masses will make mistakes when the party makes them. Under the situation in which everything is under the leadership of the party, the calls for serving politics and for the political character of literature and art works can only mean that literature and art works should serve as the party's propaganda and education tool and should affirm and extol every policy adopted by the party. The consequence was, as the "left" guiding thought developed, that the political character of literature and art became more and more prominent and literature and art grew farther and farther away from truthfulness. This continued to develop until there emerged the "model theatrical works" as well as deity-inventing literature and art and conspiracy literature and art of the "Cultural Revolution" period.

A political character that is divorced from truthfulness is not the kind of political character needed by the people in the first place. A political movement guided by the "left" line and principles that are divorced from reality will go against the interests of the people and should therefore be negated politically. However, before the party corrects its mistake, literature and art works can only act as ordered. Politics can intervene in literature and art, but not vice versa. Many literary works in the past that served the "left" principles at the expense of truthfulness were given affirmative assessment politically.

World Outlook And "Portraying Truth": Criticism of the 1950's

Following the death of Stalin in the 1950's, a great debate focusing on the issue of socialist realism took place in the Soviet literature and art circles following the

death of Stalin. Some writers criticized the words contained in the definition of socialist realism that read: "Truthfulness and historical concreteness of an artistic portrayal must be combined with the task of using socialist spirit to transform and educate the working people ideologically." They felt that it was this stipulation that gave rise to the literature and art works' tendency to gloss over reality. When the Soviet Union held its third writers' congress in 1959, the CPSU Central Committee reiterated in its greetings to the congress that there should be no wavering in upholding socialist realism as the principle for literature and art creations. However, the amended charter of the writers' association omitted the above-mentioned passage when it once again referred to the definition of socialist realism. This probably means that only the amended version would be adhered to without vacillation.

This change did not have too much impact in China. According to Mao Zedong's thoughts on literature and art, the point that literature and art are subordinate to politics should be the one about which there must be no wavering. Under the influence of the Soviet Union, literary critics made some criticism of the "theory of no conflict," but this did nothing to harm the principle that literature and art should serve politics. On the contrary, it was even useful to the principle, because China needed to stress class struggle.

"Transforming" the working people ideologically is a formulation that is, in the first place, rarely used in China, where the stress has always been laid on the transformation of intellectuals. Mao Zedong believed that the overwhelming majority of the intellectuals belonged to the category of the bourgeoisie (referred to as petty bourgeoisie in the past, but this term is not used often after the republic's founding). They have always tried tenaciously to utilize all ways and means, including literature and art, to express themselves, publicize their views, and mould the party and the world in the image of the bourgeoisie. This is class struggle in the spheres of ideology and culture. Consequently, the question of world outlook directly became a political question.

Some writers sought to remove too much political and ideological interference and safeguard their freedom to portray reality, but they were severely criticized. One of the so-called theoretical mistakes made by Hu Feng was that he overemphasized the literary approach of realism to the rejection of the role of world outlook as guidance. An authoritative critical article came up with this argument: The working class stand and communist world outlook are prerequisites for a writer to fully and correctly reflect today's reality. Hu Feng retorted: If so, this means the communist world outlook is aprioristic. As we see it today, Hu Feng's retort was correct. One must judge a theory on the basis of his own life experience. If a writer does not even have the least correct knowledge of today's reality, how could he espouse the communist world outlook? Moreover, it requires a long period of time to transform the world outlook of the intellectuals,

at least 8 or 10 years, as Mao Zedong pointed out in his "Talks." It later turned out that 8 or 10 years was far from enough and intellectuals were subject to transformation for a lifetime. Then it is a very, very long time before a writer can take up the pen again after completing the transformation of his world outlook.

Encouraged by the "double hundred" policy in 1956, many writers again appealed for "portraying truthfully" and many works exposing bureaucratism appeared. Following the onset of the "anti-rightist struggle," the slogan "portraying truthfully" and such works were subject to criticism. Among those who were criticized were Feng Xuefeng, Qin Zhaoyang, Liu Binyan, and Ba Ren. The critics argued: "The slogan 'portraying truthfully' is essentially revisionist." "The truth of our society is its progress and brightness." "Portraying truthfully" is synonymous to exposing the dark side." "To them, it seems that only works that expose the dark side are 'truthful,' while works that 'sing the praise of the bright side' are 'glossing over reality' and 'untruthful.'" "Their so-called portraying truthfully means exaggerating the shortcomings of the nation led by the working class." "The countless heroic people and their moving deeds are an incessant fountainhead that will inspire us and future generations to struggle. Our writers will never be able to write them all in their lifetime. How can we ignore them?" ...

All the above remarks are quoted from the writings of some influential writers at that time. It is clear that in criticizing the slogan "portraying truthfully" they had politics in mind and attached primary importance this. Nobody objected to portraying reality truthfully, but, then, what is reality? How should we portray reality? It is precisely here that all sorts of obstacles and traps were set up, sufficient to make the writers hesitate and ask: "Does this truly reflect life?" "Are communists like this?" "Is this representative?" "Does this represent the main aspect of reality?" or "Isn't it vilifying socialism?" ...

In short, the important thing is not "what something is" but "what something should be," not to describe something as "what it is," but "what it should be." When truth is unable to meet certain political needs, it must be sacrificed for the sake of politics and, when this is done, it is done in the name of the "essence" of the truth. The advance of the slogan "revolutionary romanticism" further legitimized the practice of glossing over reality. Our past literature was certainly fruitful, but in many works all I see is the failure of realism.

Originally, the proletarian world outlook reflected dialectic and historical materialism, which included the principle of seeking truth from facts and proceeding from reality. It did not include the principle of acting on assumptions. This is a sound and sensible requirement. However, many subjectivist, dogmatic, vulgar, sociological, "leftist" and oversimplified things are posed (or misunderstood) as things included in the "proletarian world outlook" or as products of such a world outlook.

They are imposed on writers for acceptance. If a writer refuses to accept them, it will be regarded as a sign that this writer's stand is not firm and that he has not done a good job in transforming his world outlook. No wonder it is so hard for writers to transform their world outlook.

Mao Zedong said that Marxism would not dampen the writers' morale. However, since the founding of New China, many gifted writers in the past have more and more found themselves "using up their literary talents" following their progress made in their ideological transformation. A strange phenomenon of "moving ahead in ideology, while falling behind in writing" has emerged. What is the matter? I think the aforementioned analysis may offer certain explanations. Liu Zaifu said: A writer can write well, if, in his inner heart, he subjects himself to the collective interests which he shares. Otherwise, he cannot do so. I believe that many writers do not lack awareness or enthusiasm in serving the people, but erroneous concepts and dogmas have fettered them from the outside and in their inner hearts. They think that what they cannot write well is what they should write, but what they can write well is what they believe they should not write.

Originally, Marxism advocates the emancipation of thought, but alien Marxism fetters thought. The ideological strength plus political measures become a gigantic "super force," hindering a writer's ability to think and his realistic approach and destroying his self-confidence and self-consciousness. It forces him to replace his eyes with the propaganda in the newspapers and to substitute his thoughts with those of his leader. If he writes under such a condition, he is just performing alien labor. He is not freely demonstrating life, but acting as a responsive instrument. Instead of developing his own personality and talent, he is hampering the development of his personality and talent. It is not a pleasure in life, but a drain on life. It is not a self-realization, but self-destruction. "Hack writers' literature" has become alien literature. A writer's subjectivity is lost just like that.

This situation has greatly changed due to corrections made in the realms of politics and ideology. The advancement of the theory on literary subjectivity constitutes a breakthrough. At the same time, to a certain extent, it carries on the theoretical probe made by Hu Feng and others. Just as Hu Feng said the development of the "subjective militant spirit" he put forward does not mean the weakening of the principle of realism, I believe that to stress literary subjectivity should not be construed as the deviation from objective reality. On the contrary, we must criticize the theory of visual reflection. We must also criticize dogmatism and idealism. All schools of thought in literature may exist and compete with one another. However, I think that what the people need most is realism. This kind of realism will not forsake ideals and the pursuit of ideals, but neither will it blunt its cutting edge of criticism and militancy in the face of what is dark and ugly.

Education Experts Propose Improvement Measures

OW1208090988 Beijing XINHUA in English
1359 GMT 11 Aug 88

[Text] Leading educators are worried that many primary and middle school teachers are not paying enough attention to their jobs because of poor pay and working conditions, today's GUANGMING DAILY said. And so they have come with a formula of what must be done. The educators have proposed six measures:

- Local governments must find ways of raising teachers' wages;
- Teachers' pay should be linked to job performance;
- Local governments should sponsor more professional training courses for the teachers;
- Parents should pay fees to subsidize teachers;
- Retired teachers with 30 or more years on the job should be entitled to full pensions;
- People from other trades should be encouraged to go into teaching provided they display competence for the job.

The paper noted that in Shanghai last year more than 200 local teachers left their jobs to study abroad at their own expense. Another 400 veteran teachers quit to go to work in foreign-funded enterprises to earn more money or entered institutes of higher learning to advance their studies. Many of the teachers left don't care much for teaching, the paper said.

Major reasons are low pay, poor living and working conditions, and heavy work loads.

Training Course for Preschool Educators

OW1508135788 Beijing XINHUA in English
0941 GMT 15 Aug 88

[Text] More than 700 kindergarten teachers from across the country started an advanced training course here today sponsored by the Soong Ching Ling Foundation.

The foundation has invited noted experts to give lectures to these teachers from enterprise-run kindergartens. The 15-day course will cover child psychology, literature, and music and dancing.

Feng Lingan, vice-president of the foundation, said at today's opening ceremony that the course is part of the foundation's efforts to improve China's preschool education in line with the wishes of Soong Ching Ling, late honorary president of the people's Republic of China.

It is estimated that China's enterprise-run kindergartens have about 120,000 teachers. Some 2,300 of them have already attended three training courses sponsored by the foundation.

Young Tibetan Couples Changing Views on Marriage

OW1208233888 Beijing XINHUA in English
1349 GMT 12 Aug 88

[Excerpts] Lhasa, August 12 (XINHUA)—More and more young people in the Tibet Autonomous Region are breaking tradition by wanting to decide their marriage partners themselves rather than having their parents make the choice for them.

In the past, a young Tibetan's marriage was arranged by parents. The decision of a suitable mate was a matter for fortune-tellers to deal with and for lamas, too, reciting scriptures to eliminate evil spirits.

Under Chinese marriage law, the legal marriage age for men is 22 and for women 20. Tibet, however, has its own regulation that lowers the legal age to 20 for men and 18 for women.

Education has made the young people rebel against arranged marriages, a local official said.

Many women now want husbands who are capable and who will treat them equally and pay less interest to material things, the official said.

"This does not mean that we will become an appendage of our husbands, but that we will feel safe with them," said Ngoizhu, a Tibetan primary school teacher. She is satisfied with her husband, an interpreter, who, she said, truly loves her.

An official said that because of their nomadic lifestyles, many young Tibetans don't have much chance to find a partner.

Zhaxi Namgyai is a handsome, rugged shepherd who lives in Rutog County bordering with India. He'd like to find a virtuous woman with some schooling, he said. But it has not been easy for 30-year-old Zhaxi. He's still single.

Guangdong Governor Ye Xuanping Stresses Public Security

HK0608012788 Guangzhou Guangdong Provincial Service in Mandarin 1030 GMT 5 Aug 88

[Text] Ye Xuanping, deputy secretary of the provincial party committee and governor, pointed out at a provincial public security work conference this morning: In stepping up public security work, it is essential to fully understand and give scope to the important role of this work in the socialist four modernizations drive and in building a new order of socialist commodity economy, and mobilize the forces of the whole party and the whole of society to preserve political stability and excellent public order in society.

On the current important tasks in public security work, Ye Xuanping said: The reforms have now reached a crucial stage. Price, wage, and labor and system reforms have now been put on the agenda. All kinds of contradictions are on the increase. Hence, the public security organs must make long-term mental preparations and adopt corresponding counter-strategies for dealing with disturbances and turmoil. It is essential to maintain a

high degree of vigilance in resolving these problems and also take the initiative in providing education and guidance. We must curb and crack down on activities that undermine political stability.

On how to preserve stability in social order and boost the masses' sense of security, Ye Xuanping demanded that public security organs at all levels continue to deal hard blows to serious crime and maintain strict security control. In particular, they must focus on cracking down on criminals at large.

Ye Xuanping said: We must step up the building of the legal system in public security, promote reforms in public security work, and improve the quality of public security personnel. We must rely on the forces of society to maintain stable social order. He called on the government at all levels to strengthen leadership over public security work, cherish the public security force and use it well, care for and support the stepping up of public security work, and truly give scope to the role of the public security organs in preserving social order and supporting the four modernizations.

EAST REGION

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[Proposals of the Shanghai Municipal CPC Committee on Reforming and Enhancing Current Ideological and Political Work, adopted at the Seventh Plenary Session of the Fifth Shanghai Municipal CPC Committee on 28 July 1988]

[Text] Ideological and political work is an important part of building socialist spiritual civilization. In 1986, the municipal CPC committee formulated a plan regarding the building of Shanghai's spiritual civilization during "the seventh 5-year" period. Party organizations at all levels should continue to carry out the plan. In order to adapt to the new situation with the current reforms now entering a critical stage and the distinction between Party and government becoming clearer, the municipal CPC committee, in line with the guidelines of the central government for reforming and strengthening ideological and political work, makes the following proposals in regard to Shanghai's ideological and political work.

1. Reforming and Enhancing Ideological and Political Work an Urgent Task

Highly valuing and constantly strengthening ideological and political work has always been a fine tradition of our Party, and an important guarantee for the Party to lead our people to achieve victory in revolution and construction. We should not have any doubt at any time concerning this historical truth which has been proved by practice.

At present, our nation's reform is entering a critical stage. Many difficult and unavoidable problems lie in front of us. In the next few years, we will have to reform the price and wage systems, and gradually build a new order under a socialist commodity economy. Shanghai's economic development is also taking a historic turn, transforming itself from a highly centralized economy to a planned commodity economy, from being domestically targeted to export-oriented, from extensive management to intensive management. This calls for organizing effective ideological and political work to stimulate people's enthusiasm for creativeness and dedication, and to push ahead production and various undertakings; for further emancipating and renewing people's minds so as to create a social environment with public opinions which are conducive to the deepening of reforms; for effectively resisting the corrosive influence of corrupt feudalist and capitalist thinking so as to add spiritual strength to our work in overcoming all sorts of negative phenomena within the party as well as in society; and for arousing the

initiative and creativeness of Shanghai's workers, peasants, intellectuals, and cadres to unite them to work for the common goal of accelerating and deepening reforms, further opening Shanghai to the outside world, and reinvigorating the city.

Since the 3d Plenary Session of the 11th CPC Central Committee, Shanghai's ideological and political work has proved to be fruitful. The current success of Shanghai's reforms and construction is a result of the hard work of numerous ideological and political workers. However, we must take note of the fact that the present ideological and political work is relatively weak in that it fails to fit in the period of transition from the old structure to the new and to adapt to the people's various needs. Unless we work out effective measures to change the situation, Shanghai's efforts to reform, open up, and develop economically will be greatly affected. We must realize that ideological and political work is a basic and day-to-day job, which must be strengthened in particular in the process of gradually building a new order for socialist commodity economy so as to lead, encourage, and stimulate the people to work hard and move forward.

To strengthen ideological and political work is to reform it. Without undergoing reform, it cannot be strengthened. We must restore and carry forward our past good traditions and discard those that are wrong, are incompatible with the development of the new situation, and are not being accepted by the masses; and must improve the system, content, concept, and methods of ideological and political work to make them match the development of the commodity economy. In the 10 years since the launching of reform and opening up, Shanghai's party organizations at various levels, while adhering to the Party's ideological line of seeking truth from facts and constantly removing the influence of left- as well as right-deviationist thinking, have made beneficial explorations in the course of transforming and enhancing ideological and political work: — We have adapted to the change of priorities in Party work, by excluding "class struggle as the principle" from the guiding ideology, putting ideological and political work on the right path of serving socialist modernization, and ensuring the smooth progress of economic work and other undertakings.

—We have adhered to the principle of promoting construction on all fronts by concentrating efforts on uniting the people and bringing into full play their enthusiasm and creativity in building socialism, on satisfying their cultural and spiritual needs, on enhancing socialist ethics, and ultimately on improving the quality of the people to increase our social productive forces.

—While conducting penetrating, profound, and meticulous ideological education in production and administrative work, we have stressed practical results and

assigned party and government work groups to jointly carry out ideological and political work, which was previously conducted by full-time political work cadres.

—In line with the principle of showing understanding, concern, and respect for the people, we have shown concern for the people in ideological and political work and oriented ideological and political work on discussing and solving practical problems of the masses.

—Basing ourselves on the special characteristics of the common people, especially young people, we have enhanced the appeal of interesting forms of ideological and political work through two-way communication and dialogue on an equal footing, and in a democratic, open, and practical manner.

Reforming and enhancing ideological and political work is a protracted task. All party comrades, engaged in both party and government work, should continue to exert themselves in fulfilling this glorious task.

2. Focus of Current Ideological and Political Work

The main task of the CPC's ideological and political work in the entire primary stage of socialism is to mobilize and unite the people on the basis of the party's basic line. To this end, in conducting ideological and political work in Shanghai at the present stage and for some time to come is to proceed from reality and achieve unity in the thinking of all party members and residents in the municipality, particularly on the following four questions:

1. It is necessary to make a sober assessment of the situation and enhance morale in order to strengthen our confidence in the success of reform. We must go all out to publicize, with convincing concrete evidence, the remarkable achievements of reform over the past 10 years, factually analyze existing problems and negative phenomena, and keep the masses informed of the situation, principles, and policies of reform so that the people will be fully prepared for difficulties and contradictions at critical moments of reform and be aware of the certain risks as well as great hopes for a bright future of reform, and thus will work with one heart and one mind, tide over the difficulties together, and strive to win new victories in carrying out reform. In making a sober and comprehensive assessment of the situation in Shanghai, it is necessary to face the difficulties as well as note our advantages and potential. The series of major policy decisions of the Party Central Committee and the State Council in particular have created favorable conditions for reinvigorating Shanghai. There are great hopes, and much can be accomplished in Shanghai. We must overcome complacency and do away with the mentality of considering ourselves as the most advanced region; at the same time, we must not underestimate ourselves or

complain of difficulties so as to enable the people to really adapt their thinking to the socialist commodity economy and export-oriented economy.

2. It is necessary to unite all people on the spiritual basis of "accomplishing the four modernizations and rejuvenating the Chinese nation" to build socialism with Chinese characteristics. We must educate the people in patriotism, and build their national pride and confidence while fostering among them a sense of opening up to the world. To make Shanghai more radiant as a result of their concrete actions, all residents of the municipality must assume an attitude of being masters of themselves and holding themselves responsible for the reinvigoration of Shanghai by vying with one another in performing an outstanding job, providing top-quality service, developing advanced technologies, turning out top-notch products, and carrying out first-class management and operations. To strengthen the internal cohesion of enterprises, each may adopt practical measures to promote its own "entrepreneurial" or "organizational spirit." Party and government leaders at all levels in Shanghai must attach importance to education on national defense.

3. It is necessary to cultivate public morals and professional ethics. We must encourage dedication to public and human relations based on equality and mutual assistance, and foster a general social atmosphere in which everyone strives to achieve progress in an honorable manner. We must also transform outdated customs and habits, and continue campaigns emulating "civilized units," "civilized neighborhoods," "civilized villages and towns," and "five-good families." All grassroots units must cultivate a stronger sense of professional ethics, and enhance workers' and staffs' capabilities to educate, discipline, and develop themselves so as to be able to do their job better and overcome lax discipline and perfunctoriness.

4. It is necessary to uphold the unity of socialist democracy and the legal system. Cadres and the masses inside and outside the party must understand that to stress individuality, democracy, and freedom on the condition that they uphold the four cardinal principles is correct and useful; and that to do so while ignoring this precondition is erroneous and harmful, and can throw the country into chaos and dim the hopes of the modernization drive. Promotion of democracy must be conducive to safeguarding and developing political stability and unity. We must do things within the limits of our capabilities, set our eyes on practical results, and concentrate efforts on improving basic systems. Without social stability and unity, economic and political structural reforms cannot be successful. We must cherish Shanghai's political stability and unity like the pupils of our eyes. Socialist democracy is inseparable from the socialist legal system. Therefore, we must continue education on the legal system among all municipal residents so that they will be familiar with the law, and observe and do things according to the law.

In short, education in the abovementioned four areas is aimed at emancipating the mind and further liberating productive forces. We must make everyone understanding that the development of productive forces is the focus of all work, and that being conducive to the development of productive forces is the starting point in considering every question and the basic criterion in evaluating all work. As manpower is the most active component of productive forces, to increase the ideological awareness of laborers through ideological and political work should be a prerequisite for upholding the criterion of productive forces.

In conducting ideological and political work, it is necessary to take practical measures and combine advanced with general requirements. Leading cadres at all levels in Shanghai should take the lead in emancipating the mind, be bold in practice, and work as innovative reformers. They should execute their duties with honesty and dedication and serve the people wholeheartedly. They should also go down to the grassroots to solve practical problems efficiently, and lead the people in seizing the golden opportunity and creatively implementing the central authorities' principles and policies so as to open up a new situation in Shanghai's construction and reform. All Communist Party members in Shanghai must continuously strengthen their party spirit and their communist conviction, observe party discipline and state law, and carry out the party's line, principles, and policies in an exemplary way. They must persist in making reforms, work hard, and stand up to the tests confronting the ruling party and its reform and open policy. They must also courageously combat all sorts of negative and decadent practices. In line with the requirement of training a new generation of socialist-minded people with high ideals, moral integrity, a good general education, and a sense of discipline, we must teach the masses of workers and staff to love their job and integrate their personal interests with those of the state and the collective, thereby striving to contribute more to society.

3. Gradually Set Up a New Ideological-Political Work System for Enterprises

According to the guidelines of the "Enterprise Law," the new, basic pattern of ideological and political for enterprises calls for setting up a multilevel network of ideological and political work among workers and staff, with the director assuming full responsibility for administrative affairs and with close coordination and division of labor between party and government work groups, and integrating the party and government with the masses and full-time with part-time instructors.

At present, all state-owned enterprises in the municipality should seriously implement the "Enterprise Law" and the circular issued by the central authorities concerning its implementation. The system of the enterprise party organization leading the ideological and political work among staff and workers should be changed into

one of relying on the factory director to take the responsibility for this work. The change in the system will help solve the problem of treating politics and economy as "two independent things," as once prevailed, and will make ideological and political work part of enterprise management. It will enable all departments and organizations in the enterprise to do ideological and political work, forming a mighty work contingent in this regard. Moreover, it will be conducive to combining the work of solving ideological problems with paying attention to the daily life of the masses and solving realistic problems.

However, this does not mean in the slightest way that party organizations may relax efforts in ideological and political work. It should be emphasized that strengthening the building of spiritual civilization and making a success of ideological and political work are still major duties of the party organization in an enterprise. The enterprise party organization should devote its main efforts to improving itself, managing party affairs in a serious way, and ensuring organizational implementation of the party's basic line. It should use the methods of persuasion, demonstration, and assimilation to publicize the party's policies and propositions and rely on the party members' vanguard and exemplary role to stimulate and unite the masses to work together to fulfill the tasks of the enterprise and meet its development goals. It should assist the factory director in organizing cadres to study theory and providing systematic education and training to staff members and workers. In addition, it should guide and support the trade union, CYL, and other organizations in doing successful ideological and political work among staff members and workers.

Time is required to establish the new system of ideological and political work in the enterprise. It is necessary to properly handle the relationship between the goal and the initial step and actively study how to proceed from the initial step to the goal. Since conditions vary from enterprise to enterprise, the time required for establishing the system of the factory director assuming responsibility for ideological and political work will differ in different enterprises. At the same time, there will be different forms of ideological and political work organizations in different enterprises. This is normal. We should persist in seeking truth from facts and see to it that measures are adopted in accordance with the specific conditions of the various localities and factories. We should neither stress one model nor "use the same method" for all. During the transitional period, while coordinating with the factory director, the party organization must assume a bigger responsibility so as to avoid any interruption in ideological and political work.

In this regard, 1) party and administrative organs should straighten out their duties so as to lay a good foundation for the new system. 2) Some big enterprises may have full-time party committee secretaries, while in other enterprises the party committee secretaries may concurrently be deputy factory directors in charge of ideological

and political work. Alternatively, committees for building spiritual civilization or leading groups for ideological and political work among staff members and workers may be established with factory directors serving as chairmen of the committees or heads of the leading group and party committee secretaries as their deputies. In addition, the committees or leading groups will consist of responsible persons of trade unions, CYL, and other organizations concerned. In some medium and small enterprises, the factory director and the secretary may be the same person. 3) Some outstanding political work cadres should continue to serve as backbone ideological and political workers. They should engage in studying, organizing, and specifically guiding ideological and political work. As for those full-time political workers who are to be transferred to other jobs, proper arrangements should be made for their placement. 4) Factory directors and administrative personnel should heighten their awareness of doing ideological and political work and take up this responsibility as soon as possible. Factory directors should vigorously support the work of the party committees and voluntarily put themselves under the supervision of party organizations. All those units which have introduced the system of factory directors assuming full responsibility should implement the "one post, two responsibilities" system. That is, administrative cadres of enterprises should be responsible not only for their own work but also for ideological and political work. Ideological and political work should be included in the routine work of the various departments and regarded as an important criterion in appraising the work of administrative cadres. In doing ideological and political work, there should be unified planning, arrangements, and coordination as well as unified methods for checking and appraising the work.

Responsible institutions at higher levels should change their setup in order to adapt themselves to the new system of ideological and political work in enterprises and to straighten out the relationship between party organizations at higher levels and enterprises. The various administrative units and institutions may in principle search for a system of ideological and political work in this spirit and according to their own characteristics.

4. Build a Massive Contingent of Ideological and Political Workers

With a new system of ideological and political work being gradually instituted, ideological and political work will be done by a massive contingent of people instead of by full-time political cadres. This contingent will consist of full-time political cadres as well as administrative cadres, managerial personnel, people engaged in education, science and technology, journalism, publishing, broadcasting, television, culture, art, and theoretical research, and heroes and model workers on various fronts. Each and every Communist Party member should regard it as his duty to actively do ideological and

political work. We should effectively mobilize and organize this contingent in order to ensure that ideological and political work will be done well in the new period.

Ideological and political work is a science. Ideological and political workers are engaged in complex mental labor and should be respected by society at large. There are a number of outstanding comrades among the ideological and political workers on various fronts in the municipality. They take the overall situation into account, are bold in exploration, work hard and conscientiously, and do not get upset by criticism; they have done a lot of work and have displayed a strong party spirit and devotion to the revolutionary cause. Since the 3d Plenary Session of the 11th Party Central Committee, they have also made valuable contributions to promoting efforts to set things straight, promoting comprehensive reform, and maintaining unity and stability. We must protect and cherish the enthusiasm of these comrades. The party's cause would be impaired if these comrades were not understood and supported or were subjected to unfair criticism or unequal treatment by the public. Ideological and political workers should also not improperly belittle themselves. They should have a sense of honor, mission, and responsibility and play their role in fulfilling the party's cause. They should identify themselves with the masses and play an exemplary role, no matter where they are. They should do what they require others to do. They should continuously raise their level of understanding of Marxist theory and policies, acquire knowledge in various fields, emancipate their minds, and adopt new ideas in order to adapt themselves to ideological and political work in the new period.

The separation of party and government calls for a compact contingent of capable, highly efficient, and full-time ideological and political workers as the mainstay in this work. It is necessary to maintain the relative stability of this contingent and to show concern for the vital interests of its members. The titles of full-time political cadres in enterprises should be determined according to the following three principles: 1) Technical and managerial personnel who are transferred to do political work may be given a technical or managerial title after assessing their proficiency according to relevant regulations. In making such an assessment, consideration should be given to the special characteristics of political work while upholding standards. 2) Opportunities for education should be created for young political workers without a professional education. This enables them to acquire certain educational qualifications and become qualified personnel through self-study or by attending short-term courses and also enables them to lay a foundation for themselves to earn a technical or managerial title. 3) The grades, positions, and wages of comrades who have done political work for years may be determined according to regulations governing administrative cadres in this regard. Before the party Central Committee formulates unified regulations on titles for political cadres, the concerned departments and units in

this municipality may experiment in this regard in an organized and well-guided manner; and organization and personnel departments should earnestly give them guidance in this respect.

Party and government organs at higher levels and party organizations of enterprises should vigorously support political cadres in their work, set tasks for them, help them seek new ways to perform their work, and enable them to have bright prospects and an orientation in their work. In strengthening the building of a contingent of ideological and political workers, we must rely on institutions of higher learning, party schools at various levels, and cadre schools in this municipality for regular and systematic training of political and administrative cadres.

5. Involve the Whole Society in Ideological-Political Work

Ideological and political work, as a social systems engineering project, should be carried out by the whole society, making use of every suitable occasion and every available means, using all possible channels, and mobilizing all forces.

Newspapers, television, radio, and other modern mass media, which are capable of providing a host of timely information to a broad audience, should be used more extensively to reform and enhance ideological and political work. Mass media must give greater publicity to achievements made in construction, reform, and opening up, as well as to advanced deeds in all trades and professions, and keep the masses informed about the current situation through lively forms of education. They must take the initiative in publicizing and explaining to municipal residents any major reform measure which comes into effect. They must report "hot spots" the masses are keenly concerned about in a way which is conducive to promoting stability, unity, and the reform and open policy, and must take up certain controversial issues which cannot be settled at once in a scientific and wholesome manner. From now on, senior officials of the municipal party committee, the municipal government, and other relevant departments must periodically address or conduct a dialogue with the masses over radio or television. In exercising supervision through public opinion, the mass media should criticize, in a positive manner, bureaucratism and other unhealthy tendencies. Criticisms made should be serious, responsible, and factual. Draft criticisms on major issues should be submitted to the relevant authorities for their opinions before publication.

Theorists specializing in philosophy and other social sciences should, in accordance with the guidelines of the theoretical work forum called by the municipal party committee earlier this year, apply the basic tenets of Marxism in studying and solving theoretical problems cropping up in Shanghai's reform and modernization drive, and at the same time, step up study of the theory

on the initial stage of socialism. Theorists should work together with practitioners in trying to resolve all pressing problems of the people. The fruits of their research should be reported promptly and skilfully to the vast numbers of cadres and people.

Teachers, scientists, and technicians shoulder a glorious task in building socialist spiritual civilization. Teachers should adhere to the principle of imparting knowledge and educating people by including ideological and political work in practical teaching. Courses concerning ethics and moral character should begin at primary schools. Schools of all types should improve teaching on moral character and political theory and enhance the students' enthusiasm and initiative in studying. It is necessary to encourage students to participate in various social activities, and all departments concerned are urged to give active support to such activities. Efforts should be made to popularize science and make ample use of popular science networks at all levels in Shanghai so as to eliminate superstitions and ignorance, and help the people foster a scientific outlook on the world and lead a civilized and healthy way of life.

In literary, art, and other cultural undertakings, it is necessary to properly handle the relations between economic efficiency and social benefit [she hui xiao yi 4357 2585 2400 4135], and persistently place social benefit above anything else, striving to improve the quality of intellectual products to satisfy the needs of the masses while providing them with active spiritual enlightenment. To educate and enlighten the people and propel history forward, we must encourage outstanding creative works which can help promote the modernization drive and the reform and open policy, inspire the people to bravely blaze a new path, and exert a favorable influence on their moral character. In order to make Shanghai's cultural market become more prosperous, we should step up efforts in cultural legislation, protect wholesome cultural undertakings according to the law, and resolutely ban reactionary and obscene materials.

We must fully mobilize urban neighborhoods and rural townships and villages, which are the grassroots organizations of society, in carrying out ideological and political work to every household, thereby safeguarding stability and unity and improving the general mood of society. To promote culture in a community is an important way of enriching the cultural life of its workers and staff and residents in general. It is necessary to further summarize and popularize the experience in this regard so as to enable people to broaden their knowledge in a healthy cultural environment, exert a favorable influence on their character, and build closer relations between the party and the people and between cadres and the masses.

6. Strengthen Party Leadership Over Ideological-Political Work

In strengthening party leadership over ideological and political work, we must step up the building of party organizations at all levels. It is necessary to periodically

conduct ideological education among party members and set up necessary systems. Leading cadres at all levels must set an example by deeds instead of by words. Recently, the municipal party committee put forth a five-point guideline calling on party and government organs to perform their duties in an honest manner, increase revenues, and cut down expenses. The municipal government also pledged to serve the people wholeheartedly and perform its duties honestly and efficiently, and it formulated several regulations requiring leading cadres at and above the bureau level to display the style of hard work and plain living. Party committees, discipline inspection commissions, and supervisory departments at all levels must make sustained efforts to ensure the fruitful implementation of these guidelines. Grassroots party organizations must earnestly improve their regular activities, and bring into full play the role of party branches as combatant fortresses and the exemplary vanguard role of party members.

Party organizations at all levels must place reform and the enhancement of ideological and political work on their agenda, and conduct fact-finding studies to keep abreast of the latest ideological trend and take the initiative to carry out the work with a clear objective in mind. They should, in particular, adopt a clear-cut and principled stand and effective measures to deal with unexpected incidents in order to safeguard political stability and unity in Shanghai. The municipal party committee will periodically convene meetings of all working party committees and district and county party committees to especially study and discuss ideological and political work. Working party committees, as agencies of the municipal party committee, should effectively carry out ideological and political work within the respective units. District and county party committees should strengthen leadership over ideological and political work within each district or county. In exercising leadership over ideological and political work at lower levels, the higher authorities should mainly issue overall guidance and, except for on major issues requiring unified arrangements for publicity and education, refrain as much as possible from setting mandatory demands on grassroots units, allowing them to proceed from the reality in each unit in arranging the content and focus of ideological and political education on their own.

The propaganda department of the municipal party committee, as the latter's working department for ideological and political work, should concentrate efforts on organizing, guiding, coordinating, and serving the work under the committee's leadership. An information feedback network, consisting of the propaganda departments of party committees at the municipal, district, county, and bureau levels, should be set up to regularly collect ideas and opinions from the masses to serve as references in making policy decisions. As far as the work in this area is concerned, we should fully utilize the ideological and political work societies at all levels. In strengthening leadership over the press, and theoretical and other

ideological works, from now on the municipal party committee and municipal government will keep the door open in soliciting opinions on them.

It is necessary to strengthen leadership over trade unions, CYL committees, women's federations, and other mass organizations. We must help them carry out their work on their own and by using their own style, and apply various means to conduct timely and targeted education and guidance among their members, thereby pooling the efforts of all quarters in doing ideological and political work.

The municipal party committee calls on party organizations at all levels and all party members to strive to implement the line of the 13th CPC National Congress and, while upholding the four cardinal principles and persisting in reform and opening up with economic construction as the central task, reform and enhance ideological and political work in order to achieve greater spiritual cohesion, enhance morale, and promote the building of the two civilizations, thereby adding a new chapter to the history of reinvigorating Shanghai!

CENTRAL-SOUTH REGION

Henan Leadership Reports Through Press
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["Dispatch" by Li Jie (2621 2638): "Henan Governor Sincerely Makes a Work Report to the People Through the News Media"]

[Text] Zhengzhou, 9 Aug—From 6 to 9 August, the Henan governor and six vice governors made work reports to the people in the province through news media stating that they would pay attention to 20 important tasks this year.

After the formation of the new Henan Provincial Government leading group in January this year, in order to ensure the implementation of the "government work report" and the sustained and stable development of the province's economy, the provincial government announced through radio and television broadcasts and in newspapers that it would fulfill 112 jobs for a certain period of time to come and devote major efforts to 20 important tasks. It also promised the people throughout the province that the provincial governor and vice governors would report on the progress of their work every half a year. This method was well received by the cadres and people throughout the province.

Since the beginning of this year, to ensure the carrying out of the 20 important tasks and raise the sense of responsibility of leading cadres, the Henan Provincial Government has implemented the governor and vice governor responsibility system and has also introduced the target management responsibility system to cities and prefectures as well as departments affiliated with the

provincial government. The governor and vice governors signed annual target management responsibility letters with 17 cities and prefectures and 51 departments affiliated with the provincial government, thus facilitating target management and the implementation of various tasks in all parts of the province. In addition, to ensure the realization of the targets set, the provincial government formed an assessment commission which, under the leadership of the provincial party committee, cooperates with the provincial party committee's organization department and the relevant departments in making assessments of the leading groups of departments directly under the provincial government.

The governor and vice governors wrote their own work reports and read them to the people on television and then submitted them to the radio station for broadcast and to newspapers for publication. The governor and vice governors said in their work reports that the 20 important tasks had proceeded smoothly and that 14 of them had produced good results, accounting for 70 percent. Industrial output value increased by 19 percent over the same period of last year, profits produced by budgetary industrial enterprises increased by 51.4 percent, and revenues by 15 percent. A great deal of work

has been done in increasing foreign exchange earnings in township and town enterprises as well as in foreign trade, in enlivening scientific research institutes and the work of scientific and technological personnel, in repairing buildings in primary and secondary schools, in resolving cases of insulting and beating teachers; great progress has been made in this connection. Due to various reasons, some tasks have not been fulfilled satisfactorily, including grain production; the construction of meat, vegetable, and egg production bases; stabilizing urban food prices; maintaining good social order; and practicing family planning. They also sincerely told the people that safety in production and the control over the purchasing power of social groups were falling far short of the requirements set by the provincial plan. This work has not been fulfilled satisfactorily because attention has not been duly paid. They said they were determined to take measures in the second half of this year to improve their work.

The governor and vice governors said in their work reports that they welcome criticism and suggestions from the people on the work they have done in the first half of this year.