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# China

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**Interviews With Wang Ruowang, Miao Lichen**  
40050438 Hong Kong CHENG MING  
[CONTENDING] in Chinese No 130, Aug 88 pp 46-47

[Report on Interviews with Wang Ruowang 3769 5387 2598 and Miao Lichen 5379 0500 3089 on 30 May 88 by Li Guoquan 2621 0948 2938; place of interview not specified]

[Text] At noon on 30 May 1988, I interviewed Miao Lichen, the former assistant editor of the SHEHUI KEXUE [SOCIAL SCIENCES] journal of the Shanghai Academy of Social Sciences, and the famous writer Wang Ruowang. Miao said to the present situation:

1. "The 'anti-liberalization' campaign reduced the prestige of the party to its lowest point. Much of the good reputation that the party had gained since Deng took over was again dissipated. If the brakes had not been promptly applied, it is hard to imagine the situation that might have developed..."

**Hu Yaobang Implicated in Wang Ruowang's Troubles**

2. "The way Wang Ruowang was expelled from the party was ridiculous as it was also absurd. When the accident with the oil-drilling vessel, the 'Bohai No 2,' occurred, as early as in 1979, there had been some loss of life. Wang Ruowang wrote an article at that time, a short essay, which was published in the RENMIN RIBAO and the GUANGMING RIBAO. The gist of it was that many leading cadres gave much publicity to the 'unselfishness' of the victims, but covered up the essence of the affair, namely the 'utter disregard for human life...' When Deng Xiaoping read the article in the newspaper, he was furious and said: 'This Wang Ruowang is indeed so reckless as to have something against 'unselfishness'... If we do not display unselfishness, what kind of a communist party would we be? A person like that must not be left in the party...'"

"This directive was quickly transmitted to Shanghai, and the municipal party committee hurriedly, called a meeting, and discussed the matter. Most thought it would seem unreasonable to just expel him like this, but they also would not dare decide the matter themselves in a way that would be against Deng's will. So they referred the matter to Hu Yaobang for instructions. Hu Yaobang said: 'To expel an old party member only because of a short article seems not quite appropriate, and besides Wang Ruowang's article was not terribly offensive. Let the matter rest for a while and let there be some ideological education.' Several years passed in a flash, and then when the trouble with the students happened, Deng was reminded of Wang Ruowang and vented his anger on Hu Yaobang; he said: 'I said long ago to expel him, but someone has been blocking so that no action has been taken.' That someone was Hu Yaobang.

"Those in the forefront of ideological liberalization are of course departing from the classics and rebelling against orthodoxy, which makes them easy targets for attacks. Some people got into a great predicament. Because Guo Luoji [6753 5012 1015] had published an article entitled 'Political Questions May be Discussed,' he was driven out of Beijing" (Note: Guo was head of the administrative office of the president of Beijing University). "He was ordered transferred to Nanjing University, but since he was a 'banished subject,' Nanjing University did not dare let him teach courses. In the case of Wang Ruoshui [3769 5387 3055] and Wang Ruowang, their literary articles were denied publication, but it did not matter too much because Wang Ruoshui wrote articles on theory, and Wang Ruowang wrote novels... they will definitely be useful sooner or later.

**Deng Xiaoping's Contradictory Mentality**

"There is no denying that there is a conservative side in Deng's psychological make-up, but in view of the lesson from Mao's fate, also for international reasons, and for the sake of support from Hong Kong and Taiwan, Deng does not dare repeat Mao's murderous policy of bludgeoning people... Deng also wants to maintain an equilibrium, or, let us rather say, wants to paralyze all opponents of reform. At the end of last year, Zhao Ziyang wanted to close down HONGQI, but it continued defiantly for half a year; it was finally closed down in June.

"Deng's two sons do not at all agree with all of Deng's actions. At the time of the 'anti-spiritual pollution' campaign, Deng Pufang [6772 2613 2455] was strictly against it, and Hu Yaobang, Xi Zhongxun [5045 0112 0534], and Hu Qili [5170 0796 4539] tried to persuade Deng not to launch the campaign. The reason why he still went ahead with it was the 'false report on the military situation' by Deng Liqun [6772 0500 5028]. In the beginning, Deng Liqun was not so bad, but once he became director of the Propaganda Department he considered himself a 'Yao Wenyuan' [1202 2429 0337]... As a result of the 'anti-spiritual pollution' campaign Deng Liqun lost his position, and Huang Gang [7806 6921], who had criticized Bai Hua [4101 2901], and Ouyang Shan [2962 7122 1472], who had criticized Dai Houying [2071 0624 5391], disappeared from the literary scene.

"The reason for the slow progress of the reform is that the power over central finance administration is in very conservative hands. If the demand is for 'emphasis' on education, what emphasis is possible if no funds are allocated. They advocate 'raising funds by themselves,' which led to schools running hotels with teachers as service personnel. Could any 'dignity in the teaching profession' be still left! The original venerable constellation of 'Heaven, Earth, Ruler, Family, Teacher' has been smashed at the time of liberation, and only the 'ruler' has remained out of the original line-up; every household has a standard picture of Mao Zedong.

"For a while we had the 'birdcage economy' of Chen Yun [7115 0061], and it is still of quite some influence. Because of Shenzhen, there was a parting of ideas in matters of economic ideology, Chen called it all fouled up, but Deng called it splendid; Chen called it capitalism, while Deng called it 'socialism with Chinese characteristics.' Of course, regarding commodity economy, opening up the coastal region, joining the large international economic circulation, Chen Yun too had raised his hand in approval.

"The decision to expel Wang Ruowang from the party was announced at a meeting called by the Shanghai Writers' Union, which also includes nonparty members. Everybody at the meeting expressed protest by silence and indifference. Only one nonparty member said: 'In my opinion Comrade Wang Ruowang did not attack the four cardinal principles!'"

#### **Without a Thorough Denunciation of Mao Zedong, No Vigorous Progress is Possible**

I gave Miao the issue of the ZHONGHUA ZAZHI [CHINA MAGAZINE] with the article "Leadership Philosophy" to read. Miao did not mind and did not complain with one word that his name was mentioned in the article and reference was made to a letter from him. After he read the article "The Pyramid," he said: "Your viewpoint is well founded," to which he added, "Mao's dictatorship started the day he came to power. There was of course a period of development. Gorbachev was correct in thoroughly denouncing Stalin. As long as China does not also thoroughly denounce Mao Zedong, there is no way for it to make good progress. The thorough denunciation is only a matter of time, and I believe I will still be able to see it come about."

I said: "Denunciation of oneself is difficult, and a thorough denunciation is even more difficult. If there is a thorough denunciation of Mao Zedong, what about the great achievements and signal contributions of the communist party? Would it still be right to persist in the leadership of the communist party? One must not overlook this kind of a chain reaction. There is the saying, 'When it comes to having to cut oneself, all knives are very blunt' and there is 'the domino effect'..."

Miao asked me to have lunch with him, and he dialed for me Wang Ruowang's telephone number, but could never get through because he did not know the extension number. It was then that his nephew Yuan Ming [5913 2494] came in, and he asked young Yuan to take me to Gaoan Street, 50th lane. Yuan Ming, a high school graduate, was only 18 years of age. On the way he revealed his wish—not to go on to university, but that he wanted to go into business. He also told me: "There were so many criticisms and public denunciations since liberation; those who did the criticizing and denouncing have by now all been forgotten, but those who had suffered the criticism and denunciations will always live on in the hearts of the people."

#### **"Tell the World, Wang Ruowang..."**

Having arrived at Wang Ruowang's door, Yuan Ming asked: "May I listen in on your conversation?" I said: "But of course, we have no secrets." In response to the door bell, an old man, slight of figure, white-haired, and sharp-eyed, opened the door. He had obviously aged during the last 8 years, but he was of surprising vitality, with no sluggishness about him, even less any sign of dejection. After a short moment of hesitation, he remembered me and the debate we had at his old residence in Xuhui Ward.

I said: "I and my friends worry about your situation and worry about your health!"

He laughed heartily and said: "Tell all friends, the 'emergency alarm' has been lifted. You have come at the right time, a few months ago I still had a few 'KGB men' downstairs, but they have gone by now..."

Then I gave him a Hong Kong magazine and the Taiwan ZHONGHUA ZAZHI to read. This old septagenarian read concentratedly and was visibly pleased when he saw the photo with himself and Liu Binyan [0491 6333 7159] and Liu's wife. It was obvious that this man, who is deputy chairman of the Shanghai Writers' Union and a famous Chinese writer, has little, or rather absolutely no opportunity to come in contact with publications like the mentioned ones. How can anyone say that this is a very "opened-up" society!

When he had read my article "The Pyramid" in the ZHONGHUA ZAZHI, he said: "Your writing is much more vicious than mine, how is it that you don't get criticized by them?" I said: "I am not a party member!" He stood up and, leaning on my chair, said with a laugh: "It seems it has its advantages not to be a party member!" I said: "I am not as well-known as you are!" He laughed heartily: "If there should ever be a great to-do again, you will not be spared and will not be able to escape!" I said: "Frankly, one has always to take a risk!" He said: "If at the slightest indication of another storm, everybody will withdraw like turtles retracting their heads, then China will indeed be finished."

"I feel quite well about myself..."

At that moment the telephone rang. After finishing his telephone conversation, he said with a smile: "I don't know whether you have noticed, the XINMIN WAN-BAO of 9 March this year published a short article by me, by which they meant to declare: Tell the world, Wang Ruowang is not being persecuted, he is still publishing, but that article had hardly any meaning. A Wuhan magazine wrote me a letter with an earnest request to contribute an article. I sent them an article entitled "Practice and Test"; that article was really in the Wang Ruowang-style, and I figured they would hardly publish it..." I said: "I shall watch the Wuhan magazines." He continued: "Just now the editorial office of

SHANGHAI WENXUE telephoned and told me that they intend to bring out a supplementary issue, in which they want to publish my long article "I Feel Quite Well About Myself," which is about 500,000 characters long and is to be published in four sections. They telephoned to say that the first section is ready; they suggest I change the title, but they will not change one word of the text, and will make "I Feel Quite Well About Myself" the subtitle. To indicate that Wang Ruowang still exists, I compromised and came to an agreement. I asked them to choose on my behalf a less provocative title."

"They were wrong, I was not wrong."

We talked for over 2 hours without the slightest cautious restraint. The fact that we had happened to meet 8 years ago led to a free and confidential exchange of views. I could not help thinking of the verse "Don't say there will be no readers throughout the world, as long as there is understanding what harm is there that the talk was so short." Finally, when we talked about the assault of the anti-liberalization campaign, he indignantly remarked: "They were wrong, I was not wrong. History will prove the stupid meanness of this farce."

"What procedure did you have to undergo when they expelled you from the party?"

"The organizational principles of the party were completely ignored. My party membership was never discussed by the full meeting of the party branch because they were worried the decision might not be passed by the party branch. Thus, they finally decided on a secret method; After Deng's statement had been received, the Shanghai Discipline Inspection Commission quickly issued the decision to expel Wang Ruowang from the party. They sent someone to the Writers' Union to announce the decision, and called me to the Discipline Inspection Commission to announce the decision to me, when they wanted me to sign my name to the document immediately. I was furious and told them: "I was a member of the Communist Party for 50 years, the matter of party membership must not be decided within half an hour," saying that I threw down the writing brush and walked out ..."

"I was expelled from the party alright, but still left in my position as deputy chairman of the Writers' Union, but I do not go to work there anymore. Now I am truly just a writer, and since I have no social activities, that leaves me time to write some larger works..."

I felt I had bothered him too long and should apologize for it. He turned the pages of the ZHONGHUA ZAZHI which contained the article "The Pyramid," as if he wanted to finish reading it. I was in a hurry, and, having nothing else to leave as present, I gave him my only copy of the ZHONGHUA ZAZHI.

On taking leave of him, Wang Ruowang asked: "What date is today?" I said: "The 30th of May," whereupon he said: "A day worth remembering."

As to any rectification of his erroneous data, he said: "What they had lined up as evidence of my "crime," did not come from written articles, because what is black on white cannot easily be changed, but with the speeches they brought up they could play tricks. I am very grateful to the Chinese writers; none of them came after me to so-to-say hit at a man who is down and condemn me in speech and in writing, and denounce me. There were of course some particular persons who severely criticized me. They are now already using laundry soap to wash off all the dirt marks of it."

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**Hong Kong, Macao Affairs Director Interviewed**  
40050439 Hong Kong CHING PAO [THE MIRROR] in Chinese No 133, Aug 88 pp 54-56

[Report on interview with Guo Fengmin, director of the Hong Kong and Macao Affairs Office of the Ministry of Foreign Affairs, in Beijing, by CHING PAO reporter Wei Mu 7279 2606: "I Am Optimistic About Hong Kong's Future"; date of interview not given]

[Text] Ke Zaishuo [2688 0961 7007], the first director of the Hong Kong and Macao Affairs Office in the Chinese Ministry of Foreign Affairs [MFA], arrived in Hong Kong recently to head the Chinese side of the Sino-British joint liaison group. Replacing him at the MFA was Guo Fengmin [6753 0023 3046], the former Chinese ambassador to the Federal Republic of Germany [FRG], who was summoned home 2 months ago. I interviewed him recently.

The MFA is housed in an office building next to Dongsidong in Beijing. On the seventh floor is Guo Fengmin's office, an 11- or 12-square-meter room simply appointed with a writing desk, a book shelf, an old table lamp from the 1950's, a tiny 9-inch electric fan, a cotton flannel sofa, and a side table. Guo Fengmin said that his predecessor also worked in that office. Apparently apart from diplomatic functions which take place elsewhere, they do not conduct their day-to-day work in the lap of luxury.

At 57, Guo Fengmin boasts a diplomatic career spanning 38 years. A native of Chaoyang, Guangdong, he left for Shanghai, the so-called "adventurers' paradise" where his father had gone to do business, at the tender age of 3 or 4. He graduated from the primary school attached to Guanghua University and spent 6 years obtaining his secondary education at Saint Francis High School, Hua De High School, and a high school attached to Tongji University. He was admitted to Tongji University in 1947, majoring in jurisprudence and administration,

and studying German and English. The next year he joined the CPC. When the PLA occupied Shanghai, he was assigned to do diplomatic work for the regime soon to be born.

In the summer of 1947, Guo Fengmin left Shanghai for Beijing and entered Huabei People's University for short-term training. In 1950, Switzerland, the country situated at the very heart of Europe, became the first nation to establish foreign relations with China. Guo Fengmin, then only 20, was dispatched to Berne, becoming one of the first diplomats sent by the Chinese Communist government to the West. Guo Fengmin spent almost 10 years at the Chinese Embassy in Switzerland and occupied himself mainly with Western European studies and translation work. During this period, he also taught himself French, with great success.

#### **An "Old Western Europe Hand" Who Speaks Three Foreign Languages**

Guo Fengmin was recalled home in 1960. By then he was already a young diplomat who spoke three foreign languages and was well versed in Western European affairs. Next year, he was sent to do manual labor in Zhuo County, about 100 kilometers from Beijing, which gave him his first contacts with peasants. Upon returning to the MFA, he was made deputy director of the Western European Affairs Department in charge of the FRG desk. During the tumultuous years of the Cultural Revolution, he was sent to do physical labor in MFA's "May 7" cadre school in Hunan, where he stayed for 4 years. Like tens of thousands of government cadres, he was "reeducated" until early 1973.

In the next 10 years, Guo Fengmin was assigned to the MFA's Institute of International Affairs, specializing in Western Europe, and was successively promoted deputy office chief, office chief, and deputy director of the institute. In 1980, he conducted research at the International Strategic Studies Institute in London as a visiting scholar for half a year, his subject being the foreign policy of Western European nations. He also held academic discussions and exchanges with British diplomats and researchers. After he returned home, he wrote a paper entitled "The Basic Diplomatic Thought of Western European Nations," which was published in GUOJI WENTI YANJIU.

In the fall of 1983, Guo Fengmin left the research institute to head the Western European Affairs Department. Obviously this MFA "veteran" who speaks three foreign languages is an "old Western Europe hand" with a good grasp of the situation in various Western European countries, their foreign policies, and their interest in and hopes for China.

Discussing his views toward Western Europe and China's relations with it, he said, "The general trend is for Western Europe to play an increasingly important role,

or, in the words of Western scholars, toward 'polarization,' instead of there being just two poles—the United States and the Soviet Union. Thus Western Europe is stepping up economic cooperation and political consultation. It is drawing up a joint foreign policy and strengthening cooperation in defense, science, and technology. In the future, there may be even closer cooperation in financial matters. Of course, it is somewhat more difficult to achieve financial and defense cooperation, but overall that is where Europe is moving. Meanwhile the relations between Eastern and Western Europe are also improving. All this bodes well for 'international polarization' and peace and stability in Europe and the world. Western Europe has great interest in developments in China. For its part, China also wants to see a strong and united Europe and hopes that Western and Eastern Europe will draw closer to one another. China values developing ties with Western as well as Eastern Europe, which likewise will be conducive to international polarization and world peace."

#### **Highly Optimistic About Hong Kong's Future**

The conversation then shifted to Hong Kong and Macao. I asked his opinion on two issues reported in the press: the outflow of capital and serious brain-drain from Hong Kong and the notion that Hong Kong's position as a financial center seems to be undermined. His reply was brief, concise, and unequivocal.

On the first issue, he said, "Clearly we have to pay attention to it, but I don't think it is all that serious at the present stage. Hong Kong, after all, is a free port; people and capital have always been free to come and go. As long as we operate in strict accordance with the joint declaration and the policies of the central government, Hong Kong's stability and prosperity are assured. For instance, we have asked the Hong Kong people to comment on the draft basic law for the Hong Kong Special Administrative Region. Moves like that help reinforce the confidence of the people of Hong Kong. I am optimistic about it and I believe things would go well."

He emphasized, "Deng Xiaoping has said time and again that the situation would remain unchanged for 50 years and that there will be even less of a need for change after 50 years. These are sincere words. We genuinely want to preserve Hong Kong's stability and prosperity. Even as we resume sovereignty over Hong Kong, we will steadfastly adhere to the principles of 'one nation, two systems' and 'Hong Kong people running Hong Kong' because this will be of great benefit to the Chinese people."

Referring to the second issue, he said, "I don't think Hong Kong's financial position is being undermined. The Hong Kong currency is relatively stable. Also, some of the problems have nothing to do with Hong Kong,

such as the drop in the value of the dollar earlier and the crash of the New York stock market. These things are beyond Hong Kong's control."

Guo Fengmin said, "Generally speaking, Sino-British relations are excellent and both sides want to cooperate on a long-term basis. After issuing the joint declaration on Hong Kong, China and Britain have had extensive consultations and cooperation through various channels, including the joint liaison group, and the process has been a smooth one. Needless to say, there have been differences. Sometimes we see things differently, sometimes there are differences in the way we think, and sometimes our interpretations are different. In the end, however, a consensus was reached through consultations and discussions as both sides wanted to see a smooth transfer of power in 1997."

#### **A Trip to Hong Kong and Macao Planned for End of Year**

Guo Fengmin was formally appointed director of the Hong Kong and Macao Affairs Office in early June as soon as he returned to Beijing after visiting his mother in Shanghai. He pointed out repeatedly that the general policies were laid down by the central government. "We only handle the diplomatic details as instructed. We are cooperating very well with the Hong Kong and Macao Affairs Office in the State Council." "There are still many things we have to learn and see. We must get to know the situation a little more so that we can do a better job."

"Are you planning to visit Hong Kong and Macao as a way of familiarizing yourself with the situation? If so, when?" He replied, "I do plan to visit Hong Kong and Macao. If I can make it this year, I'm afraid it will be late in the year or maybe early next year."

Less than a month after assuming his new post, Guo Fengmin is in full command of his work. He said, "Considering that the Chinese side of the Sino-Portuguese joint liaison group will be stationed in Macao in the future, I am thinking of adding a few people to our office to bring its total strength to a little over 20. Both Zhao Jihua [6392 4469 5478] and Wang Jiaji [3769 1307 7535], the office's former deputy directors, have been sent overseas. The current deputy director, Ambassador Kang Jimin [1660 0370 3046], heads the Chinese side of the Sino-Portuguese joint liaison group. It is likely that another deputy director will be appointed."

#### **Many Friends in West Germany**

"Can you tell us what impressed you most in your diplomatic career going back almost 40 years?" He answered without thinking, "The breakthrough in Sino-Western European relations."

He went on to explain that as head of the Western European Affairs Department, he accompanied then Premier Zhao Ziyang on his trip to six European nations—France, Belgium, Sweden, Denmark, Norway, and Italy—and the European Community in 1984. As ambassador to the FRG, he again accompanied Zhao Ziyang during the latter's visit to that country in 1985. The most important thing about these visits, he said, was not the pomp and circumstance with which they were received by the host countries, but the discussions between the two countries' leaders and meetings with people from the business community. There were mutual expressions of a desire to establish a long-term, stable, friendly, and cooperative relationship. Thus the way was paved for steady, all-around cooperation between China and Western Europe. Today, Western Europe, including West Germany, which is China's third largest trading partner, has the largest trade volume with China after Japan and the United States.

Guo Fengmin has many friends in West Germany, people in politics, business, and cultural circles. He also said that there is much in the FRG's economic system, particularly the role of banks and macroeconomic management, that China should learn. West Germany too is very interested in China, in our reform and open policy as well as our ancient civilization, including new blooms in our culture (works). At the same time, they have little understanding of China. Accordingly he received numerous invitations to give speeches from all over. During his 3-year tour as ambassador, he spoke in fluent German at universities, clubs, chambers of commerce, banks, and research institutes about 50 times to brief Germans on China's reform and open policies and economic development.

#### **Wants To Do "A Little Writing" After Retirement**

Finally I asked him his interests in life. Guo Fengmin confessed he has little interest in sports but said that he loves reading, whether it is politics, history, or literature. Another interest is music, mainly classical music, especially Beethoven's symphonies, the epitome of classicism and the forerunner of romanticism. "I can sit here and listen to it quietly for 1 or 2 hours. I find that most relaxing and enjoyable." He does not care for pop music. "However, I am not opposed to it; I am quite open-minded." From what I could see, he is a chain-smoker. Maybe that is another interest of his.

Under China's retirement policy for government personnel, which is already in effect, Guo Fengmin would be leaving the foreign affairs building he has known so well in a few years' time. How does he intend to spend his long retirement, what they call "time at one's disposal?" He said he plans to "do a little writing, God willing."

Guo Fengmin's wife, also a diplomat, passed away years ago.

In July 1987, Guo Fengmin returned home to welcome Chancellor Kohl of the FRG to China. Friends in the MFA who introduced me to the tall ambassador with half-black and half-white hair described him as "experienced and prudent," "an approachable man." The interview confirmed this impression.

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**Wen Shizhen Gives Liaoning Government Report**  
*SK2480520 Shenyang LIAONING RIBAO in Chinese*  
9 Aug 88 p 2

["Excerpts" of report by Vice Governor Wen Shizhen on implementing the annual plan during first half and work arrangements for second half, at the fourth meeting of the seventh Liaoning Provincial People's Congress Standing Committee on 26 July]

[Text] Entrusted by the provincial people's government, I would like to submit the following report on implementing the province's plan for the national economy and social development for examination and approval by the present meeting.

**1. Implementing Plan During the First Half**

Early in 1988, the first meeting of the seventh provincial People's Congress discussed and approved the "Liaoning provincial 1988 plan" for the national economy and social development. Over the past 6 months, the province's situation in implementing the plan has been good thanks to earnest implementation of the spirit of the 13th CPC Congress and the strategy of developing the economy along coastal areas and upholding the principle of stabilizing the economy and deepening the drive to conduct reform.

A. The spring sowing operation was better than that of 1987 and various industries and trades in rural areas have achieved continuous development.

Governments at all levels attached great importance to agricultural production this year, formulated or improved policies and measures for promoting stable agricultural development, increased agricultural input, vigorously took advantage of moisture and measures to combat the drought to sow crops, and made full preparations for it. All of this brought about a spring sowing situation better than that of 1987. Forestry production continuously developed. In animal husbandry, production in all sectors showed some increase except for the number of hogs raised, which showed a decrease over the corresponding period in 1987. At the end of June, the number of hogs raised was 9.207 million, a 3-percent decrease from the corresponding period in 1987. However, it surpassed the figure at the end of March by 945,000 head, bringing about a trend of rising production again. The output of beef, pork, and mutton was 336,000 tons, a 3.4-percent increase over the corresponding period in 1987. During the first half, town-run

enterprises throughout the province realized 10.45 billion yuan in total industrial output value, a 40.2-percent increase over the corresponding period in 1987, maintaining a good trend in achieving a higher rate of steady development.

Among major problems that exist in agriculture were large scale price hikes in agricultural production and a decrease in the comparable effect of seed grains. All of this adversely affected the peasants' enthusiasm for farming. Areas where industrial sideline production, fish breeding, and poultry farming have achieved better development and where higher economic results have been scored experienced decreasing agricultural input. Some specific localities even had peasants who returned their contracted farmland to the authorities and gave up farm work. Therefore, the situation in grain production does not allow us to be optimistic.

B. The speed and results of industrial production showed a stable increase and the situation for implementing the communications and transportation plans was good.

During the first 6 months, Liaoning's total industrial output value was 49.43 billion yuan, a 15.9 percent increase over the corresponding period in 1987. Industrial enterprises at or above the village level realized 41.78 billion yuan, an 11.9 percent increase over the corresponding period in 1987. Of this industrial output value, that of heavy industry was 28.45 billion yuan, a 12.3 percent increase over the corresponding period in 1987, and that of light industry, 13.34 billion yuan, a 10.8 percent increase over the corresponding period in 1987. The characteristics of industrial production during the first half were that the output growth was stable each month, the scale of the output increase among raw material industries was larger, economic results increased somewhat, and the situation in implementing plans for communications, transportation, and post and telecommunications was good, fulfilling the first half plans on schedule.

The prominent problem in industrial production was the slow development of light and textile industries and their insufficient reserve strength. During the first half, light industrial output showed a 4.8 percent increase and that of textile industry, a 5.7 percent increase—both lower than half of the corresponding provincial figure. Meanwhile, light industrial production in four cities showed a decrease from the corresponding period in 1987. All of this apparently reflects that the technology, equipment, and expertise of light industrial enterprises throughout the province are more backward than those of other provinces, their product quality is not high, their famous trademark and fine quality products are few, and their products lack competitive capability. The shortage of raw materials was also a prominent problem. Although materials and products in short supply are few, they have a vital bearing on the national economy and the people's livelihood. In addition, contradictions, such as power shortage, the one-sided shortage of funds, the foreign



exchange shortage, and the strained situation in communications and transportation still hinder the rapid development of industrial production and the national economy as a whole.

C. The progress of capital construction and technical renovations was accelerated and investment effects achieved a turn for the better.

Since the beginning of 1988, the province has continuously implemented the principle of "three protections and three curtails." During the first half, 1,284 capital construction projects designed for state-run units across the province were put under construction, a 61-project increase over the corresponding period in 1987. The province invested 3.06 billion yuan in this regard, a 36.3 percent increase over the corresponding period in 1987. In technical renovations, the province invested 2.17 billion yuan in projects of the state-run units, a 13.7 percent increase over the corresponding period in 1987.

The construction of the provincial sports center where the second national junior games will be held next year is currently under way; it will be put into operation by the end of June next year. The provincial color television tower, for which equipment is arduously being installed, will basically be completed by the end of this year. The provincial museum will be totally completed within this year. The main body of the ward building and audio-visual education center of the provincial traditional Chinese medical institute is being constructed, and efforts will be made to basically complete it within this year.

Despite encouraging policy measures, the progress of housing construction remained slow. The major reason for this was the large-scale increase of per-unit construction cost, which has led to a shortage of funds and investment.

D. Import and export trade was continuously expanded and substantial progress was achieved in foreign capital utilization.

Liaoning's foreign economic relations and trade were increasingly invigorated and expanded in the process of reform and opening up. The provincial party committee made a decision on accelerating development of the export-oriented economy of the Liaodong peninsula earlier this year, and held a work conference on opening the Liaodong peninsula to the outside world more quickly in February. In March, after the central authorities approved designation of 8 cities and 16 counties in the Liaodong peninsula as an open economic zone, the provincial government, as well as some city and county governments, again decided one after another on establishing special zones or special plants, hence a multi-layered and multiformed new pattern for our province's opening to the outside world. This effectively facilitated our province's foreign trade development. From January to June, exports through Dalian Port showed a 12.7

percent growth over the corresponding period last year. Among the commodities exported through Dalian Port, those from the provincial sources (excluding refined oil) showed a 34.6 percent increase over the corresponding period last year. Foreign capital utilization of the province increased rapidly. The semiannual amount of foreign exchange earned from sources other than trade grew substantially, and the province hosted 52,000 tourists of various categories, rising by 13.9 and 100 percent, respectively, over the corresponding period last year.

E. Urban and rural markets were thriving and commodities of various categories enjoyed brisk sales.

Urban and rural markets throughout the province have thrived even more since the beginning of this year thanks to efforts to increase the economy while maintaining its stability, to invigorate finances while tightening them up, to develop production, to enliven circulation, and to improve supply. From January to June, the retail sales of the province rose by 20.7 percent over the corresponding period last year. Of the total, consumer goods purchased by residents rose by 20.3 percent and those purchased by social groups by 21.5 percent. The current major problem is market instability. Specific manifestations are, initially, the conspicuous contradiction between market supply demand and, next, the high price index and large-scale price increase. From January to June, the retail price index rose by 11.5 percent. The number of people who experienced a decline in their standard of living increased. They included mainly households with difficulties whose per-capita income was rather low, staff members and workers of money-losing enterprises, teachers of primary and middle schools, medical personnel, and some retired cadres and office cadres.

F. Revenues increased and monetary conditions were fairly good.

With stable growth in production and improvement in economic results, the local revenues of the province totaled 5 billion yuan from January to June, a 5.5 percent increase over the corresponding period last year, and its expenditure totaled 3.5 billion yuan, a 14.9 percent increase.

Major problems in the semiannual revenues and expenditures were the increases in the deficits of industrial enterprises and the comparable production cost, which led to an 8.4 percent decrease in the income of enterprises; the large amount of deficits of grain enterprises; and the overspending of administrative funds, which showed a 16 percent growth over the corresponding period last year.

G. New progress was made in education, science and technology, culture, public health, and sports.

After increasing their planned enrollment by 12 percent last year, ordinary full-time schools of higher learning throughout the province again increased their planned

enrollment by 8.9 percent this year, more than 100 percent greater than the national average growth. Reform of the educational system of secondary specialized schools was by and large completed. Education funds showed a substantial growth over last year. From January to June, education funds totaled 450 million yuan, 9.9 percent more than the corresponding period last year. However, the major problem in education remained the shortage of funds, in particular funds to primary and middle schools. Scientific and technological plans progressed rapidly. From January to June, 67 scientific and technological research projects were completed, 7 projects more than the corresponding period last year.

H. Reform in various fields was further deepened, thus effectively promoting economic development.

This year, the economic structural reform should be continuously focused on popularizing the contracted managerial responsibility system. Of the large and medium-sized industrial enterprises covered by the provincial budget, 92 percent introduced the contracted managerial responsibility system. Leasing was popularized among medium-sized and small enterprises. About 25.5 percent of state-owned enterprises at or above the county and district levels instituted leasing. In those cities and counties where leasing developed rapidly, more than 70 percent of state-owned enterprises implemented leasing. Meanwhile, new progress was achieved in introducing competition into the contract system. About 31.5 percent of enterprises in the province acquired managers through open bidding and public recruitment. Lateral economic associations among enterprises developed toward orientation of open, network-style, and multi-layer groups with cities as their centers. The market system developed further. Large-scale material trading centers were built in all of the province's 13 cities and material exchange markets were established in 34 small cities, counties, and towns.

In planning structural reform, we simplified procedures for examining and approving items with regard to opening Liaodong peninsula to the outside world, and granted more examination and approval powers to cities, counties, and enterprises. In the city of Haicheng, Liaoyuan County, and Qingyuan County, we carried out experiments for managing guidance planning at the county level, thus providing practical experience for further popularizing planning structural reform in the future.

## 2. The Economic Situation and Major Tasks of the Second Half of this Year

Presently, the unfavorable factors that hamper development of Liaoning's share of the national economy are still four difficulties pointed out by the 1988 provincial planning conference—the shortage of energy resources and raw materials, the shortage of foreign exchange, the shortage of funds, and the imbalance between revenues

and expenditures. However, there are also many favorable conditions. For instance, at present the mass climate of reform is better than during any other period in the past, various localities are full of energy in developing the export-oriented economy, the domestic market is brisk and the international market still promising, and the various policies that concern reform and opening-up formulated by the provincial party committee and the provincial government are playing an increasingly greater role and creating a good environment for sound development of the economy. An initial forecast shows that the annual industrial and agricultural output value will exceed the annual target of 107 billion yuan, and reach 110 billion yuan, of which the total industrial output value will surpass 100 billion yuan and the total agricultural output value will surpass 10 billion yuan. We should strive to fulfill the targets of export and foreign exchange revenues. Provincial financial revenues are projected at 11.184 billion yuan, an increase of 384 million yuan or 3.6 percent over the past year. To successfully solve the major problems that relate to the province's economic development and to ensure comprehensive fulfillment of this year's plan for economic and social development, we should pay attention to the following tasks during the second half of this year:

A. We should further emancipate our minds, renew our concepts, and deepen reform.

During the second half of this year, we should thoroughly implement the provincial party committee's "Opinions on Conducting Study and Discussion of the Standards for Productive Forces and on Further Emancipating the Mind," profoundly observe the guidelines of the meeting discussing the principles of the standards for productive forces held by provincial-level organs, make great efforts toward changing our concepts, and regard facilitating expansion of productive forces as the point of departure in our consideration of all problems and as the basic criterion for judging all our work. At the same time, we should earnestly study the strong points of fraternal provinces and municipalities, that is, learn from the successful experiences of Jiangsu and other provinces in developing town and township enterprises, learn from the experiences of Shanghai Municipality and other provinces in further enlivening large and medium-sized enterprises, and learn from the experiences of Guangdong and other provinces in vigorously developing the export-oriented economy. We should persist in the comprehensive reforms of enterprise, market, and macroeconomic management systems and give full play to the overall efficiency of reform to promote the development of the province's planned economy.

The reform has now entered a critical period and we are confronted with many problems that are difficult to solve. For instance, the people often complain about the sharp rise in the price index, the unfairness in social distribution, and the unhealthy party style and social atmosphere. We should profoundly analyze the essence

and causes of these problems and map out ways to solve them so that we can lead the large number of masses to overcome difficulties and march forward in victory with one heart and one mind.

B. We should accelerate the pace of opening Liaodong peninsula to the outside world.

Last March, the State Council formally approved defining Liaodong peninsula's 8 cities and 16 counties as a coastal economic open area. This area is the essence of our province's national economy. Thus, accelerating the pace of opening Liaodong peninsula to the outside world is a great matter that all people of the province have looked forward to for a long time as well as a strategic work of the governments at various levels and the departments in charge of economic work. Based on the work done in the preceding period, the province should carefully organize forces to promote the development of export-oriented economy, and strive to make greater progress.

We should conscientiously work out a plan to develop export-oriented economy. According to the guidelines of the sixth (enlarged) plenary session of the sixth provincial party committee, we should extensively mobilize all cities and all provincial-level departments to further revise and perfect the outlines of the export-oriented economic development plan; to define the guiding ideology, the pattern for opening to the outside world, fighting goals, development priorities, and specific policy measures; and strive to form a comparatively integrated planning system to promote the work in all fields. We should attend to technological transformation and the construction of key capital construction projects to ceaselessly improve the investment climate. We should inspire the enthusiasm of the people on all fronts and strive to expand the ability to create foreign exchange through exports. It is necessary to expand the scale of creating foreign exchange through exports and to increase foreign exchange revenues to promote the current production and develop the export-oriented economy. Efforts should be made to make new breakthroughs in using foreign capital and developing "three-capital" enterprises. The Dalian economic development zone, the Yingkou Bayuquan export processing zone, and the Shenyang Tiexi industrial zone should make greater strides to open themselves to the outside world to set a good example for further opening Liaodong peninsula to the outside world.

C. We should strive to upgrade economic results and promote the sustained, steady, and coordinated development of industrial and agricultural production.

With the focus on reaping a bumper grain harvest this year, the province should strive to achieve the work in all fields. At present, the crop growing situation is very good. The province is expected to reap a good harvest if there are no serious natural disasters this summer and autumn. It is necessary to continuously implement the

policy on linking the contracted purchases of grain with the supply of fertilizer, diesel oil, and purchase deposits. At present, we should pay special attention to organizing the production and supply of agricultural production means, such as farm chemicals; fully prepare for fighting floods and draining away floodwater, guard against summer drought and autumn dry weather that will possibly emerge; prevent plant disease and insect pests in a timely manner; achieve forecasts of disastrous weather; and strive to reduce to the minimum losses due to various kinds of disasters.

In the next half of 1988, the industrial front should basically maintain its production growth speed during the first half of this year; organize and coordinate the work in the supply, energy resources, and transportation fields; ceaselessly deepen the campaign of increasing production, practicing economy, increasing revenues, and reducing expenditures; and guide enterprises to increase their economic results.

D. We should put urban and rural markets in order, and ensure a brisk market and a relevant stability of goods prices.

In the next half of this year, the general trend of Liaoning's urban and rural markets is to become increasingly brisk and flourishing. However, contradictions between the supply and demand of some commodities are very prominent. It is possible that the goods prices index will rise. We must adopt overall coordinated measures to ensure the province's market stability. Efforts should be made to stabilize grain and edible oil markets and the markets for foodstuffs, dominantly meat and vegetable markets. We should try every possible means to increase the resources of daily industrial goods and to improve market supply. According to the central authorities' plan, in the next half of this year, we should concentratively decontrol and readjust the prices of cigarettes and wine, emphasize goods price work to strengthen the management of goods prices, maintain the relevant stability of market prices, and greatly strive to reduce the blast wave caused by price hikes.

The main measures are: First, we should strictly forbid unauthorized price rises and strictly control the appearance of some adjusted price items. Second, we must persist in managing prices in line with the law and strengthen supervision and inspection. Units and individuals who violate price stipulations must be strictly dealt with according to law, particularly the acts of selling inferior and fake products to cheat the consumers. Third, we should check price rises of agricultural capital goods; do a good job in supplying vegetables, meat, and other nonstaple foods; successfully organize the production of daily consumer goods; increase supply; and stabilize market and commodity prices.

E. We should successfully implement the new system of assuming responsibility for increasing revenue at a progressive rate and strive to realize a basic balance between revenues and expenditure.

After arguing several times with the central authorities, the state has already decided to implement in our province the method of assuming responsibility for increasing revenues at a progressive rate, which will remain unchanged for 3 years. This year there are many policy-related factors for increasing expenditures and reducing revenues. Our task to achieve a balance between revenues and expenditures remains arduous.

During the second half of this year, we must first improve the province's contract methods for cities, open up new financial resources, and increase financial revenues. Second, the provincial, city, and county governments at all levels, under the situation in which we have developed industrial and agricultural production, raised economic results, and increased financial revenues, should increase investment in agriculture and education and allocations of working funds. Third, we should persist in deepening enterprise reform and strengthen enterprise management. Fourth, we should firmly grasp the work of ending deficits and increasing profits, and minimize losses. Fifth, we should strictly control institutional group purchases and reduce nonproductive expenditure. Apart from guaranteeing the increase of some necessary expenditures on workers' wage and price subsidies, all other expenditures must be curtailed from last year's figures. It is necessary to conscientiously implement the guidelines of the State Council's emergency circular; realistically strengthen leadership; adopt resolute measures; sort out projects of "office buildings, auditoriums, and hotels" under construction; and reduce investment in nonproductive capital construction projects, except infrastructure facilities in favor of opening up and residential houses. We should actively and successfully carry out the work of broadening financial sources and reducing expenditures and strive to achieve a basic balance between financial revenues and expenditures this year. During the second half of this year, we must continue to invigorate the money market, actively promote interlending loans, readjust the credit structure, tap the potential of funds, control the circulation of currency, strengthen sales of the commodity market, organize commodity supply well, strengthen savings deposits work, absorb idle funds from residents, and increase the withdrawal of currency from circulation through various channels to solve the funds shortage.

F. We should conscientiously grasp science, technology and educational undertakings.

During the second half of this year, we should continue to carry further scientific and technological structural reform, solve the problems of dislocation in the scientific, technological and economic structures, relax control over scientific research organs, and give full play to the role of scientific research personnel. In educational undertakings, we should act in line with the demands to raise teaching quality and further develop all forms of cooperative school operation and training on a commission basis. In line with the needs of further opening

Liaodong peninsula to the outside world, we should exert strenuous efforts to train personnel to carry out the multilayered export-oriented economic construction.

To realistically solve the shortage of educational funds for primary and middle schools, the Liaoning government has organized departments concerned to conduct investigations and study, and to formulate a "decision for solving the educational funds for primary and middle schools." The main guidelines of the decision are to educate cadres at all levels and the broad masses of people to firmly bear in mind that "education is the fundamental importance to the fulfillment of our great long-term mission," intensify the people's ideology of having all people run educational undertakings, further perfect the system of having local governments assume responsibility for elementary education and share the management to different levels, increase the educational funds allocation every year, and continue to rely on social efforts to collect school operational funds. All schools should deeply carry out work-study activities, operate school-run factories well, and increase incomes. We should conscientiously organize the people to implement the decision, improve the teaching conditions of primary and middle schools through all fields of endeavor, and do a better job in developing the 9-year compulsory education.

According to the spirit of the circular issued by the CPC Central Committee and the State Council on preventing the state apparatus from lying while performing official duties and from engaging in business and operating enterprises, we should regard the work of fostering the morale of honesty in performing official duties as a routine task and put the work on our daily schedule. We should adopt effective measures to educate all cadres in organs and particularly leading cadres to serve the people by correctly using the power entrusted by the people. We should also educate them to maintain or develop the party's fine tradition, to realistically and strictly abide by the discipline, to refrain from taking bribes and bending the law, to perform their official duties impartially and satisfactorily, to refrain from seeking personal gain by taking advantage of power, to wage arduous struggle, and to refrain from indulging in extravagance and waste. We should urge every comrade in organs to be able to withstand the test cropping up in exercising power and in the drive to conduct reform and opening to the outside world and to consciously struggle against all acts violating the law and discipline. Organs, units, and individuals who have continuously joined in business and operated enterprises by violating in disguised form the relevant state regulations should be dealt with to find out who is to blame for the violation.

We should continuously develop the spirit of "waging arduous struggle and building up our country industriously," deeply carry out among the organs the campaign of increasing production and practicing economy as well as increasing revenue and reducing expenses, strictly

bring the social institutional purchase power under control, and curtail all unnecessary administrative funds expenses. Efforts should be made to deal with cases of indulging in bureaucracy and violating the discipline and to foster a fine morale inside the organs with regard to being glorious in practicing economy and being shameful in causing losses and waste.

We should further improve the work style of people's governments and vigorously upgrade the organ's work efficiency. In line with the emphasis of upgrading work efficiency, efforts should be made to foster a new ideology, concept, and work style suitable to the drive to conduct reform and opening to the outside world, and to render better services for economic construction, for grassroots level enterprises, and for the people. We should enhance system building by emphasizing the establishment and improvement of the responsibility system to attain a fixed work target. In line with the demand to change functions, we should establish or improve work targets in various fields, and integrate the responsibility system to attain a fixed work target with the appraisal system of cadres, the democratic appraisal of leading cadres with the system of examining and appointing in employing leading cadres to bring into play the tremendous enthusiasm of cadres to wholeheartedly serve the people and contribute to the modernization undertakings and have them fulfill their official tasks with high efficiency and at a high speed.

We should gradually establish the open system of running an office and the system of holding consultation and dialogue with various social circles and vigorously upgrade the work transparency of organs so as to enable major and big events to be known by the people and major and big issues to be discussed by them. Efforts should be made to further and actively accept the legal supervision of the People's Congress and its standing committee; to invite the deputies of the People's Congress to give criticism to the government work; to listen to the opinions and suggestions of the CPPCC Committee; to do a good job in dealing with the motions raised by the members of the CPPCC Committee; and to listen to the opinions and suggestions raised by various democratic parties, democratic personages, and mass organizations; and to actively accept democratic supervision.

To promote the self-improvement of organs, governmental organs throughout the province should continuously and deeply carry out the emulation drive of "public servant trophy" on the fundamental purpose of wholeheartedly serving the people. On the basis of carrying out inspection and summarization during the first half, they should further enhance their daily supervisory and inspection work.

Liaoning's tasks in various fields in the latter half of this year will be very heavy and arduous. We should carry forward the spirit of "being honest in performing official duties, doing practical deeds, scoring high efficiency, and creating something new" to unswervingly implement the

party's basic line in the initial stage of socialism, to uphold the criterion of productive forces, to let reform play a dominated role in our overall work, to ensure the fulfillment of planned targets this year, and to celebrate the 40th anniversary of our province's liberation with our outstanding deeds.

**China Youth League Restructuring Plan**  
*HK2090711 Beijing ZHONGGUO QINGNIAN BAO in Chinese 31 Aug 88 pp 1, 2*

[Report: "CYL Central Committee Publishes Tentative Basic Plan for Restructuring the CYL"]

[Text] The Secretariat of the CPC Central Committee has agreed in principle to the "Tentative Basic Plan for Restructuring the CYL" worked out by the CYL's Central Committee. The plan is a program for guiding and promoting the CYL's structural reform, and is of vital practical significance for the CYL in strengthening its organization and playing its role in the key period of reform.

The full text of the plan follows.

Over the past few years, CYL organizations at all levels have made useful explorations of ways to reform themselves, and have acquired some practical experience in this regard. According to the plan for political structural reform adopted at the 13th CPC National Congress, it is high time for the CYL to place its own structural reform on the agenda.

The objective of restructuring the CYL is to turn it into an advanced mass youth organization which has a specific legal status and social function, exercises sound democratic practices, and represents the interests of young people. The league should also become an organization whose primary bodies are energetic and enjoy the trust of youth. The reform will enable the CYL, under CPC leadership, to work independently and play a more active role in building socialist material and spiritual civilizations and democracy.

### **I. Defining the CYL's Social Functions**

The CYL's 3 principal social functions are as follows:

1. The CYL should unite, educate, and lead young people to strive for the realization of the party's basic political line for the initial stage of socialism; train youth in building socialism with Chinese characteristics; and by acting as the party's assistants and reserve force, bring about a new generation of young people with lofty ideals, high morality, culture, and a sense of discipline.
2. The CYL should join in consultation, dialogue, democratic management, and supervision; carry out the government's assignments with respect to young people;

guide and assist youth and student federations in carrying out their work; and link the party and government with the masses of young people.

3. While safeguarding the overall interests of the people, the CYL should represent and safeguard the specific interests of young people, serve them wholeheartedly, and act as the social representative of their interests.

## **II. Representing and Safeguarding the Specific Interests of Youth**

1. The CYL should lead young people in difficult struggles to improve their material and cultural lives while creating wealth for society.

2. The CYL should assist the well-rounded development of youth by offering educational, scientific and technological, recreational, and sports activities in accordance with the requirements and characteristics of young people and by helping them improve their political and moral integrity, health, and level of science and culture.

3. The CYL should have a keen understanding of how young people think and should convey their desires promptly so that national legislative and administrative bodies will take the specific interests of youth into consideration when formulating laws and policies affecting education, labor, culture, and the people's lives. The CYL should exercise democratic supervision over the enforcement of laws and regulations concerning the specific interests of young people.

4. When the specific interests and reasonable demands of youth contradict those of the government and administrative departments, the CYL should act on behalf of youth and seek a solution through negotiations with the departments concerned.

5. The CYL should assist young people in using the law as a weapon to safeguard their rights with respect to education, labor, marriage, and other areas and provide or seek legal aid for the young people involved.

6. The CYL should use public opinion and the law to combat unhealthy tendencies and illegal activities affecting youth so that their healthy development can be assured.

7. The CYL should create favorable conditions for the progress and growth of its members and help them solve particular problems.

## **III. Taking Part in Consultation and Dialogue in Society**

Establishing a system of consultation and dialogue is an important step in building a socialist democracy in our country. Taking part in consultation and dialogue should be included in the CYL's daily routine during the initial stage of socialism.

1. When government and administrative departments at all levels formulate policies, laws, and regulations concerning the interests of youth, CYL organizations should actively report the opinions of youth to the leadership and offer proposals so that the leadership can promptly understand and consider the specific interests of youth.

2. The CYL should, in appropriate ways, invite leading cadres of relevant government and administrative departments to talk directly with young people on their problems and encourage the cadres to facilitate understanding and trust between them and young people. Conflicts should be lessened and public security maintained through consultation and dialogue.

3. League organizations should entertain young people at their headquarters on assigned days or hold cordial talks with them in order to hear their opinions directly. Young people should be encouraged to voice their opinions and offer suggestions. This practice should be institutionalized.

4. CYL organizations should arrange for discussion among youth in all sectors, including young workers, young peasants, young students, young intellectuals, young soldiers, and young independent laborers, so that the different groups can better understand and unite with each other.

5. Organizations of the league should visit the parties referred to in people's letters and use newspapers, magazines, radio, and television to voice young people's desires and requests and support them in their involvement in democratic supervision and combatting bureaucracy and all bad practices.

## **IV. Reforming the CYL's Organizational System**

The CYL should reform its structure in keeping with its nature and characteristics and pay attention to the development of an internal democratic mechanism so as to strengthen its fighting capacity.

1. League organizations should be set up at the grass-roots level according to actual conditions. The establishment of links in diverse forms between league organizations of different sectors should be allowed, with vertical relations between higher and lower levels remaining predominant. In some basic-level units and areas where party organizations have yet to be established, league organizations should be placed under the direct command of league organizations at the next higher level.

2. The CYL should appropriately adjust leading bodies in enterprises and institutions in accordance with the principle of dependency and actual conditions so as to form a new organizational structure. Corresponding leading bodies should be set up through democratic consultation and election, and administration and activities should be conducted in a new way to improve the self-management capability of grass-roots units.

In the structural reform of enterprises and institutions, the league should ensure the independence of its bodies. The CYL should gradually introduce a system under which every league member is issued a certificate so that visible ties are maintained between league members and league organizations, forming a scientific control mechanism.

4. CYL cadres at the grass-roots level who are also party members should participate in the league's regular activities so that they conscientiously fulfill their obligations and exercise their rights as league members and accept direct supervision by other league members.

5. The league may want to carry out an experiment in which league members who are age 28 or less retain league membership after they join the party. The experiment is designed to improve the personnel structure of the league organization as an advanced body and provide the organization with more effective party leadership through roles played by these party members.

#### V. Reforming the CYL Cadres Personnel System

The reform of the CYL cadres personnel system should ensure that league organizations overcome the tendency of becoming mere administrative institutions. Posts should be filled by persons so elected or engaged by contract and whose tenures are for specified periods. Favorable conditions should be created so that outstanding people will emerge so that league organization positions become a real arena where youths of noble aspiration may display their talents.

1. Basic-level leadership positions must be filled by direct election by league members or their representatives rather than by appointment by a person or an organization at a given level. The process of recommending candidates for league committees at and above the county level should be made public and candidates should be nominated without concern as to occupation and status. Candidates who have recommended themselves, other people, and party and league members must go through tests, competition, and screening before the final candidates are selected.

Gradually, deputies to league congresses at all levels, members of league committees, members of standing committees, deputy secretaries, and secretaries should all be elected by secret ballots and multicandidate elections. In multicandidate elections within the league, the initiative and competitive awareness of the persons who are elected should be respected and competition introduced into the selection process. The practice of appointing leading cadres for league organizations should be gradually abandoned and the democratic electoral system within league organizations at and above the county level should be improved.

When a full-time league cadre is transferred, he is automatically relieved of his position as a member of the league committee at the same or higher level. Vacancies should be filled in the proper order, and this exercise should be institutionalized.

2. League administrative bodies at all levels and full-time cadres should be streamlined. Basic-level leadership positions should be staffed by full-time and part-time personnel. In big enterprises, full-time league cadres should be appointed wherever enterprise quotas permit. In medium-sized and small enterprises and institutions, league leadership should be composed mainly of part-time members in accordance with a step-by-step plan. Part-time leaders appointed through democratic election enjoy the same treatment as full-time leaders. As legitimate representatives of league organizations at a particular level, part-time leaders should attend the meetings of the party committee at the same level or attend as non-voting delegates according to the party constitution if they are party members. By law, they should join the administrative committees of the enterprises in which they work.

3. Office tenures for league committee leading members should be for specific periods. New elections of leading members to league committees at all levels should be held regularly according to the league constitution and the relative stability of leading bodies and the timely filling of leading positions should be assured. No leading member is allowed to hold the same position for more than two terms.

4. If in between two league congresses a party committee needs to transfer an official of a league organization to a certain mission, it must solicit the opinion of the league committee at the same level and obtain the approval from the committee at the next higher level. When a party committee recommends candidates for key posts of the league committee at the same level, it should listen to the opinions of the league committee at the same level. Candidates should not be nominated to the league congress for consideration until the league committee at the next higher level has been consulted and a consensus reached. League organizations at all levels must see to it that their cadres are assigned certain tasks which they are expected to fulfill during their terms of office and are subjected to examination and assessment. This will help party committees do a good job of managing league cadres.

5. Full-time leading members of league organizations who were previously elected should be transferred to other positions in accordance with actual conditions when they are not reelected, and a flow of trained personnel should be gradually institutionalized as a supporting measure in the selection and staffing of league cadres. Ties with league cadres who have been transferred should be strengthened in proper ways and efforts should be made to enlist their help and support in the league's operation.



## **VI. Building a Democratic Policy-making and Democratic Supervision Mechanism**

League organizations must see to it that democracy and a scientific approach are applied in policy-making and that a mechanism for democratic supervision be established in order to turn the CYL into a school where socialist democracy is offered as a course and put into practice.

1. The work resolutions and plans for league organizations at the basic level should be discussed and passed by all members or representatives. To ensure that decisions are correct, critical issues should be voted on before decisions are made. League members are expected to develop the habit of doing things in accordance with democratic procedures through such practices.

2. The league congresses at all levels should establish a system for submitting proposals.

3. League committees at the provincial and higher levels should increase their annual activities and major issues should be decided upon at plenums.

4. League committees at and above the provincial level should divide their members into several groups according to their members' work fronts and the nature of their work to conduct investigations of special subjects, concentrating on key points while attending to minor ones. Proposals based on the findings should be submitted to the plenums of league committees at and above the provincial level.

5. A system should be established under which the secretariat of the CYL Central Committee regularly submits work reports to the central committee. League committees at all levels should report on their work and be subjected to democratic assessment and votes of confidence. This practice should be gradually institutionalized.

6. League members should be encouraged to criticize league cadres and problems in their work. If the league organizations or cadres concerned refuse criticism and retaliate, the league organizations at higher levels should handle the matter earnestly.

## **VII. Changing Functioning Patterns, Opening Up, and Invigorating Grass-roots Units**

The leagues need to stimulate the units at the grass-roots level so that they will gradually realize the objective of "independent election, independent operation, and independent functioning," while carrying out the league's resolutions and fulfilling its tasks.

1. Leading cadres of grass-roots units should be elected by their members. The party and the league at the higher level will not be allowed to reject legitimate leading

cadres elected by league members. League members or their representatives should exercise the right of recall to dismiss leading cadres not qualified for their jobs.

2. When implementing directives from higher authorities or carrying out their own activities, league units at the basic level should proceed from actual conditions in their own areas and units; take into account the characteristics of young people; make sure their work plans are properly focused, diversified, and feasible; and emphasize practical results.

3. It is necessary to ensure that members of basic-level league organizations join activities organized by the leadership on a voluntary basis and make their decisions about their own affairs in accordance with the league constitution. League members should be encouraged to fully exercise initiative and creativity so that they will become educated and more able.

4. Apart from the discipline called for in the league constitution, grass-roots league units may ask for additional requirements in line with the times and local conditions. League members should conscientiously meet and urge others to meet the requirements.

5. League organizations should develop popular activities and be good at allying themselves with other youth organizations and enlisting social assistance in jointly sponsored activities. Diverse clubs, amateur groups, and mass organizations should be set up to draw young people into the activities.

6. The league's leading bodies should focus of their work at the grass-roots level. While trying to enliven the grass-roots units by reducing mandatory directives and giving them a free hand, league leaders should earnestly improve their leadership and supervision over operation at the basic level and strengthen the league's leadership.

## **VIII. Creating More Sources of Income To Support Functioning**

The league should create more channels for collecting funds, and while receiving funds appropriated from the state, it should gradually increase the percentage of funds in its income that is raised by the league itself.

1. League organizations should collect funds by themselves through self-reliance and self-management. Apart from subordinate enterprises and institutions such as newspapers, periodicals, publishing houses, tourism, youth centers, and children's clubs, it should engage in managerial enterprises and institutions, and contract for construction according to law. It should also collect funds by providing services for pay, such as consultation services in the sciences, technology, information, and labor; by repairing and utilizing old or discarded things; by contracting for projects externally consigned; doing part-time jobs; and by tutoring students.



2. Personnel working in league-run enterprises and institutions should be separated from the staff members, profits should be used mainly for developing youth activities, and preferential treatment on taxes on profit should be sought from the government.

3. League organizations should raise funds to expand projects for teenagers from the public according to regulations. Such fundraising may include collecting donations from organizations and individuals at home and abroad who are concerned with the young people's development. The funds should be used on projects for youngsters.

4. Collection and management of league membership dues should be improved. League members and league cadres in power or who have been transferred should be allowed and encouraged to contribute money of their own free will.

5. Departments that divert funds to league organizations should separate league activities from non-league activities.

In addition to the above 8 points, restructuring the CYL also calls for sure external conditions. This includes rational relations between the CYL and other parties in society and establishing the CYL's legal status.

1. The league is a mass organization under CPC leadership. While it should accept the party's political leadership, it must maintain its independent organization. Accepting the party's political leadership means primarily that the league should support the party's program and political line, adhere to identical political principles and orientation, creatively carry out the party's general and specific policies through the role of league party members and through independent activities that are in line with the characteristics of young people.

2. The league should energetically help the government implement various policies, resolutions, and regulations, and enthusiastically support the administrative leadership in building the two civilizations. It should also ask that the government and administrative departments provide the necessary support for its activities. At the same time the league should investigate and study special subjects with respect to youth affairs, comment on government performance, submit proposals, and exercise democratic supervision.

3. The league's deputies to the NPC and the CPPCC, or those who are appointed members of the committees of the two bodies, should convey the opinions of youth, and offer proposals on major issues concerning young people. When the NPC passes resolutions concerning youth issues, the league should give its opinions and proposals and receiving assignments to draw up relevant laws.

4. The league should suggest to the NPC the legal definition of the league's status in political and social life and the responsibilities, channels, and ways the league might participate in socialist democracy. Work with respect to all young people should be brought into line with the socialist legal system.

League organizations in all localities are allowed to make plans for implementing the above plan according to the principles of the plan and in the light of their particular conditions. Their plans can be gradually carried out, subject to the approval of the party committee at the same level.

Structural reform of league organizations in the PLA and the Chinese People's Armed Police Force is decided on by the PLA General Political Department and the Chinese People's Armed Police Force Political Department in accordance with the actual conditions of the army.

**Teachers Complain of Poor Status, Low Salaries**  
*OW1781845 Beijing XINHUA in English*  
1204 GMT 17 Aug 88

[Text] Beijing, August 17 (XINHUA) Difficult working and living conditions and poor payment are the major reasons that many teachers, especially those in middle and primary schools, quit teaching to turn to better-paying jobs.

Today's GUANGMING DAILY, a Beijing-based national newspaper mainly for intellectuals, reported that many teachers quit teaching because of poor housing and low salary compared with those of people in other occupations.

Seeing this situation, many students in normal colleges refuse to work as teachers after graduation, the paper said.

The Beijing Normal College saw 68 students, 18 percent of all graduates in 1984, refuse assignments to work as teachers. And the college authorities once conducted a survey among 285 graduates working as teachers only to find that 112 had already applied to work in other fields, the paper reported.

Of the 26 college graduates assigned to the Beijing No. 31 Middle School in 1964, only five are still teaching in the school, and east China's Jiangxi Province witnessed almost 1,000 middle school teachers and 575 primary school teachers quit teaching in 1986, the paper said.

Answering a questionnaire issued to 1,000 teachers in Tianjin, 28.5 percent said that they would still choose teaching as their occupation if they were given a second chance.

A young teacher in Beijing who was trying to quit complained that teachers have low social status, are poorly treated and encounter many difficulties that they can't do anything about.

An official in charge of education in Beijing's Xuanwu District said that there are more than 1,000 teachers' quarters in the district whose area is only 3.5 Sq m or less per person, and 60 households have living space of less than two sq m per family member.

In China, it is common practice for employers and work units to provide housing for their employees. "Since we

are not able to better house our teachers, we have to let them go when they quit," a school headmaster was quoted as saying.

Teachers leave the profession also because of low salaries. A survey of 100 teachers in Beijing indicates that their monthly salary is 111 yuan on average, five percent lower than the average income.

A primary school teacher of fine arts only had a monthly salary of 80 yuan but since he left to work as a garment designer he makes a monthly income of 240 yuan, the paper said.

## NATIONAL AFFAIRS, POLICY

### Reform of Enterprise Internal Organization

40050356 Jilin JILIN DAXUE XUEBAO [JILIN UNIVERSITY JOURNAL] in Chinese  
No 3, 10 May 88 pp 13-19

[Article by Diao Yongzha 0431 3057 2683: "Enterprise Reform Is Vital to the Smooth Functioning of the Macroeconomy." Passages in boldface as published]

[Text] To vitalize enterprises and further enterprise reform lies at the heart of economic structural reform and is also a major practical task put forward at the 13th NPC. However, owing to the uniqueness of the social functions of Chinese enterprises and the way they are organized internally, we cannot assume that once macroeconomic mechanisms are sorted out, an enterprise's budget restraints will automatically "strengthen." As a matter of fact, the operation of the macroeconomy depends on normal functional internal enterprise mechanisms. Right now, though, these mechanisms are a long way from coordinating with the operation of the macroeconomy. Accordingly, one of the problems we face is to further explore the internal organization and operating mechanisms of enterprises and find out how external economic operating rules can work through internal enterprise mechanisms.

#### I. Dualism in the Internal Operating Mechanisms of Chinese Enterprises

"Weak budget restraints" are a malady common to socialist nations. The problem is systematically analyzed by Kornai in his book, "The Economics of Scarcity." He summarizes the reasons leading to the weakening of enterprise budget restraints as four: price-fixing by the state for the enterprise, subsidies, tax-exemption, and soft bank loans. Kornai argues that excessive redistribution by the state to state enterprises is the primary reason for the weakening of enterprise budget restraints because in the course of extensively adjusting the income distribution of an enterprise, the state cannot but assume responsibility for the enterprise's very existence. Kornai's analysis has profound theoretical significance. Be that as it may, he is still preoccupied with the impact of the external environment on enterprise economic behavior. In fact, the internal mechanisms of an enterprise also cause enterprise restraints to weaken and should not be ignored. The uniqueness of the organizational structure of Chinese enterprises only makes the effects more pronounced.

The organization of an enterprise unites many closely coordinated constituent parts. On the one hand, it is what the enterprise relies on spatially for its production and operations. On the other hand, it ensures vitality for enterprise behavior. According to systems theory, the whole is greater than the sum of its parts. If the organization is rational, then the whole will be able to bring out

its enormous power as a unitary entity. If the organization is irrational, there will be a multitude of goals pulling in different directions and its energy will be dissipated. At present, Chinese enterprises remain highly irrational in their organizational structure, as manifested most sharply by their institutional dualism and the diversification of their internal operating mechanisms.

A. Dualism in the enterprise decision-making system. Chinese enterprises today, both state and collective, each have two sets of leading organs. One, represented by the factory director or manager, provides administrative leadership. The other, represented by the party branch or the secretary of the party committee, provides party leadership. The presence of dual leading organs greatly complicates operational decision-making in the enterprise. It may mean a prolonged delay and a "missed opportunity" when the factory director and party secretary do not see eye-to-eye on a matter. But since decisions must be made in day-to-day operations if only to keep the concern going, despite differences of opinion, the implementation of a decision may run into resistance or opposition from other leaders and may be suspended or aborted. Dual decision-making makes it all but inevitable for both sets of leading organs to take part in the production and operations of the enterprise for what they think are "appropriate" or "reasonable" reasons. With both parties getting in each other's way, the upshot is conflict. Not only does this lower the efficiency of enterprise decision-making drastically, but excessive restraints and oversight on the director may also stifle entrepreneurship. Instead of being a cohesive force, dualism in enterprise leading organs only wears the two sides down and cancels out their strength. Its effects are clearly negative.

B. Institutional dualism in enterprises, is demonstrated mainly by the following: 1) dual identity of enterprise cadres. The enterprise leader represents the enterprise, on the one hand, and is a state cadre, on the other. He represents the enterprise before the state, but he also represents the state before enterprise workers. Whatever the occasion, he cannot play either role to the full. In a fundamental sense, enterprise interests are consistent with state interests. In every specific case, though, the two sets of interests differ sharply. This means the enterprise leader must maneuver and choose between state and workers. On most occasions, he has to operate flexibly, relying on his "consciousness" and "policy skills." Inevitably this leads to a measure of policy instability. 2) The transformation of enterprise institutions into administrative and bureaucratic organs. Organizationally, the leading cadre of a state enterprise is appointed by the party committee at a higher level, a practice which has been copied even by collective enterprises. Not only are leading cadres in enterprises grouped into such administrative grades as "county regiment," "regional division," and "provincial army," but enterprises themselves contain similar units at the corresponding levels. Departments are established within an enterprise not to meet any production or operational

needs, but to "match" the institutional set-up in the department in charge at the higher level and "build a temple to house the buddhas," that is, place cadres in jobs. As far as the operations of the enterprise are concerned, this practice no doubt has been a disaster.

C. The ill-defined nature of enterprise interests. Under the traditional system of direct state intervention in enterprise operations, enterprises basically have no independent interests worth mentioning. In the course of reform, the operating mechanisms of the traditional system have weakened and the rudiments of a new mechanism to transmit interests have taken shape. However, due to the relativity of the separation of enterprise ownership from enterprise management, there is nobody within the enterprise to represent state interests. There is as yet no interest structure within the enterprise that is mutually conditional and coordinated. The interests of the enterprise leader have deviated from the long-term development of the enterprise and the increase in value of its assets. What is lacking in the enterprise is a balancing mechanism to reconcile profits with wages, accumulation with consumption, an interest structure that will unite the operators with the workers to confront the owner jointly. Without a coordinated interest structure, the enterprise becomes short-sighted in its behavior, too preoccupied with immediate special interests to pay attention to long-term general interests. Enterprise myopia is demonstrated when it tries to give away as much of its retained profits as possible to workers in the form of wages, issues bonuses and payments in kind indiscriminately, raises prices willfully, relegates the renewal and transformation of capital goods to a secondary position, cuts corners on equipment, and even sells off its fixed assets.

D. The diversification of enterprise objectives. Today an enterprise pursues diverse goals: 1) It tries to work itself up the pecking order of enterprises. Enterprise leaders pay a good deal of attention to moving up the administrative ladder. Enterprises, too, are very interested in the requirements of their administrative grade. This is a non-economic objective. 2) It pursues the maximization of per capita income. This is a tangible response to myopic enterprise behavior. 3) It is profit-driven. Amid market competition, an enterprise has a stronger motivation to pursue profits, but imperfect internal restraining mechanisms often mean that such a pursuit takes aberrant forms. 4) It emphasizes output value. At the present stage, output value retains an important place in the lineup of criteria used in evaluating the state of an enterprise. Moreover, the distribution of bonuses is usually related in direct numerical proportion to the output value. This greatly inflates the significance of output value, making it the major goal of an enterprise. As objectives, the maximization of per capita income, profits, and output value conflict with one another to a certain extent. This fact, coupled with the intermingling of political and economic objectives, has given rise to the diverse mix of goals enterprises nowadays pursue.

E. Dual regulation of the rules of enterprise competition. Within the enterprise, there is objectively a competitive relationship between the laborers, and it is exactly this kind of competition which encourages people to make progress and brings out the power of the entity. In Chinese enterprises, however, the rules of competition have been watered down in favor of human relations. It is not competence or talent which determines how a worker is evaluated or whether or not he will be promoted. Instead, much more important is whether he can get along with others and the "impression" of his superior. Competition on an equal basis has been replaced by the more mundane element of human relations, or "guanxi." "Guanxi" is decisive in competition and evaluation. Since "guanxi" is inherently imprecise and cannot be reduced to rules, the result is necessarily competition between individuals on an unequal plane. A mediocre person may be promoted to be leader while truly talented people may be overlooked. Such being the rules of the game, the enterprise languishes, its reform spirit dampened, and we cannot possibly expect it to show a strong sense of competition on the market.

F. Dual dependency in enterprise behavior. As an economic organization, the enterprise should have economic objectives that it pursues independently and behave "economically." But the behavior of Chinese enterprises is characterized notably by a dual dependency—on the government as well as on the market, especially the former. How much profit will an enterprise earn? Apart from the economy and the enterprise's ability to compete on the market, the answer to this question also depends on the extent to which the department in charge "looks out for its interests" and the enterprise's ability to bargain with the higher authorities. This dilutes the stimulatory effects of profit significantly and prevents the enterprise from reacting sensitively to all kinds of economic variables and market signals.

G. The inactive state of worker organizations within enterprises. There is a trade union in every Chinese enterprise, but this tells us nothing about the cohesiveness of enterprise workers. Being cohesive means that the group of individuals concerned has common interests and goals and is able to remove personal differences through internal cooperation and agreements and presents a united front to the world, capable of defending common interests and attaining common objectives. Right now enterprise trade unions are expendable. Much of the work of unions, such as fighting for improved welfare and better wages and supervising the elections of enterprise leaders, has been taken over by the enterprises' administrative machinery and party organizations. In reality, the trade union has become an amateur organization that hands out film tickets and stages dances and runs a dating service, playing a "supporting" role in the enterprise's whole body of work. The inactive state of enterprise worker organizations has resulted in declining cohesiveness among workers. Less and less do they consider themselves part of one entity. This has

given rise to a free for all in enterprise production. Inevitably this state of anarchy in enterprise production is incompatible with planned social production.

The dualistic nature of the internal operating mechanisms of enterprises is intrinsically related to the irrationality of their existing organizational structure. These mechanisms vastly weaken enterprise budget restraints and, in doing so, greatly complicate enterprise reform.

## II. Reasons Why Internal Operating Mechanisms Have Gone Awry

The fact that internal operating mechanisms have gone awry constitutes the microeconomic basis for the weakening of enterprise budget restraints. This state of affairs did not arise during reform but has been in existence since the enterprises were set up. Behind it are deep-seated historical roots and social conditions.

**A. The Impact of the Traditional Product Economy** For years after the PRC was founded, we denied the commodity attribute of the socialist economy and shaped the economic system and directed economic operations in accordance with the product economic model. This had a major impact on the formation of enterprise mechanisms. 1) A highly centralized command system has resulted in passive enterprise institutions. Under the traditional economic system, the state wielded a highly centralized unified command and became the only owner, operator, and manager all rolled into one. A mere bead in the state abacus, the enterprise had no independent status worth mentioning and was deprived of any self-management capability by highly centralized state control over its operations. With hardly any independent interests, the enterprise did not have to assume any risks and undertake any innovative activities on its own. Result: passive, rigid enterprise mechanisms. While the state has delegated large chunks of authority to enterprises in the course of reform, the latter often proved incapable of adjusting instantly because of longstanding institutional inertia and a sense of helplessness and loss. Hence the disharmony between its internal mechanisms and a changing external environment. 2) The fusion between government and enterprise has resulted in dualism in internal enterprise mechanisms. The lack of differentiation between government functions and enterprise functions is a major shortcoming of the old economic system, rendering it all but inevitable for the state to play two roles and have two sets of objectives. On the one hand, it is an assets owner and enterprise manager. On the other hand, it is the regulator of the macroeconomy. As an owner, it has an interest in the effective utilization and continuous increase in the value of the assets. As a macroeconomic regulator, it must ensure fast economic growth, full employment, income equalization, and other objectives. These two sets of objectives, however, are not necessarily consistent with each other. In fact they often conflict with each other. In marrying economic organizations with administrative organizations, we have prevented the enterprise from operating

simply in accordance with economic principles and caused the diversification of its objectives. 3) By rejecting the rules of the commodity economy, we have intensively politicized enterprise behavior. Chinese enterprises were established on the principles of the product economy. In devising the internal institutions of an enterprise, we paid more attention to administrative and managerial convenience than to the intrinsic demands of economic development. The principles of the commodity economy, such as material interests and fair competition, all had to give way to the administrative imperative of the vertical chain of command. Thus instead of being economically conscious, the enterprise is more often politically driven. Indifferent to commodity prices, market movements, and other economic variables, it is yet overly sensitive to political and administrative changes. Its internal operating mechanisms have been overly politicized. 4) By over-emphasizing the unity between enterprise objectives and social objectives, we have denied the reality of the enterprise's own objectives. The objective of socialist production is to satisfy social needs. This objective, however, does not necessarily have direct significance for the enterprise. Because we have been lumping together enterprise production goals and social production goals and overlooked the enterprise's direct tangible goals and its tangible independent material interests, the enterprise often feels uncertain when it comes to setting production objectives. It finds ambitious objectives too remote, but is not allowed to tackle more modest ones. As a result, it can only waver and alternate between the two sets of objectives.

**B. The Enterprise System Resting on the Wrong Foundation** A sound enterprise system is needed to ensure the proper operation of internal enterprise mechanisms and behavior choice. Strictly speaking, China has not yet put together a genuine enterprise system. An enterprise system founded on the product economy is the internal reason why enterprise restraining mechanisms have weakened. 1) Ill-defined asset relations. Ownership of the means of production by the whole people, expressed through state ownership, constitutes the most solid economic cornerstone of socialist relations of production. Yet state-owned assets, whether those in enterprises or in government departments, have no tangible representative, as demonstrated by the fact that while everybody is an owner of assets owned by the whole people, nobody exercises ownership over the means of production. This creates a void in the ownership of state assets. Ownership of the means of production is critical in the operation of an enterprise and is an indispensable base for the establishment of an enterprise system. As far as the enterprise is concerned, either we put ownership and management of the means of production in the same hands or we separate ownership from management totally. Only then can we unleash the energy for independent production and operation by the enterprise and motivate it to fight for the attainment of its own goals. Right now we are neither here nor there regarding these

two alternatives. Under the traditional system, ownership and management were highly centralized in the hands of the state. The kind of ownership-management separation in existence at present is only relative and preliminary. The uncertainty surrounding assets relations also makes for vacillation in enterprise behavior. Thus the clarification of ownership relations has emerged as a historical demand of the reform movement. In this respect, it is ironical that township and town enterprises have developed so rapidly in China in recent years. 2) Disharmony in internal enterprise organizations. Without a sound enterprise system, we lack the necessary point of reference and standards in shaping the internal organizational structure of an enterprise, making it highly susceptible to human manipulations. Any department at the higher level can set up a "counterpart" unit in the enterprise on the pretext that it is needed in work. As departments proliferate within the enterprise, hampering one another's work, efficiency declines. The caliber of enterprise workers too has an impact on enterprise operations. Currently the professional and technical standards of workers are still quite low on the whole. Influenced by traditional social consciousness and the habit of "keeping up with the Joneses," enterprise workers often pay too much attention to near-term earnings and welfare. This creates a social psychological pressure and sets the popular stage for a consumption explosion, compelling the enterprise to be more responsive to this kind of demand. Because the enterprise lacks a sound internal restraining structure, its leader often proves helpless against such a demand. 3) Evaluation criteria pointing in different directions. The existing enterprise system does not have a clear set of evaluation criteria. Its criteria have no intrinsic links and sometimes actually conflict with one another. In addition to economic criteria, there are administrative political criteria as well as all manner of temporary additional social criteria. Too many criteria scatter the enterprise's attention. To pass muster with the higher authorities, the enterprise cannot but resort to temporary expedients and even engage in make-believe. That too has correspondingly added to the enterprise's behavioral burden. 4) Excessive administrative interference has created basically dependent enterprises. By interfering in and giving orders to enterprises indiscriminately, the state has seriously interrupted their normal operations. The result is that when they find themselves in a difficult situation, enterprises simply dump the final responsibility onto the government's lap. Having acted improperly and unable to pinpoint the major culpable party, the government has no alternative but to acquiesce in enterprise dependency. The enterprise assumes responsibility for its profits only, not losses. Economic variables and market guidance are merely for show. In the final analysis, the state "paternalistically" takes care of all enterprises, good or bad. This inevitably weakens the enterprise's budget restraints.

**C. Constraints on Institutional Dualism** Irrationalities in the internal operating mechanisms of enterprises in China have their roots in the old system but also have

been exacerbated in the course of reform. Since economic reform is a long-term process, dual economic institutions will continue to exist side by side for a long time to come, a situation which is bound to have a major effect on enterprise operations. On the one hand, reform gives enterprises more power and energizes them. The enterprise therefore begins to make choices regarding its behavior. On the other hand, the traditional management system remains in place, the state still interferes in the enterprise occasionally, and the external conditions that weaken enterprise budget restraints are still existent. Under these circumstances, the enterprise is both internally driven to pursue its own interests and psychologically dependent on the government at the same time. With dual institutions existing side by side, the enterprise often reaps dual advantages: an increase in power and weak budget restraints. This too encourages dualism in internal operating mechanisms. Also, with reform measures uncoordinated and less than perfect, enterprises are often at a loss as to what to do, something which cannot but lead to a diversification of goals and myopic behavior.

In short, internal institutional irrationalities have historical as well as current explanations, internal as well as external causes. They are the consequence of economic, political, and social factors working together. An in-depth analysis of these factors is essential to understanding the genesis of enterprise mechanisms.

### III. Remaking Microeconomic Operating Mechanisms

The incompatibility between internal enterprise mechanisms and the macroeconomy has prompted us to reconsider microeconomic mechanisms and demanded that we gradually redirect our focus to overhauling the internal mechanisms of Chinese enterprises. This is a historic demand that will promote and intensify enterprise reform.

#### A. Thoughts on enterprise reform.

The establishment of a rational and sound enterprise system is a prerequisite for remaking microeconomic mechanisms. Since neither socialized mass production nor a commodity economy has fully developed in China, not only has the enterprise system gone astray, but the management system also is quite fragile, making it all but certain that our work in this area will be long and hard. After preliminary consideration, I think we should stress the following as we build up an enterprise system:

1. Clarify property rights and establish the enterprise's status as a legal person. Fuzzy property rights under the old system were largely responsible for the imperfect enterprise mechanisms. Accordingly, tidying up property rights in a big way is indispensable to the establishment of a new enterprise system.

First, clarifying property rights relations does not necessarily mean replacing public ownership with private ownership. In fact, even if the state owns the enterprise 100 percent, the enterprise mechanisms may operate normally regardless. The issue is whether property rights relations are clearly defined. For this reason, it is suggested that we delineate clear property lines between the central government, local authorities, and enterprises based on the size of their share of property rights in a state enterprise, and lay down corresponding rights, responsibilities, and interests for each party. We may even set up a host of competitive assets management companies to supervise and evaluate enterprise activities to make sure they make sensible behavioral choices.

Second, clarifying the nature of property rights will help straighten out the relationship between ownership and management. We have two options here. We can integrate ownership with management outright or we can separate them completely. Both will help stiffen enterprise budget restraints. Thus, private ownership, enterprise ownership, leasing, the contracted management system in all its forms and shapes, and share-holding are all options available to us in practice.

Third, whether we separate ownership from management or integrate them, we must firmly establish the enterprise's status as a legal person. The history of the corporation in the West shows that the emergence of the corporate legal person system constituted a revolution in property relations. Not only did it lay the groundwork for the separation of security assets from real assets, and personal assets from corporate control, but it also created a legal format suited to both the public enterprise and the mixed public and private enterprise. The legal person issue is particularly urgent and important for Chinese enterprises. In a modern commodity economy, the enterprise's status as a legal person must be ensured. Otherwise, its behavioral choices would lack a legal basis. This is an even more practical point than property relations.

2. Unify the enterprise organizational setup. An irrational organizational structure is what has inwardly weakened enterprise restraints. Thus we must establish a sound organizational structure. First, set up a unitary organizational structure and firmly abolish dualism in the leading organ and decision-making system. Institutions within an enterprise should be set up around economic activities. Second, thoroughly separate government from enterprise functions and put an end to government interference beyond that justified by its property rights in order to ensure the enterprise's independent status, rights, and interests. Spell out the responsibilities of each level in policies and through legislation. In case of losses resulting from administrative interference, the perpetrator should be held legally and economically liable as appropriate. Second [as published], implement the factory director (manager) responsibility

system across the board in the enterprise. Make it clear that the factory director is in charge and that the party organization is only a guarantor, a watchdog.

3. Strengthen self-restraining mechanisms within the enterprise. Self-restraining mechanisms within the enterprise are essential to remaking microeconomic mechanisms. The rationalization of the internal restraining mechanisms of an enterprise constitutes the basis for ensuring harmony between microeconomic operations and macroeconomic development. First, interest restraint. Interest is the driving force of enterprise behavior. A reasonable interest structure is needed within the enterprise to ensure harmony and unity between the interests of the owner, operator, and producer. Through mutual constraints by the various interest parties, the enterprise should weave its short-term objectives into its long-term development and bring its interests in line with national interests. Second, decision-making restraints. We should establish a decision-making organization within an enterprise made up of highly intelligent specialists and put together a corresponding decision-making responsibility system. There should be a coherent sequence of scientific rigorous procedures covering the decision-making process from the proposal of a policy through implementation to feedback. There should be an appropriate supervisory and guarantee system over the major decision-makers to strengthen the internal decision-making restraining mechanism.

4. Safeguard competition on an equal basis. The presence of competition within an enterprise is an objective fact. Such competition is what energizes the enterprise and drives its development. There are two aspects to assuring a level playing field for microeconomic competition. First, we must preserve competition on an equal basis for workers within the enterprise by encouraging them to improve themselves diligently and competing with one another. We must firmly oppose and destroy all kinds of influence-peddling using personal relations and prevent them from bending the rules of competition. Second, we must protect competition on an equal basis among enterprises. Based on the intrinsic demand of the development of a commodity economy, we must compete using market mechanisms to the full and arouse the enterprises' sense of competition so that they will work hard to improve themselves. The idea is to bring about the survival of the fittest. The introduction of competition into microeconomic operations will be a major change in enterprise behavior. Thus we must vigorously create the conditions in which competition can take place smoothly.

5. Raise democratic consciousness among workers. Worker initiative and enthusiasm are the wellspring of vitality for an enterprise. The democratic consciousness of workers not only helps determine whether the enterprise will succeed or fail, but is also a gauge of the caliber of a people. In China, owing to longstanding feudal rule

and the backwardness of social culture, democratic consciousness remains largely undeveloped among workers, creating tremendous social resistance to modernization. It would be a daunting task to turn this situation around. In the short run, we should step up the nurturing of democratic consciousness among workers as part of enterprise reform. To begin with, we must foster the notion that workers are the master of the enterprise so as to inculcate them with an inward sense of responsibility and pressure. We must educate and guide them in all ways to rise above narrow personal interests in pursuit of higher objectives. Second, we must work on the organizational level to create conditions in which workers can exercise their democratic rights. The workers' representative assembly, trade union, and various mass organizations within the enterprise should be allowed to live up to their name. Third, improve the worker democratic supervision and review system to give workers every opportunity to express their opinions. This has taken on additional significance now that the contracted management is under way in its many forms. Only when the workers' democratic consciousness has been raised all around can the rationalization of enterprise operating mechanisms rest on a broad popular base and be assured of vitality.

#### **B. External conditions for the Remaking of Microeconomic Mechanisms**

The remaking of microeconomic operating mechanisms requires a favorable suitable external environment as well as a new enterprise system.

First, strengthen government behavioral restraints. As an economic organization, the enterprise should no longer discharge government functions. Nor should the government continue to grade enterprises using such standards as provincial army, regional division, and county regiment. The enterprise's operational decision-making power should be determined by whoever owns the assets, not the administrative authorities in charge. In determining the government's status and functions, our operating principle should be the separation of ownership from management. The government must correct its own behavior to begin with and stop intervening directly in enterprise operations. Instead, it should guide enterprise behavior with policies, laws, and regulations. Only when government restraints are strengthened can the weakening of enterprise budget restraints lose its prop.

Second, create a market environment for competition on an equal basis. After years of reform, the door of the market has been opened and market mechanisms and the law of value have begun to work. On the whole, however, the functioning of market mechanisms remains far from perfect. The incompleteness and incompatibility of the market are still seriously impeding the unleashing of the vitality of the enterprise. Thus what is required is a vigorous but steady effort to open up the market. Right now we should concentrate on opening up the capital goods, financial, technology, information, and labor markets and gradually create a unified

market system. The rational circulation of means of production and market competition on an equal basis would help expedite the rectification of internal enterprise mechanisms.

Third, make sure reform measures are well coordinated with one another. Although the state has delegated a good deal of power to enterprises in recent years, much of it has not been translated into real authority. If we look at the reasons, apart from problems in work, the main factor is that the various reforms are not coordinated and get in one another's way. Since the economic management function of the government remains fundamentally unchanged, some departments can still employ the power they have to intervene in an enterprise's production and operations, making it very difficult for the latter to exercise its decision-making authority. Some enterprises have overhauled their internal setup in order to meet the demands of the commodity economy and market development. But owing to the lack of coordination between themselves and the higher authorities, their efforts are hampered in every way. As a result, "the lower level makes a move, but since the higher level does not act likewise, he who acts will end up in a passive situation."

Fourth, accelerate political structural reform. A social organization as well as an economic unit, the enterprise is highly sensitive to political life. In the final analysis, the rationalization of internal enterprise organization must depend on success in political structural reform. The wholesale reform and restructuring of the political system will create a favorable climate for the establishment of new enterprise mechanisms. For this reason, we must greatly speed up political structural reform in order to expedite the remaking of microeconomic mechanisms.

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#### **Commentary on Ma Hong's 'Socialist Commodity Economy'**

40060495 Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese  
No 7, 12 Jul 88 pp 60-62, 14

[Article by Zhang Jitao 1728 1376 3447: "A Learned Work With Theoretical Depth and Distinguishing Features—a Review of Socialist Commodity Economy" by Ma Hong. Passages in boldface as published]

[Text] Among many recent works regarding commodity economy theory, "Socialist Commodity Economy" is a notable scholarly treatise which has both theoretical depth and its own characteristics.

**1. Unity of History and Logic, Observation and Discussion of the Theoretical Development in the Relation Between Commodities and Currency From the Historical Reforms in the Socialist Economic System.** The theoretical development in the relation between commodities and currency has never relied on simple logical reasoning, but has been intimately tied to reforms in the



economic system. Because people's knowledge has usually come from practices in the specific economic systems, they judge the role in the relation between commodities and currency on the basis of gains and losses as well as advantages and disadvantages in economic movement. Their concern in the study of the relation between commodities and currency exactly reflects the objective need to perfect or reform the economic system. Thus, the discussion of socialist commodity economy theory must be intimately tied to historical reforms in the economic system; only then can the turning points and background in the changes and development in economic viewpoints be thoroughly analyzed. This book is arranged so that its structural set-up and discussion follows the principle of uniting history and logic. Starting with the second chapter the book first looks back on traditional socialist economy models and the author clearly points out that the reason why traditional socialist economics regards the relation between commodities and currency as foreign matter in the socialist economy must be found by looking at the economic model reflected in it (page 26). The author analyzes how military communism practices fostered the attempts by the people to eliminate the relation between commodities and currency, and how this led to misconceptions about direct social production and allocation. He analyzes a series of effects toward the movement of the economic system in the period of new economic policies which permitted the existence of a relation between commodities and currency, and because of this, the new economic policies are treated as a kind of socialist economic model to observe. He analyzes the inherent ties between the practices of traditional economic models and the Stalinist theory on commodities and currency. He analyzes the formation of China's traditional model and the historical reasons why it especially had the colors of a natural economy; and he analyzes the defects in the information and motive structures in the traditional system and thereby makes an even deeper analysis of the position and role of the relation between commodities and currency in socialist economic movement. This kind of discussion uniting history and logic reveals the inherent relation between the theoretical development of the relation between commodities and currency and changes in economic models. It shows the stages and continuity in the development of people's knowledge, and thus, we can historically evaluate the economic viewpoints of different periods. At the same time, it brings the reader to an understanding of the turning points and historical background in the development of theory regarding the relation between commodities and currency, and leads the people to a deeper understanding of the problems.

This kind of unity of history and logic is also embodied in the arrangement of the entire book. It is significant that the book dealt with China's move from a self-sufficient and partially self-sufficient agricultural economy to a commodity economy system in chapter three and then, in chapter four, dealt with state enterprises as comparatively independent commodity producers and managers. This principle is found to run through the

discussions of every chapter and section with logical reasoning often combined with historical discussion. This both reflects the origins and developments in the development and change of theoretical viewpoints, and also historically evaluates past theoretical results. This type of discussion is of real significance. Our present theoretical progress undoubtedly is a result of the joint efforts of everyone under the conditions of ideological liberation and destruction of traditional views since the Third Plenum of the 11th Party Central Committee. However, for many issues we drew upon the theoretical results of our predecessors or accepted the revelations in thinking of our predecessors. Thus, we should correctly deal with our historical legacy. We can't simply adopt a nihilistic attitude of today we are right and yesterday we were wrong.

## **2. Proof That the Commodity Economy Is an Inherent Attribute of the Socialist Economy From Intrinsic Interests in Socialism.**

The book sums up the reasons for the existing of commodity production by looking to see whether or not there exist different economic bodies with independent economic interests from a discussion by Marx on the reasons for the existence of commodity production (naturally premised on the existence of a social division of labor); then it looks at the objective existence of the various economic bodies with independent economic interests in a socialist economy. Among economies with different ownership undoubtedly there are different interests in the various economic bodies. Among the various enterprises found in ownership by the whole people there are still disparities in the material benefits among laborers because labor is still a means of livelihood. Under conditions of socialized production, products are the result of the joint labor of enterprise workers. For these reasons, equal exchange of labor among workers must similarly manifest itself through an equal exchange of values among enterprises. In this way, among enterprises, different economic bodies with self-interests will inevitably develop relations where they mutually act as producers and exchangers of commodities. This kind of analysis has many theoretical strong points. Above all, labor, acting by nature in this phase of socialism as a means of livelihood, is restricted by the development level of the productive forces and it doesn't have direct ties with the concrete forms and ownership structure of production relations. Thus, it can do away with the limitations of using those certain concrete forms of production relations and those certain forms of ownership to explain the reasons for the existence of commodity production. Second, analyzing along this line of thought, the reasons for the existence of a commodity economy and distribution according to work come from the same source. Thus, they both are inherent attributes of socialist economy. Just as the book analyzes it in chapter four, this line of thought is none other than a further extension of Marx's analysis on distribution according to work. In this way, it embodies a unity of

holding fast to Marxism and developing on Marxism in its analysis of the reasons for the existence of commodity production. Finally, this line of thought sums up the reasons for the existence of commodity production on a deeper level. We can use the disparities in economic interests to explain the reasons for the adoption of commodity production under the various concrete economic forms. Disparities of interest are the reason the various enterprises within ownership by the whole people or enterprises with differing ownerships adopt commodity production. Distinctions rest only in the different sources that give rise to the disparities in interest and the limitations related to ownership of property among enterprises with different ownership. Of course, in a certain sense, among the various enterprises within ownership by the whole people there exist, to a certain extent, distinctions related to ownership of property. As the book points out in chapter four, socialist nation ownership having certain components of enterprise and collective ownership is the reason why state enterprises have become relatively independent commodity producers. However, this is, after all, different in nature from other kinds of ownership and the reasons giving rise to these kinds of ownership are different. In analysis explaining the reasons for the existence of commodity production, at home and abroad there are many lines of thinking, but this book draws on the results of study done at home and abroad, is fully persuasive in its arguments, and may very well be a kind of comparative science explanation.

**3. Socialist Commodity Economy Is a Distinct Commodity Economy; Socialist Economy Has Both the General Features of a Commodity Economy and Certain Non-Commodity Features.** How to correctly recognize the features of a socialist commodity economy has both great theoretical significance and practical significance. This not only relates to the selection of basic principles in economic system movement but also relates to the design of the ownership structures, decision-making systems, and motive structures of this model. Since socialist economy is also a commodity economy, among enterprises under public ownership acting as different economic bodies with different interests, commodity economy features will inevitably manifest themselves in the mutual relationships. For example, enterprises must arrange enterprise input and output based on self-interested profits and losses under the regulation of the law of value; enterprises have mutually competitive relations in the market, macroeconomic adjustment and control measures must draw support from the stimulation of economic self-interest for their realization, etc. We should lay stress on these general features of the commodity economy because they are precisely the objective basis of certain basic principles of the planned commodity economy. However, socialist commodity economy is built on the foundation of public ownership, and it inevitably has its own special features different from the capitalist commodity economy. The book sums up the features of the socialist commodity economy as two: (1) it manifests relations of mutual cooperation-operation and equal benefit founded on public ownership;

(2) planning and commodities are united. In analyzing the first feature, the author, aside from pointing out that the scope of the commodity economy meets with certain restrictions, lays stress on the production relations that a commodity economy manifests the production relations of mutual cooperation and equal benefit under the basis of public ownership. In this sense, not only do mutual commodity relations develop among socialist enterprises, but also they have certain non-commodity, joint production and joint allocation features. If we say commodity-nature will manifest a disparity of interests among enterprises, then non-commodity-nature will manifest a consistency in the basic interests of the people under public ownership of production materials (page 338). I feel this dialectical analysis not only is a standard explanations, but also has real significance. Socialist enterprises under public ownership must undoubtedly act as commodity producers and managers conducting their business on the basis of commodity economy principles. However, partial interests subordinated to the interests of the whole and present interests subordinated to long-term future interests should still be the behavioral norm for enterprises. Not admitting or ignoring this feature makes it difficult to ensure normal movement of the socialist economy. At present, don't certain phenomena in social economic life clearly emphasize the importance of this feature? (State-run enterprises driving up prices, profiteering, hoarding and speculation, resorting to fraud and deception, etc.) Of course, the reasons are complex; above all, they are directly related to market environment where supply doesn't meet demand. However, correct recognition of the features of socialist commodity economy makes enterprises consciously follow the standards of behaviour for enterprises under public ownership and also is one of the effective ways to restrain microeconomic behavior. The author's analysis of the second feature also sets out from the foundation of socialist public ownership. Socialist commodity economy must give full play to the role of market mechanisms. Whether it can achieve the planned development hinges on the ability of the socialist market to be regulated. This ability to be regulated precisely comes from public ownership. The macroeconomic planning and regulation of socialist nations uses the market as the medium. Because socialist nations are socialist owners and they have the various legal, administrative, and economic means, there is the real possibility of regulating the market (in toto and structurally). This guidance of the microeconomic enterprise activities by the market under state planning and regulation whereby macroeconomic planning and control and microeconomic activity are united manifests the unity of the planning-nature and commodity-nature of the socialist commodity economy. I feel this type of analysis is quite profound and correct. First, planning-nature is one systematic feature of the socialist economy. Only by linking up this attribute with the ownership structure can we arrive to a correct explanation. Some comrades depart from the ownership structure and simply use the needs of great social production to illustrate planning. This certainly is bound to confuse certain

planning activities of capitalist countries with planning-nature which acts as a special systematic feature. The phenomena blur the essence. Second, the author sums up the key to planned development in the ability of the market to be regulated; the objective condition allowing the market to be regulated is ownership by the whole people. This delineates in a clear and systematic way the core and objective conditions of the mechanism of the movement, "the state regulates the market and the market guides enterprise."

At present, there are different understandings of the special features of socialist commodity economy in theoretical circles. However, it is of great significance to acknowledge that socialist commodity economy is a special commodity economy and is the unity of commodity-nature and planning-nature. It reveals the essential systematic attributes of the socialist commodity economy and is of assistance in correctly understanding the socialist nature of the planned commodity economic system.

**4. In Socialist Commodity Economy Movement, Price Signals and Quantity Signals Exist Together; the Model Target Is To Lay Emphasis on the Price Signal.** The primary contents in the movement mechanisms of economic system reform are to be rid of those direct controls of the past that place excessive reliance on quantity signals and to replace these with indirect controls primarily via price signals. In this sense, emphasis on the effective functioning of market mechanisms and price signals is absolutely necessary. However, the realities of capitalist commodity economy movement proved early on that sole reliance on price signals will not ensure harmonious economic movement and continuous growth; the state must draw support from certain regulations of quantity to achieve macroeconomic control. The experiences and lessons of socialist nations in the same way show that sole reliance on price signals cannot effectively achieve macroeconomic balance of overall amounts and major structural regulation. Thus, many theoretical analyses name the argument which relies solely on price signals to achieve overall balancing as Waerla [3907 1422 2139] utopianism. Setting out from our nation's actual situation, aside from regulation of total quantities, whether we should retain small amounts of command planning is truly an issue meriting study. In the chapter on Socialist Planning Work (Chapter 11), the book at once forcefully criticizes the negative results of command planning and clearly points out that even after completing the reforms of the economic system, we cannot completely eliminate command planning in the movement of the new economic system (page 351). I feel that this formulation has a theoretical basis. Seeing that certain socialist nations have completely eliminated command planning in their economic system reforms, some comrades feel that command planning is not compatible with the use of market mechanism models and so oppose retention of small amounts of command planning. Actually, this either/or attitude is not definitely correct. First of all, the results of adopting direct regulation of quantity for products with little supply flexibility and fairly small demand flexibility will not inevitably be less than if we use indirect price regulation;

much less can it assist price regulation in this regulation of small amounts. Furthermore, those comrades who maintain the view stated above often consciously or unconsciously idealize the regulative mechanism of sole reliance on price signals. In addition, some comrades confuse the coexistence of double regulative signals with the coexistence of two kinds of systems. They feel that the continuous existence of command planning implies the retaining of the old system. Theoretically speaking, all socialist economic systems have coexisting double signals, the distinction being in which kind of regulative mechanism occupies the dominant position. In the course of our nation's economic system switch-over, it we merely achieve emphasis on price regulation and macroeconomic control by economic means, then we basically have switched over the movement channel of the new economic system. As for whether we retain a certain amount of command planning in small areas, this is not a basic indicator. Thus, I feel that the views advocated in the book are worth taking note of.

**5. Reaffirmation and Strengthening of Macroeconomic Planned Controls and Regulation Is a Prerequisite to Giving Full Play to the Active Role of Market Mechanisms; Advocate a Gradual Forming of a Buyer's Market.** The book discusses this view on many occasions in chapters 6, 8, 11, and 13. In summation, the main points are: (1) Market mechanisms are not suitable for deciding the basic direction of socialist economic movement. Without macroeconomic planning and controls, the spontaneous regulation of market mechanisms will bring macroeconomic proportional imbalance, anarchic production and an economic crisis. (2) The macrocontrol targets of overall supply and demand are to have a buyer's market where supply is slightly greater than demand. This is a necessary prerequisite to the perfection of market mechanisms because only in a buyer's market environment can the active use of market mechanisms promoting production and marketability, improved management and technology, and heightened quality be given full play. (3) A rough balance between overall social supply and demand is a condition for achieving command planning. If supply doesn't meet demand, economic life is stretched too lightly, and if the state lacks the necessary financial and material resource reserves, it will be difficult to amply and freely use the various economic levers. (4) Economic system reforms need to create a relaxed economic environment. Basic changes in the external environment undoubtedly must depend on reform of the old economic system. However, the opportunity and scale for reforms of the old system must take into consideration certain external conditions. In the initial phase of reforms, suitable external economic conditions are necessary. I feel the above-mentioned arguments in the book are right. First, speaking theoretically, giving full play to the market mechanisms is tied together with dispersing microeconomic decision-making. This kind of decision-making can only consider capital input and resource deployment according to market information, so it is difficult to do it on the basis of a comprehensive, long-term standpoint. This kind of

decision-making often sets out from the economic self-interest of the enterprise, and it is both difficult to simultaneously look after the social benefits on a regular basis and doesn't take social costs into consideration. Thus, we must strengthen macroeconomic planning and control. At the same time, the macroeconomic imbalance where supply does not meet demand signifies the people hold excessive purchasing power; as under the spontaneous functions of market mechanisms, inflation caused by demand will inevitably result. On this foundation all structural regulations will find it difficult to avoid widespread price increases. Without excessive purchasing power, structural adjustment in prices can only give rise to changes in the supply and demand structures (reducing certain demand or looking for substitute products, supply structure also meets with corresponding changes under the influence of the new demand structure), and it won't inevitably give rise to widespread price increases. Speaking in this sense, the results of costs propelling price increases and structures adjusting the price increases are related in every way to a balancing of overall supply and demand. Second, looked at from the view of practice, the true emergence of price system reforms, which are related to whether or not price signals can effectively regulate resource deployment, is delayed; the macroeconomic environment is a decisive limiting factor. At the same time, in present economic life the active function of market mechanisms is being limited, and the negative function is attracting people's attention. This after all is tied in with the macroeconomic environmental imbalance. Of course, in the final analysis, how to correctly solve the progress in economic system reform and improvement in the macroeconomic environment is an issue which requires further discussion. The views in this book have theoretical value inasmuch as they are the words of one school.

Finally, I feel that, because many people did the actual writing of the book, the analysis of certain issues seemed to be duplicated in places. If the book can be consistent from cover to cover and be made more elaborate and simpler in certain areas, it would be a little more well-knit; certain arguments elaborated upon in different chapters and sections seem to be a bit inconsistent. It is unavoidable that there would be certain disparate views given the different authors, but within one work it would be better if they were united to the greatest extent possible.

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### **Improving Contract System, Results**

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[Article by Zhang Yanning (1728 1750 1337): "Perfect and Develop the Contract System, Improve Enterprises' Economic Results;" Passages in boldface as published]

[Text] At the present stage in our country, the solution of many contradictions and the elimination of many difficulties depend, in the final analysis, on the improvement

of industrial results. But the improvement of industrial results can only be realized on the basis of instituting a contracted management responsibility system in enterprises. This makes it necessary to concentrate our efforts on giving meticulous guidance and to making a success of the enterprise contract system in 2-3 years' time.

Since the beginning of this year, the contract system has made new headway. This is conspicuously reflected in the following ways:

**1. The competition mechanism has been introduced in the institution of contracted management through public bidding.** The competition mechanism has instilled new vitality into enterprises and become a major aspect in perfecting the contract system. This method was instituted in a few localities last year in some small and medium-size enterprises operating with little profit. Today, some large and medium-size enterprises have also instituted contracted management through public bidding. The introduction of the competition mechanism into contracted management has broken once and for all the shackles of the old enterprise management structure and stimulated the development of the new management system. 1) It has broken the traditional practice of promoting and appointing enterprise leading cadres and changed the practice of looking at horses to judge their worth, to one of horse racing, so that large numbers of competent managerial personnel who are bold in carrying out reform can show their talent. 2) It has stimulated the separation of ownership from the power of operations and reduced administrative intervention on enterprises by government departments, so that the enterprises can have decision-making powers in operations and management. 3) It has broken the pattern of "one-to-one negotiation" in the fixing of contract basis and enabled people to gain a fresh understanding of the enterprise potential through public bidding, so that the contract basis can be fixed rationally and in a scientific way. This is conducive to the tapping of the enterprises' internal potential. 4) It has changed the egalitarian mentality among enterprise operators, workers, and office staff and strengthened the authority of the operators and the sense of responsibility of the workers and office staff. 5) It has strengthened the enterprises' sense of urgency to develop on their own. Most operators not only pay attention to production and operations in the contracted period but also set eyes on obtaining the right of contracted management in the next contracted period through competition. Consequently, they attach relative importance to achieving a great capacity for longer economic development.

**2. The risk of contracted management is shared with the introduction of collateral.** Many localities have conducted useful explorations on how to turn contract management by operators into one by the whole staff and how to bring their enthusiasm into play. Some localities have brought into play the tremendous results of the contract system with the comprehensive use of the competition mechanism, risk mechanism, and benefit mechanism and

developed various practices, such as all-personnel contracted management and collateral contracted management. This system of all-personnel collateral contracted management has forged closer relations between the operators on the one hand and the workers and office staff on the other and enhanced the operational consciousness of all workers and office staff; it has strengthened the risk mechanism, providing the enterprises with a certain capacity to withstand losses; and it has turned part of the money in the hands of the workers and office staff into production funds. Following its further development it can combine into one, three functions, namely, collateral, collection of money, and shares. This represents a new way to strengthen the contract functions and to deepen enterprise reform.

**3. The practice of enterprises taking on the management of other enterprises through contracting or merger has been instituted.** Since last year, many localities have instituted the practice of enterprises taking on the management of other enterprises through contracting and merger. This is the outcome of the development of the contract system. When an enterprise takes on the management of another through contracting, the power of operations is shifted; when an enterprise takes on the management of another through merger, both the property rights and the power of operations are shifted.

Contracted management and merger enable the property rights and the power of operations of enterprises in an inferior position to move toward enterprises in a superior position, so that the personnel, capital, and technological superiority of enterprises in a superior position can be brought into full play and that the work space and equipment of enterprises in an inferior position can be utilized more satisfactorily, thus stimulating the rationalization of the enterprise organizational pattern and product mix and improving economic results. In the first 5 months of this year, the industrial output value of the 13 small enterprises in Jilin city, which were contracted to the Jilin Chemical Industrial Corporation, rose by 20 percent and the realized profits by 51 percent; through the practice of enterprises merging Baoding city has eliminated the operational losses incurred by the city's industrial and transport enterprises. Wuhan and Chengdu have set up markets for enterprise property rights.

**4. Some breakthroughs have been made in supplementary reforms within the enterprises.** Because the bases are fixed in contracted management, enterprises are forced to tap potential and to enforce internal supplementary reforms to improve economic results. Contracted management of enterprises, especially contracted management through public bidding, reduces administrative interference. Enterprises can exercise their decision-making power in operations fully and conduct internal supplementary reforms. Substantial breakthroughs have been made in this field. The first is structural reform. In line with the needs of production and management and the principles of streamlining and efficiency, many

enterprises have set up new institutions, thus breaking with the conventions of setting up the same institutions as those in the higher authorities. The second is reform of the personnel system. With middle-ranking cadres employed through advertisement and examination and the institution of contracted management at all levels, the systems of the iron rice bowl and lifelong tenure for cadres have been discarded. This has stimulated the rational flow and optimized deployment of cadres. The third is reform of the labor system. With more and more enterprises optimizing their labor combinations, a sticking point in enterprise reform has been overcome. The fourth is reform of the wage system. The institution of the numerous forms of the system of linking total payroll with the enterprises' economic returns has created conditions for the reform of the distribution system within the enterprises. In light of their own characteristics, the enterprises institute various forms of the wage system, such as job wages, piece wages, floating wages, and structural wages. The four comprehensive supplementary reforms within the enterprises have yielded very good results. In Shenyang city 786 industrial enterprises (accounting for 35.7 percent of the total number of industrial enterprises in the city) have optimized labor combinations by transferring more than 44,000 people from various posts and have provided jobs for more than 33,000 people through numerous channels, principally through the setting up of tertiary industries.

**5. The system of keeping funds on separate accounts has been implemented on a trial basis.** In line with the requirements of the "Regulations on Contracted Management," some localities are vigorously working out the method of implementing, on a trial basis, the system of keeping funds on separate accounts and have selected some enterprises to carry out the experiments. The division of enterprise funds has several advantages: 1) It can solve the sources of fund for losses incurred by enterprises; 2) it provides us with a scientific basis to assess the added value of enterprise assets and thus encourage enterprises to pay attention to long-term development and to overcome short-term conduct; and 3) it creates conditions for the merger of enterprises in an inferior position by enterprises having substantial funds because the enterprises' fund amounts are linked not only to the good names of enterprise operators, workers, and office staff but also to the extension or loss of the power of operations.

**6. The contract system has been brought into the orbit of legality.** The "Enterprise Law" takes the contract system as a principal method of enterprise operations and the "Regulations on Contracted Management" stipulate a series of important issues relating to contracted management. The promulgation of the "Enterprise Law" has provided a legal basis for the implementation of the plant director responsibility system and unified the thinking of all sectors. In enterprises under contracted management, the key position and role of plant directors and the objectives which plant directors are held responsible for attaining during their tenure have been defined

and further efforts are being made to straighten out the relationships between the party, government, and industry. Many enterprises have accumulated good experience in this field.

**7. Group enterprises have developed in the course of deepening reform.** According to incomplete statistics, there are nearly 1,000 large, group enterprises. In the course of their development, some new trends have emerged: 1) Association among the leading core of group enterprises has broken through the "three unchanged" pattern; 2) with their forms being constantly innovated and their functions constantly expanded, the group enterprises tend to be more diversified and comprehensive; 3) a number of group enterprises with scientific research and technological units as the main bodies have emerged; 4) the setting up of financial companies by group enterprises has opened up channels for financing within the group enterprises; and 5) some group enterprises have started to develop exports and to boldly enter the international market. Some export-oriented group enterprises are exploring ways of cooperation and association among themselves.

**8. The study of contracted management theories is fairly active.** The practice of the enterprise contract system has stimulated the study of contracted management theories. There have been extensive explorations into the mechanism, status, and role of the contract system, the relationship between contracted management and various reforms, and the development and improvement of the contract system in the future, and some useful achievements have been attained.

**9. Some new methods of management have come into being.** The contract mechanism encourages enterprise operators, workers, and office staff to vigorously seek methods of management suited to the characteristics of their enterprises, to strengthen the basic work, to arouse the enthusiasm of the workers and office staff for labor, to strictly administer enterprises, and to rectify such defects as lax labor discipline and low efficiency. Many enterprises have started applying the method of operating at full capacity and have accumulated a lot of experience, such as the "silent, highly-efficient, optimized work method" and the "group operational work method." These experiences have yielded good results in practical work.

The contract system will yield the greatest results this year. According to preliminary statistics, in the first 5 months of this year, the total output value of budgetary industries throughout the country rose by 11.3 percent over the same period last year; the sales income by 19.1 percent, the realized profits and taxes by 12.5 percent, the profits and taxes turned over to the state by 8.3 percent, the repayment of credits by enterprises by 42.9 percent, and the retention of profits by enterprises 20.6 percent. State revenue rose by 11.6 percent and this is directly related to the improvement of industrial results.

Since the beginning of this year, the contract system has deepened and developed. However, viewed from the nation as a whole, the development is still uneven. The quality of contracted management in some enterprises is still poor and some 10-20 percent of enterprises under contracted management fail to fulfill their contracts. The important task of enterprise reform in the second half of this year is to persistently grasp the contract system in line with the "eight-character policy" put forward by the central authorities and the general objectives for the development of the socialist commodity economy, with stress on implementing and improving the enterprise contracted management responsibility system and deepening the reform of the enterprise operational mechanism. On the basis of extensively instituting the contract system, we should improve the quality of contracted management, bring into full play the inherent energy in the contracted operational mechanism, and make further efforts to improve economic results.

**1. Conscientious efforts should be made to implement the "Enterprise Law," deepen reform, and administer factories according to the law.** It is necessary to conscientiously study the "Enterprise Law," change our concepts, and enhance the consciousness of administering factories according to the law. The core of the "Enterprise Law" is the separation of ownership from the power of operations. All economic management departments should change their functions, delegate power to the lower levels, reduce administrative intervention, and create a relatively relaxed economic environment for enterprises. A key issue in implementing the "Enterprise Law" is the institution of the plant director responsibility system.

An important issue in the implementation of the plant director responsibility system is to handle the relationship between the party, government, and industry in enterprises properly. Judging from the experience in some enterprises, the practice of the party committee secretary concurrently taking up of the post of deputy plant director for political affairs is quite feasible and can be tried out in enterprises having the necessary conditions. Handling the relationship between the operators and the workers and office staff well is also an important job in perfecting the contract system. It is necessary to strengthen democratic management and bring into full play the role of workers and office staff as the masters of enterprises through various methods, such as instituting a system under which all personnel share the risk with the use of collateral and perfecting the system of congresses of workers and staff members.

**2. It is necessary to extensively establish a competition mechanism in selecting outstanding operators in order to raise enterprise operations to a higher stage.** A link playing a key role in contracted management is competition through public bidding. If we can conduct competition satisfactorily at the plant level and if outstanding entrepreneurs can become plant directors through public bidding, it will be possible to break the depressed



situation by quickly launching various reforms within enterprises. In the course of inviting public bidding for contracted management of enterprises, there is still some administrative intervention. Where conditions permit, contracted management of large enterprises should also be effected through public bidding. Enterprises that have signed contracts should also invite applications for jobs and contracted management at all levels. They should establish the competition mechanism from the main factory to branch factories, workshops, teams, and groups and integrate the employment of cadres with the promotion of outstanding workers to the posts of cadres. If the operators have been so improperly selected that they cannot fulfill the contracts, the enterprises should, in keeping with provisions of the "Regulations on Contracted Management," terminate the contracts and select operators again through public bidding. We should gradually build up a contingent of entrepreneurs through competition in public bidding and run the enterprises well.

In introducing the competition mechanism, it is necessary to implement the principle of "openness, equality, democracy, and selection of the superior," to throw off such restrictions as administrative divisions, ownership character, and professions, and effect equal competition in an open environment. All localities should create conditions for the setting up of tender markets and markets for enterprise operators, which will provide data and train personnel for contracted management through public bidding and, through the market, reduce direct government intervention in public bidding. With regard to those who fail to win the tender, we should also guide and train them so that they can raise their levels continuously and have the opportunity to take part in future tenders.

**3. We should encourage enterprises to take on the management of other enterprises through contracting or merger and urge enterprises to cater to the needs of the market, to develop themselves in the course of selecting the inferior and eliminating the inferior, and to optimize the enterprise setup.** In our guiding work we should pay attention to three points: 1) We should proceed from reality, take on the management of enterprises through contracting or merger where necessary, and stress optimizing the enterprise setup and product mix. 2) We should observe the principle of voluntary participation and mutual benefits. The competent departments should not forcibly act as go-betweens, prevent poor enterprises from taking advantage of the rich ones, and avoid rushing headlong into mass action. 3) Government departments should proceed from the industrial policy and the economic development strategies in the localities, vigorously guide enterprises, provide services, and coordinate various interest relations lest state property be infringed upon. After the "Bankruptcy Law" goes into effect, it is still necessary to explore ways to integrate the merger of enterprises with the implementation of the "Bankruptcy Law." Another sticking point in the deepening of enterprise reform is how to solve the long-standing problem of enterprises operating at a loss. With

regard to those enterprises run unsatisfactorily and at a loss for a long time, we should first be determined to contract for their management through public bidding.

If this is still unfeasible, some should be declared bankrupt and merged with enterprises in a superior position; others can be directly merged without putting them into insolvency; and some small enterprises can be auctioned off. Zhejiang's Lanxi city has attained some results in decontrolling enterprise operations. In some trades, where the supply and demand are relatively balanced, we can also select some enterprises, such as enterprises dealing in watches, sewing machines, radio sets, and bicycles, to decontrol operations so that they can be genuinely responsible for profits and losses. In short, we should explore various effective ways to push the enterprises to the market and, through the selection of the superior and the elimination of the inferior, solve once and for all the question of enterprises operating at a loss for a long time.

**4. It is necessary to reform the labor system to optimize labor combinations.** In optimizing labor combinations, many localities have adopted effective measures. This is a good beginning. Viewed from previous practices, there are chiefly two ways to find placement for surplus personnel. The first is to rely on the enterprises to absorb them or make them wait for job assignments in the enterprises and the other is to rely on society to find placements and establish a social security system. From a long-term point of view, the latter is the direction of the reform of the labor system. In the near future however, because the social security system has not been established and the major environment has not taken shape, we are still unprovided with the necessary conditions to rely on society to find placements. A relatively feasible method is to absorb these people in the enterprises by various means and this is a safer thing to do.

In our view, in optimizing labor combinations we should pay attention to the following five points: 1) It is necessary to implement a policy of reducing personnel without reducing the total wages, stimulate optimized combinations at all links in enterprises, and arouse the enthusiasm of the reduced staff. 2) Optimized labor combinations should be conducted in the order of cadres first and workers second and administrative offices first and workshops second. There should be clearly-defined standards and fair assessments. Positions should be open for competition and income should be linked to contribution. 3) Enterprises should explore all possibilities of employment for surplus personnel and, when necessary, give paid support in terms of capital, technology, and equipment. The new operational units should practice independent accounting and be responsible for their profits and losses. They should not be allowed to engage in the practice of "eating from the same big pot" in their relations to the original enterprises. 4) The government management departments concerned, including the labor, industrial, commercial, financial, banking, and public security departments, should support this effort

and work in close coordination. 5) It is necessary to main a certain number of surplus personnel to take the place of or replenish other personnel at any time to facilitate the flow of personnel within the enterprises.

**5. We should establish a contracted risk mechanism in order to develop a relationship of shared benefits and risks between the operators and producers.** At present, attention should be paid not to take risk collateral as a means of distributing more bonuses in a disguised form. Collateral should be used in such a way that it can genuinely play the role of assuming risks. The period of collateral should coincide with the contracted period. The amount of collateral should preferably be increased year by year to strengthen the capacity to share the risks. When enterprises are operated at a loss, the collateral must be used to make up for the losses; when the enterprises make profits, the workers and office staff may receive a certain amount of interest.

**6. It is necessary to increase the number of enterprises experimenting with the practice of keeping funds in separate accounts.** The practice of keeping funds in separate accounts is an important aspect in improving the contract system. It is a method of solving the question of enterprises being responsible for their profits and losses. If enterprises have funds at their disposal, they will have the capacity to bear losses and the means to merge or combine with other enterprises or purchase the shares of other enterprises. The "Regulations on Contract Management" have made provisions for keeping funds in separate accounts and some localities have worked out methods for their implementation. We should conduct more experiments in more places and gain more experience before gradually popularizing this practice.

**7. It is necessary to explore ways to implement the share system in group enterprises.** Group enterprises are an effective form of enterprise organizations in expanding the productive forces while the share system is an important means of boosting the indepth development of group enterprises. Having advantages in skilled personnel, technology, equipment, management, and information, group enterprises can boost the joint development of many small and medium-size enterprises and achieve optimized combination of essential production factors and rational distribution of resources. At present, an important issue in the development of group enterprises is to handle their assets well. We may start by considering the added assets of various parties in the groups, invest in each other, and buy each other's shares. Then, we can gradually develop the practice of converting the remaining assets into shares by fixing their prices. Group enterprises with the necessary conditions should be developed into large holding companies with capital as a link and controlled shares at different levels. Moreover, we should set about studying various issues relating to ownership, leadership structure, and operational mechanism, as well as shares issue, evaluation of assets, transfer of shares, distribution of benefits, and protection of rights and interests.

Securities markets have been tried out in Guangzhou, Shanghai, Shenyang, and other cities. This provides enterprises with the opportunity to issue shares and raise funds through the securities markets. In so doing we can not only effectively shift a portion of social consumption funds into production funds but also define equity relationships. This is conducive to the separation of government functions from enterprise functions, the separation of ownership from the power of operations, and the improvement of the enterprises' operational mechanism, and enables enterprises to exercise their decision-making powers thoroughly. Moreover, the issuance of shares is also an effective way of using the market mechanism to assess enterprise performance and credit ability. Where conditions permit, the cities and enterprises, especially the export-oriented enterprises, may conduct this experiment. Small state-owned enterprises operating at little profit or at a loss may be sold by converting them into shares, or be auctioned off altogether. Small enterprises being leased should be perfected continuously and developed in accordance with the "Leasing Regulations." Experiments of other operational methods, such as the enterprise management responsibility system and the asset management responsibility system, as well as the after income-tax contracted management, should be conducted satisfactorily. We should constantly improve them and analyze the experience promptly.

**8. Attention should be paid to technological progress in enterprises to achieve optimization of products.** Price reform will sharpen competition for survival among enterprises. Enterprises should take advantage of this opportunity to promote technological progress. In light of demands on the domestic and international markets, they should develop new products, increase variety, improve quality, and achieve optimization of products. Over the past few years, we have developed a set of good work systems and work methods and accumulated a lot of experience in various fields, such as carrying out technological transformation in old enterprises, importing, digesting, and absorbing advanced technology, increasing the proportion of goods produced at home, and adopting the international standards. We should grasp this work continuously instead of leaving it unfinished. Making technological progress and increasing the enterprises' capacity for further development are important aspects of the management contracts. It is necessary to step up auditing and supervision to ensure their fulfillment.

**9. It is necessary to optimize management methods and tap enterprises' internal potential.** With the implementation of contracted management, the operators have relatively full decision-making powers in operations. This, plus the introduction of the competition mechanism and the implementation of optimized labor combinations, have created conditions for strengthened management. Enterprises should proceed from the high plane of the economic development strategy, enforce strict management, and resolutely overcome such phenomena as lax



discipline, serious waste, frequent accidents, and low efficiency. Continued efforts should be made to spread effective management methods, such as the "method of operating at full capacity," "inter-factory banks," and other modern management methods.

It is also necessary to transplant to state enterprises, good management and operational methods and experiences of town and township enterprises and joint ventures and to continuously launch activities to upgrade enterprises around the questions of improving quality, reducing consumption, increasing effect, and ensuring safety, so that the enterprises can raise their level of operation and management. The focus of the upgrading work should be placed on different fields of basic work, on reducing cost, and on improving product quality. In the course of assessment, instead of setting arbitrary demands, we should uphold standards, simplify procedures, and attach importance to practical results. At present, by making too many unnecessary inspections and public appraisals among enterprises, the relevant departments have increased the burden on enterprises substantially. To curb this, the State Council has issued numerous injunctions. The competent departments in all localities should adopt resolute measures to reduce the economic and non-economic burdens on enterprises. Enterprises also have the right to reject unnecessary inspections and public appraisals. Resolute efforts should be made to put a stop to the unhealthy practices of indiscriminately apportioning expenses, giving dinner parties, and sending gifts.

**10. It is necessary to step up ideological and political work in enterprises to arouse the enthusiasm of workers and office staff.** The deepening of reform, especially the institution of the price and wage reforms, will involve the immediate interests of all workers and office staff, giving rise to various problems of ideological understanding. We should attach importance to, and step up, ideological and political work in enterprises. Efforts should be made to conduct education among the cadres, workers, and office staff on the great significance of reform of the price and wage systems so that people can understand that doing their jobs well, improving the economic results of enterprises, and increasing the strength of the state are the foundation and guarantee for the success of price reform. In this way, we can arouse their enthusiasm for reform and strengthen their confidence in jointly tiding over the difficulties. We should advocate and cultivate the spirit of socialist enterprises unremittingly and improve the professional ethics of workers and office staff. It is necessary to conduct education on legality and in factory style and discipline among the workers and office staff to constantly improve their quality. While carrying forward the fine traditions, we should, in light of the new situation in the indepth reform, constantly improve and innovate ideological and political work. Democratic, equal, and the two-way method of enlightenment should be encouraged so that ideological and political work can be closely integrated with the actual conditions in reform and production and

with the ideological reality of workers and office staff and go deep into workshops, teams, groups, and individuals. Plant directors should grasp the building of material and spiritual civilization simultaneously. Leading cadres at all levels should show concern for the well-being of the masses, help them solve practical problems, and arouse their enthusiasm.

The central authorities recently decided to shift the focus of economic structural reform to price and wage reforms. Price and wage reforms will result in drastic changes in the enterprises' external environment, involve readjustments of interests between the state and enterprises, and affect contracted management of enterprises. The processing enterprises which will be seriously affected by the rising prices of raw materials should chiefly strive to improve economic results and enhance their capacity to absorb price rises. The state will also adopt some necessary policies and measures. We should have an ample understanding of the new situation to be confronted by enterprises.

The CPC Central Committee and the State Council pin the hope of the success of price and wage reforms on the improvement of enterprises' economic results. In the final analysis, state finance is provided by enterprises and the factor of price rises should be absorbed by them. Therefore, improving the enterprises' economic results is a fundamental way to tide over the difficulties and extricate ourselves from the predicament. This is also a test of the contracted management mechanism. From now on, all enterprises should concentrate their attention on the improvement of economic results and try by every possible means to give further scope to the role of the contract system, improve various reforms within the enterprises, strengthen basic work in management, strive to increase production, readjust the product mix, save on energy, and reduce consumption.

## PROVINCIAL

**Jilin Factory Produces Mercedes Cars**  
*HK2608073088 Beijing CHINA DAILY in English*  
26 Aug 88 p 2

[By staff reporter Xu Yuanchao]

[Text] A total of 828 Mercedes-Benz cars are in the process of rolling off the assembly line at the passenger car plant of the Changchun First Automotive Works (FAW) in China's "vehicle town" in the northeastern Jilin Province.

Over the past few years, the Changchun Works—where China's first Liberation truck was made in 1956—has been concentrating on the development of light vehicles

and cars. These areas are the "two Major tasks" in Technical development a senior FAW official said.

"Preliminary preparations are in full swing for the switch to the full-scale manufacture of cars," he said.

The assembly contract for the Mercedes-Benz cars was awarded to the plant by the State Economic Commission. Through it, the workers will learn much about assembling CKD (complete-knock-down) parts, the official said.

The Changchun works recently signed an agreement with "West Germany's Volkswagen Auto Company to introduce Audi-100/200 cars in a pioneering project with a capacity to produce 30,000 cars annually by 1992. The project is aimed to reach annual production of 150,000 cars by 1996. The Audi cars will be supplied to the domestic market to help stave off, imports of foreign cars, he said.

The first stage of a cathode electro-painting workshop, just one part of the project, is expected to be completed soon. it will be put into operation for the assembly of the first 500 Audi cars with SKD (semi-knock-down) parts. The second stage, with an annual capacity of 10,000 units, is scheduled for completion by October 1989.

The key point of the strategic plan for Changchun is the seven-year agreement signed last year for the transfer of 2,2/2,5-litre engine technology from the Chrysler Motor Corporation of the United States.

The Changchun plant will get manufacturing technology, key equipment and a production line to produce 300,000 four-cylinder engines by 1995.

Obviously, this will pave the way for car production in the years ahead.

In the first production stage, the plant will turn out 150,000 engines to power light trucks, minibuses and Audi cars.

FAW officials told CHINA DAILY that the Changchun plant will develop new motor vehicles along the lines of Japan's Nissan trucks and minibuses under a licensing agreement with the Japanese company. The Chinese eventually will try to localize their products and phase out the Japanese models.

The existing workshops need to be extended by 370,000 square metres. Construction work on 270,000 square metres of extra work space is under way, and 35,000 square metres of extension space have been completed. All the extra work space areas are expected to be in use by the end of 1989.

The Technological, Economic and Social Development Research Centre recently submitted a report to the State Council in which it outlined two major tasks for China's

auto industry in the future—the development of the passenger car industry and the setting up of large vehicle industry groups.

Experts who make regular visits to the plant have set high targets. They said they hoped the plant would be able to increase its annual output to more [than] the present 80,000 vehicles.

Company officials said the plant has hammered out a practical programme to increase the annual output by 1992 to 200,000 units—trucks, light vehicles and passenger cars.

## FINANCE, BANKING

**Financial Conference Concludes 20 Aug**  
*SK1909081288 Changchun JILIN RIBAO in Chinese*  
22 Aug 88 p 1

[Text] The 5-day provincial financial work conference concluded on 20 August. It called on financial departments at various levels throughout the province to deepen reform, strive to increase revenues and reduce expenditures, overfulfill this year's revenue targets, bring expenditures under strict control, strive to achieve a financial balance, and prepare well for price and wage reforms. Provincial Vice Governor Wang Zhongyu attended and addressed the conference.

It was noted at the conference: Financial departments at various levels should further emancipate their minds, uphold the criterion of productive forces, and actively support the coordinated reforms in various fields. First, they should attach importance to supporting the collective, individual, and private economies and render active support in terms of funds and policies to collective and individual enterprises, particularly township enterprises, that are able to earn foreign exchange through exports and achieve good economic benefit. Second, they should apply the idea of the commodity economy to their financial administration. Financial departments at various levels should attach greater importance to benefits and the increased value of funds, improve the results in using funds, flexibly and adequately implement the various financial and economic policies, and facilitate the development of productive forces. Third, they should conduct study of the policies and measures for linking price and wage reforms to the contract system of enterprises. Reform now has entered a period of tackling the most difficult problems, and price and wage reforms will unavoidably bring new situations and new questions to the contract system of enterprises. Financial departments should calculate this well, conduct study and forecast in advance, and link the contract system to the price and wage reforms so that they will be coordinated

and promote each other. Fourth, they should study ways to improve the management of state fixed assets and rationalize the relationship between the state and the enterprises in terms of distribution.

It was emphasized at the conference: By the end of July, our province had fulfilled 66.7 percent of its annual revenue target, showing a 16.6-percent increase of the corresponding period last year. However, the revenue tasks for the next 5 months remain very heavy. Continued efforts should be exerted to increase revenues and reduce expenditures by all means possible so as to overfulfill this year's revenue target. Our current potential for increasing revenues is very great. We should proceed from the strategy for the development of our province and pay attention to cultivating key revenue sources. We should give preferential policies and decisionmaking power to enterprises that turn out large amounts of profits and taxes and those that represent key revenue sources so that they can increase their strength for sustained development. We should formulate preferential policies and measures to support localities in increasing their revenues and to support subsidized counties in getting rid of subsidies. We should render great support to the export-oriented economy to continuously increase new revenue sources. We should strengthen financial administration after the institution of the contract system to avoid any waste and evasion.

The conference urged financial departments at various levels throughout the province to be determined to strictly control expenditures with resolute measures. In the first 7 months of this year, administrative funds were overspent inordinately, showing a 22.2 percent growth over the corresponding period of last year. Fifteen counties registered an increase of more than 30 percent. This showed that the tasks to control expenditures are arduous. We should have a firm attitude in reducing administrative funds and make sure that our expenditures do not exceed the target decided by the state. Purchases by social groups should be resolutely kept within the quota decided by the state. Beginning from September, our province will levy a surcharge on special-control commodities purchased by units, and the levied surcharge will be used in repairing and building dangerous and collapsed primary and middle school classrooms and in supplementing education funds. Purchases of small cars should be continuously brought under strict control and generally no approval should be given to such purchases. We should take stock of all new and rebuilt office buildings, auditoriums, and hotels and resolutely suspend or postpone projects that should be suspended or postponed. Financial departments should stop allocating funds to projects that should be suspended. In taking measures to control expenditures, we should adopt different measures according to different situations so that funds for necessary projects will be assured and those for others will be reduced. Financial departments should ensure the funds necessary to price, wage, and housing reforms.

## FOREIGN TRADE, INVESTMENT

### State Council Approves Sichuan Firm as Export Base

OW2408143188 Beijing XINHUA in English  
1224 GMT 24 Aug 88

[Text] Beijing, August 24 (XINHUA)—Chengdu Engine Company, a large jet fighter manufacturer in Sichuan Province, has earned seven million U.S. dollars by exporting electromachinery products in the past eight years.

Pi Hongbin, general manager of the company, told XINHUA today the company has been approved by the State Council as an export base specializing in electromachinery products.

Various forms of cooperation has been conducted between the company and a dozen countries and regions including the United States, Japan, Federal Germany and Hong Kong.

Under one compensation trade contract worth 15 million U.S. dollars, the company will produce civil plane engine parts for Pratt and Whitney Company in the United States.

In the next 25 years the company and the United Technology Corporation in the United States will jointly develop and produce gas turbines for industrial and shipping use, Pi said.

Founded in 1958, the company is a large state-owned ordnance firm comprising 10 medium-sized enterprises and two research institutes.

In recent years, it has concentrated on producing products for civil use. Its seven products and 61 items of research achievements have won state and provincial prizes, said the general manager.

## LABOR

### JINGJI RIBAO on Problems of Labor Export

40060442 Beijing JINGJI RIBAO in Chinese  
8 Jun 88 p 2

[Article by Yan Kalin 7051 0595 2651: "How Can the 'Golden Path' of Labor Export Be So Hard To Take?"]

[Text] Whether a billion Chinese can now take the "golden path" of labor export depends completely on whether the management system can be changed.

Canadians going to work in the U.S. and U.S. citizens going to work in Canada and Mexico is called labor export. By taking this path, relatively satisfactory jobs can be found with good incomes. Foreigners have long known this. Labor mobility across national borders is frequent and prevalent throughout the world. Foreigners make up 30 percent of the Swiss, 10 percent of the Belgian, and 9 percent of the French work forces.

Would Chinese going abroad to work hurt China? Would the workers be exploited and humiliated like the "Chinese workers" were who left old China? While comrades were thinking this over and hesitating, world labor trade grew at an amazing rate, increasing 10-fold from 1970 to 1986. Pakistan now has over 3 million people working abroad, India over 1.2 million, and Turkey about 2.5 million. Developed countries also have many people working abroad. The U.S. has earned the huge sum of \$100 billion through labor export in the 1980's.

It must be said that people from Guangdong Province also know about labor export. Sixty percent of the families in Siping County, Guangdong have members working abroad or in the Hong Kong-Macao area. The more labor export, the more foreign exchange income for the state and the locality and the easier for individual families to get rich. Therefore, people call labor export the "golden path." Those who have a member working abroad are 10,000-yuan families. Siping County has even stipulated that families which do not have members working abroad have priority in labor export.

It is admirable that Siping County has been able to export so much labor but, from a nationwide perspective, it is an entirely different scene:

Labor export work has advanced slowly for many years, having always been limited to the low level of some tens of thousands of people. Approximately one-third of the more than 70 companies throughout China that are engaged in labor export have not yet won even one labor project.

The foreign exchange income from labor export is limited. It is reported that the average price of labor throughout the world is now about \$500 a month per worker, while the cost of labor in China has risen from more than \$100 to more than \$300 a month per worker. Most of the equipment and materials needed for foreign contract projects by our labor companies can be bought on international markets (or taken from China) for 30 percent of the cost of the whole contract.

Since China's labor export began in 1979, definite progress has undoubtedly been made. An official from the Foreign Economic Cooperation Department of the Ministry of Foreign Economic Relations and Trade, which is in charge of this work, said that 61,000 people worked abroad in 1987 for a record business turnover of \$1.105 billion.

From 0 percent to almost 1 percent is progress, but we still feel embarrassed. After a great country with a population of 1 billion has worked at it for nearly a decade, why do we still have far less exported workers than Pakistan, India, and Turkey and less than 1 percent of the world's exported workers?

Some say that it is due to a drop in the profit margin and shrinking demand on the international labor market. The international price of labor has indeed dropped somewhat in the past few years, but wages are still high. The wages of foreigners doing farmwork in the U.S. are generally \$4 an hour. Based on working a 6-hour day, their wages are \$24 or almost 90 yuan a day. A comrade from the China National Machinery Foreign Cooperation Corp has calculated that the workers sent by China's engineering industry to developed countries earn as much as \$6,000 to \$7,000 a year each. Labor markets are shrinking in some regions, because of the Iran-Iraq War, the Persian Gulf nations are saturated with capital construction, and some African countries are experiencing economic difficulties. But the overall world labor market is growing steadily. There now is a labor shortage internationally, and labor demand is increasing rapidly in Southeast Asia, the demand for farm workers is constantly increasing in many North American countries, and there are bright prospects for labor export in Eastern Europe. The reason why China exports so few workers is obviously a domestic issue and not the condition of foreign markets.

Domestically, does the Central Committee ignore labor export? No. Leading Central Committee comrades have long advocated including labor export in economic development strategies. In a "Government Work Report," Premier Li Peng has called for active development of an international contract labor market. In particular, the development of the export-oriented economy that the Central Committee has urged, is actually a kind of labor export that takes export products as its carrier. To increase the export of labor-intensive products, surplus labor must flow into international markets.

Is China's work force lacking in quality? It is not. International labor markets need many workers in simple jobs, such as construction and farming. Moreover, China's workers have won a good international reputation for being well-disciplined, able to stand hard work, and trustworthy. The foreign language issue of export labor is also no problem. As long as workers are trained in a planned way, the issue can be solved very easily.

The reason why a breakthrough in China's labor export has taken so long is none other than a system issue. Not only do we lack a good strategic plan and an organizational coordination mechanism, but problems also exist in areas, such as our high degree of centralism, overrestriction, narrow-minded methods, overelaborate red tape, and dilatory style of work. These system defects cause a series of problems, such as chaotic management, poor administration, and intracompetition. They have

also clearly kept a billion workers from getting rich. Once this rigid system is changed, many issues will be readily resolved. Why have the relevant departments still not been able to change?

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## AGRICULTURE

**Sichuan Increases Agricultural Investment**  
40060484 Beijing LIAOWANG [OUTLOOK WEEKLY]  
in Chinese No 25, 20 Jun 88 pp 15-16

[Interview with Yang Rudai 2799 3067 1486, Sichuan provincial party secretary, by Liu Xianshu 0491 6343 2579: "We Must Have New Ideas on How To Increase Agricultural Investment: Comrade Yang Rudai Discusses Rural Cooperative Associations"]

[Text] From the outset, the efforts by peasants in a number of townships and towns in Sichuan's countryside to establish cooperative associations by raising money themselves have been supported and followed with great interest by the provincial party committee. Comrade Yang Rudai, secretary of the Sichuan CPC Committee, has gone down to the countryside; held wide-ranging discussions with cadres at the city, district, county and other levels and with peasants; and has proposed new ideas on how to get peasants to increase investment in agriculture. We recently visited Comrade Yang and asked him to discuss rural cooperative associations and the issue of how to increase agricultural inputs.

Comrade Yang explained that the problem of increasing agricultural inputs has attracted the attention of many quarters. As an important grain and staple cash-crop production base, Sichuan, like other provinces, faces shortages of agricultural capital and of agricultural logistical support. Therefore, he said, we must find a way to provide sufficient capital and new funding sources for agriculture, the "mother of industry."

Comrade Yang said that there are four levels in China's investment structure—the central government, the local level, collectives and peasants. The greatest number of problems and the greatest potential lie at the collective and peasant levels. Peasants, comparing the returns from industry and agriculture, are unwilling to invest in agriculture and prefer to put their money into nonagricultural areas, which yield faster, better returns. Under these conditions, how can we give collectives and peasants incentive to invest in agriculture? We have adopted a new approach, which includes working in accordance with the law of value and diversifying funding channels and forms of investment. And we have adopted two new strategies. The first is dealing with peasants on the basis

of the law of value and using policy to give peasants incentive to invest in agriculture. And the second is to establish cooperative foundations in rural townships (towns), so as to invigorate rural funding and to expand our sources of funding, including accumulation by peasants themselves.

This new approach evolved in stages. In the fall of 1986, Shifang County made a breakthrough from the model of egalitarian land contracting, instituted land leasing while upholding the principle of dual-level management in rural areas, thus induced peasants to strengthen their consciousness of the collective and of the need to pay for land use, and thereby promoted intensive cultivation and agricultural investment. Nevertheless, experience has shown that it is not enough to get one family or household to make investment in the land. For peasants are not very wealthy, and many modern agricultural facilities and technologies cannot be handled by single families or households. Peasants need an organization that can provide short-term loans to fund agricultural investment so as to make investment less focused on short-term considerations and more on the long term and to put investment returns on a benign cycle that accords with the law of value. It was to meet this need that the rural cooperative association of Quanfu Township, Shizhong District of Leshan City was established in 1987. This foundation raised 190,000 yuan in a single year, clearly demonstrating that a county can easily raise several millions of yuan and a township, several hundreds of thousands of yuan in 3 to 5 years. In mid-May of 1988, the provincial party committee's trial-point unit, Leshan City, convened a rural cooperative association pilot-project work conference, which decided to stress the development of rural cooperative associations as a means of developing Sichuan's agriculture and rural economy, to strengthen leadership in this work, to use this approach to funding to help resolve the concrete problems involved in development, to avoid arbitrary uniformity in actual work, and to strive to achieve real results in about a year.

Where will cooperative funds come from? Comrade Yang said that, based on the experience of Leshan, initially the funds will come primarily from existing accumulation, overspending and arrears collected from collectives, and "industry-support-agriculture" funds given by township and town enterprises to townships (towns), which latter moneys will be incorporated into cooperative funds as shares thereof. Later, the funds will come mainly from township budgetary allocations. The development of cooperative foundations must be linked to the growth of township finances, which, in turn, must be developed by designating certain taxes for collection by the township, by setting township revenue base figures, and by having townships undertake responsibility contracts to remit a certain share of these revenues or to remit progressively larger amounts of revenues to higher

authorities, keeping the remainder themselves. When these systems and revenue levels are established, they should be set for several years, not annually, so as to give townships (towns) incentive for developing their economies and for increasing revenues and thus to invigorate basic-level government. The balance remaining after funds are remitted to higher authorities and other necessary expenditures are made should be used to fund township investment in agriculture, allocated to cooperative associations, and used to establish agricultural development funds, serving as the township share in these funds. While ownership of these moneys is retained by the township, they should be lent out via cooperative associations at regular or low-interest rates. The moneys used to fund long-term development projects may be interest-free and require only that the value of the principal be preserved and that the loan be repaid by the due date. Agricultural cooperative funds should be used for local resource development and for the development of the local economy, so as to expand tax bases and increase township revenues. Increases in township revenues will lead to expansion in agricultural investment, which, in turn, will help expand revenues. After continuing for a number of years, this process will engender a benign cycle. This is the primary reason we are setting up cooperative associations.

Comrade Yang stressed the fact that cooperative associations are cooperative in nature and are created by village and brigade economic agencies and peasant households in accordance with the principles of voluntary participation and mutual benefit. While township moneys can be incorporated into the funds, the associations should be kept distinct from credit cooperatives, lest they become mere copies of cooperatives. The aim of the associations is to promote resource development and to enhance logistical support for agriculture. Projects will include long- and short-term, interest- and noninterest-bearing, and high- and low-interest loans, and should not copy the systems used by but rather make up for the deficiencies of credit cooperatives and support projects that the cooperatives cannot handle. For example, Quanfu Township has linked cooperative funds and supply of agricultural means of production to provide seeds and fertilizer to households, a different approach from that employed by cooperatives. Naturally, the associations should not limit their service to crop production but rather focus their primary efforts on developing agriculture and on making investment behavior focus more long term.

Pilot tests of cooperative associations are being conducted across Sichuan. Successful completion of this work will contribute greatly to the development of Sichuan's agriculture.

### **New Policy for Huang He Outlined**

HK0709062188 Beijing LIAOWANG in Chinese  
No. 33, 15 Aug 88 pp 19-20

[Article by Zhang Yulin (1728 3768 2651) and Wang Jian (3769 1017): "New Policies For Harnessing Huang He." Passages in boldface as published]

[Text] Not long ago, some 200 experts on water conservancy gathered in Zhengzhou to discuss a big plan for harnessing the Huang He. On the basis of summing up past experiences, they worked out new countermeasures to bring the Huang He under control.

### **Two Big Errors in the Work of Harnessing the Huang He Following the Founding of the PRC**

As the experts saw it, quite serious errors were made in our country's 1955 plan for harnessing the Huang He. **They were mainly manifested in being overly optimistic about the development rates of water and soil reservation, in particular, the estimate of the effect of reduced silt, thus going beyond practical possibilities.** According to the original plan, in the 12 years from 1955 to 1967, the area of water and soil kept in good conservation would amount to 188,000 square kilometers or 43.6 percent of the total area of soil erosion; with the completion of 5 large and 5 small silt-arresting reservoirs on the tributaries of the Huang He, coupled with other water and soil reservation measures, the amount of silt running into the Huang He would be reduced by 50 percent; and with the construction of the Gaoba reservoir in Sanmenxia designed to restore water and arrest silt, the problem of silt running into the Huang He was expected to be basically resolved. With the above tasks completed, the Huang He could be treated as an ordinary clear-water river which could be developed on a staircase basis. When the threat of floodwater in the lower reaches of the Huang He was eliminated, mud and sand in the water courses in that region would be gradually scoured away and they would be stable. This would make it easier to tame the Huang He. However, in reality, the work to control soil erosion in the loess plateau is progressing very slowly, at an average one-tenth of the rate set in the original plan. Moreover, at the "initiate control stage," because soil erosion cannot be checked effectively, little has been achieved in solving the problem of silt running into the Huang He.

Another quite serious error was that **reservoir capacity was achieved by submerging large tracks of cultivated land close to rivers. This does not conform to our country's national condition in which it has a huge population but limited usable land and our national strength is limited.** The Sanmenxia reservoir was built at a cost of 2 million mu of fertile farmland being submerged and 600,000 inhabitants removed. In view of Sanmenxia's lesson, the construction of 10 reservoirs on the tributaries of the Huang He that would see hundreds of thousands of mu of fertile farmland inundated and nearly 100,000 inhabitants removed according to the original plan was

scrapped. In this way, the Sanmenxia reservoir had to "fight in isolation." Silt accretion was serious in the reservoir area and floodwater flowed backward, adversely affecting the Guangzhong plain in Shaanxi and finally, the reservoir had to be reconstructed.

While briefing these reporters, experts said: To solve the problems of soil erosion and silt accretion in the loess plateau, departments concerned had conducted a comprehensive, multi-subject survey of the soil loss situation in the loess plateau area. According to their survey results, in the loess plateau, the topography is fragmentary, the soil is porous, the rainfall is scarce but torrential rains are frequent, and woods and grass grow slowly; the soil erodes easily, gravity erosion, such as groove erosion and slumping, is especially serious and can be found almost everywhere; it cannot be completely controlled by relying merely on such measures as building artificial terraced fields, growing grass, and planting trees. In addition, since the loess plateau is a vast territory with a sparse population and a backward economy, it is impossible to achieve rapid results in water and soil conservation and improvement. This being the case, it is necessary to seek another new way to solve the problem of silt running into the Huang He. The successful reconstruction of the Sanmenxia reservoir enabled us to accumulate experience in storing clear water and discharging muddy water, regulating the flow of water and silt, and in building hydropower stations on muddy and sandy rivers and provided us with an important basis for working out a new countermeasure for bringing the Huang He under control.

### Three Major Countermeasures for Harnessing the Huang He

Great successes have been made in harnessing and developing the Huang He since the founding of the PRC. Nevertheless, bringing the Huang He under control is a complicated, arduous, long-term task. Since floodwater in the lower reaches of the Huang He had not yet been put under control, silt accretion in river courses continued, soil erosion remained serious in the middle reaches, water supply was generally strained in the Huang He valley, and the headwaters of the Huang He were being polluted seriously day by day; the State Council approved the transmission to lower levels of the "Task of Revising the Plan for Harnessing and Improving the Huang He," urging the revision of the "Technological and Economic Report on the Plan for the Comprehensive Utilization of the Huang He" which was worked out in 1955.

Through several years of efforts, experts completed various special-topic plans or made suggestions for development one after another and they put forth a short-term proposition and long-term tentative plan for harnessing the Huang He. Through full discussions, the experts agreed: The proposition and short-term tentative plan are basically correct and can be taken as the foundation

for working out the "Plan for Harnessing and Developing the Huang He" (Revision) after some amendments and additional points are made. According to the proposition, three major countermeasures are to be taken to bring the Huang He under control in the short term.

**Flood prevention in the lower reaches of the Huang He remains the prime important task in bringing the Huang He under control. The Huang He remains a serious, hidden danger to people on both its sides.** The defensive capacity of the existing flood control projects in the lower reaches of the Huang He is 22,000 cubic meters per second. As silt accretion is serious and the river bed is rising year by year, a "hanging river" was formed on the ground as a consequence. This helps comparatively lower flood control standards. Based on an analysis of the hydrologic and meteorological data, the related departments under the Huang He Committee maintained: Even if the regulatory role of the Sanmenxia reservoir is brought into full play, it is still possible that the peak floodwater in the lower reaches of the Huang He will have a flow capacity of 46,000 cubic meters per second. It is very hard to guard against such a big floodwater with regard to our existing flood-control defensive capacity. When it bursts, it will bring about great economic losses to the state and the people on both sides. Therefore, to remove the threat of floodwater to the lower reaches of the Huang He, it is necessary to find a comprehensive solution to the problem of floodwater and silt. This is the first major countermeasure for bringing the Huang He under control.

According to the proposition, **the fundamental solution to this problem is to build water-breaking and silt-arresting on the major tributaries in the middle reaches of the Huang He, which carry large amounts of water and silt.** Through years of observation and deliberations, the State Council has approved the construction of the Xiaolangdi reservoir on the tributary at the end of the middle reaches of the Huang He, a reservoir with a total capacity of 12.65 billion cubic meters, including a silt-arresting capacity of 7.6 billion cubic meters and an effective, long-term water-holding capacity of 5.05 billion cubic meters. After its completion, together with the Sanmenxia, Luhun, and Guxian reservoirs, this reservoir can ensure that the flow of peak floodwater which appears every 4 years in Huayuankou can be reduced to under 22,000 cubic meters per second, thus alleviating the strained flood situation in the lower reaches of the Huang He. The proposition suggests that Longmen and Qikou reservoirs be built on the main tributaries of the Huang He between Shaanxi and Shanxi provinces. Apart from regulating floodwater, stagnant reservoirs can be used to store the arrested silt. After their completion, silt in the water courses of the lower reaches of the Huang He can be avoided from piling up for a considerably long time. Before the Xiaolangdi reservoir is completed, to ensure the safety of flood control projects in the lower reaches of the Huang He, continued efforts should be made to strengthen and partially raise the height of existing embankments, to accelerate the improvement of



river courses, to bring river mouths under control, and strengthen the construction of non-engineering flood control facilities in the light of the seriousness of silt accretion and weak links in the existing flood control projects.

**Silt is the source of the scourage of the Huang He. The second major countermeasure to solve this problem is to continue water and soil conservation work in the loess plateau region in the middle reaches of the Huang He.** This is a long-term and arduous task. According to the proposition, efforts will be made to combine the reduction of silt running into the Huang He with the endeavor of local people to shake off poverty and gain prosperity, to mobilize the broad masses of people, to implement various forms of the responsibility system, to accelerate the work of harnessing the Huang He, and to increase water and soil conservation rates. Through many years of observation and study, experts discovered that the accretion lying in the water courses in the lower reaches of the Huang He is mainly made of coarse silt as big as 0.5 millimeter in diameter which originate mainly from an about 100,000-square-kilometer ravine area stretching from Nei Monggol's Hekou town to Shanxi's Longmen area. Therefore, while carrying out water and soil reservation work in the loess plateau area, priority should be given to strengthening the construction of key projects designed to improve gullies in the area where coarse silt comes and the improvement and development of tributaries to achieve an 800-million-ton reduction of silt running into the Huang He.

**The third countermeasures to bring the Huang He under control is to readjust and revise the 1955 development plan for the water conservancy and hydropower staircase projects on the main tributaries of the Huang He.** According to the readjustment scheme, in the Huang He section between Longmenxia and Taohuagu, the 44 staircases arranged by the former plan would be reduced to 29 and no river-cutting projects would be constructed on the main tributaries down from Taohuagu to make it easy for floodwater and silt to run into the sea. After the readjustment is completed, the projects would have a total storage capacity of 96.5 billion cubic meters or 3.3 billion cubic meters less than originally planned and an installed capacity of 21.8 million kilowatts or 290,000 kilowatts less than originally planned, and the cultivated land to be submerged would be 1.7 million mu less than originally planned. In the layout of the readjusted projects, Longyangxia, Liujiaxia, Heisanxia, Qikou, Longmen, Sanmenxia, and Xiaolangdi key projects were listed as the important backbone control projects of the whole Huang He valley and the remaining 22 projects were mostly runoff power stations and flood detention, warping or irrigation and diversion key works. Some of these key projects have been completed or are under construction and the other projects will be built progressively.

#### **Rationally Use and Protect Water Resources**

**In the short term, the main task of harnessing the Huang He is to prevent floods and reduce accretion in the lower**

**reaches of the river and in the long-term, stress should be put on the utilization and protection of water resources.** Participating experts maintain: Currently, waste is serious in using the water resources of the Huang He. Every 10,000-yuan industrial output value consumes average 695 cubic meters of water and even consumes as much as 1,000 cubic meters in some cases. In farmland irrigation, in some irrigated fields, 1 cubic meter of water turns out just 1 kilogram of grain and in extreme cases, 2.5 cubic meters of water only produces 0.5 kilogram of grain. In addition, the contradiction between the supply and demand of the Huang He's water resources is intensifying day by day. The current water supply of the Huang He is under 40 billion cubic meters but water demand of various provinces and autonomous regions amounts to 74.4 billion cubic meters, an equivalent of the water supply of two Huang Hes. Moreover, with the development of industry and agriculture in the Huang He valley, more and more water is demanded. At present, the important solution to this problem is to use water sparingly. Projects in the areas using water from the Huang He for irrigation should be technologically transformed, irrigation and drainage facilities coordinated, and the old habit of flood irrigation discarded. In the cities, industrial and mining enterprises are encouraged to update their equipment and attention should be paid to developing water-saving enterprises. From a long-term point of view, efforts should be made to divert water from the Chang Jiang to the northern regions of the country in a planned way to ensure the water supply in the Huang He, Huai He, Hai He plain region.

#### **He Kang Signs Agreement on Songliao Plain Development**

*SK2809011288 Changchun Jilin Provincial Service in Mandarin 1030 GMT 26 Sep 88*

[Text] An agreement on the comprehensive development of the low- and medium-yielding farmland of Songliao plain was signed in Beijing on 16 September. He Kang, minister of agriculture; Xiang Huaicheng, vice minister of finance; Hui Liangyu, vice governor of Jilin Province; and (Jiang Jieren), president of the Jilin Provincial Agricultural Development and Investment Corporation, signed on the agreement on behalf of the state and Jilin Province, respectively. The major content of the agreement is as follows. First, in the comprehensive development of the Songliao plain of Jilin Province, we should focus on grain production while making efforts to plant trees for preventing wind and fixing sand, plant grass for livestock breeding, comprehensively improve low- and medium-yielding farmland, and raise the per-unit yields and quality of farm products. Meanwhile, the method of systems engineering should be applied to the comprehensive development of farming, forestry, animal husbandry, sideline production and fisheries, and the comprehensive development of such farm products as oil-bearing seeds, beets, meat, and marine products to lead the development of the processing of farm products. We should turn this area into an important marketable



grain base of the state, a base for comprehensive processing of farm and sideline products, and a base for earning foreign exchange through exports. Second, the input of construction funds should be linked to newly added production capacity. In the development of Songliao plain, we should adopt the method of raising funds from the various channels of the state, the locality, the collective, and the individual. From 1988 to 1990, the state will arrange 190 million yuan of funds for the development, and Jilin Province should raise an equal amount of funds—no less than 190 million yuan in the 3 years. In the 3 years, a total of 1.5 billion kg of grain should be sold to the state. Third, except for being used for such nonbusiness projects as maintenance and construction of water conservancy works, popularization of science and technology, training of personnel, and loans [words indistinct], the development funds arranged by the state,

when used in business projects, should be paid back so that they can be used again. The province is responsible for recovering 50 percent of the funds allocated by the state, and deliver to the state this amount of funds within 10 years after the year the funds are allocated. Fourth, the Jilin Provincial Government will establish a leading group for the comprehensive development of the low- and medium-yielding farmland of Songliao plain, Provincial Vice Governor Hui Liangyu will head the group, and responsible persons of the provincial economic and planning commission, and the provincial finance, agriculture, water conservancy, and other relevant departments will be its members. The provincial agricultural development and investment corporation will undertake the implementation of specific construction tasks, and be responsible to the provincial government for the construction targets.

**Hunan Conference on Literature, Art Work Opens**  
*HK0109044988 Changsha Hunan Provincial Service in  
Mandarin 2200 GMT 31 Aug 88*

[Text] To greet the convening of the Fifth National Representative Conference of Writers and Artists and the Fifth Hunan Provincial Representative Conference of Writers and Artists, a provincial conference on literature and art work opened in Changsha on the morning of 31 August. The meeting was aimed at earnestly implementing the party's basic line during the initial stage of socialism, improving and strengthening party leadership over literature and art work, and furthering the development of literature and art work.

Attending the meeting were (Xia Zhanzong), member of the provincial party committee standing committee and head of the provincial party committee Propaganda Department, secretaries of party committees at the prefectural and city levels in charge of literature and art work, and responsible persons from cultural circles.

Comrade (Xia Zhanzong) conveyed to the meeting the spirit of a national literature and art work conference held in Beijing recently. He noted: The central authorities call on all literature and art workers to correctly size up the present situation in the area of literature and art. The central authorities believe that historical changes have taken place in our literature and art undertaking. A major sign of these changes is that vast numbers of literature and art workers have freed themselves from the leftist yoke of taking class struggle as the key link and have broken through the narrow-minded understanding concerning the function of literature and art. Writers and artists have greatly emancipated their minds and won much more freedom in literary creation, and their mental attitude has taken on an altogether new aspect. Meanwhile, never before has literary creation work been so flourishing. It can be said that the past 10 years has been a period in which the literature and art front has been more vigorous, yielded more achievements, and fostered more talented people than in any other period since the founding of new China.

Comrade (Xia Zhanzong) continued: The central authorities hold that the stand of writers and artists should be based on reform, the opening up policy, and doing a good job of developing the commodity economy. Writers and artists should emphasize the central task of economic development and the two basic points, namely adherence to the four cardinal principles and implementation of reform and the opening up policy, and stick to the double-hundred policy. Meanwhile, efforts must be made to strengthen party leadership over literature and art work, accelerate and deepen reform of the literature and art structure, and reinforce the contingent of writers and artists.

Speaking on improving and strengthening party leadership over literature and art work, Comrade (Xia Zhanzong) said: The central authorities believe party leadership over literature and art work should be focused on

political principles and orientation and that the party should exercise effective control over major issues and concentrate on macroscopic control. The central authorities believe that the party should not take the place of government offices in this aspect of work and take on all activities of the mass literature and art organizations. The central authorities also hold that leaders of party committees must interfere less in literature and art works and theoretical study. They should correctly implement the party's line, principles, and policies and make friends with writers and artists.

**Liu Zheng Discusses Literature, Art Issues**  
*HK0409014788 Changsha Hunan Provincial Service in  
Mandarin 2200 GMT 3 Sep 88*

[Excerpts] The Hunan provincial literature and art work conference concluded in Changsha on 3 September after 4 days in session. Liu Zheng, deputy secretary of the provincial party committee, made an important speech on improving and strengthening party leadership over literature and art work.

Liu Zheng said: Only if the party committees and government at all levels fully understand the important status and role of literature and art work in the new period can they consciously improve and strengthen leadership over it; and literature and art can only flourish more if the party and government leadership attaches importance to it and supports it.

Comrade Liu Zheng pointed out that, from the angle of party committee leadership, there are at present a number of phenomena that need to be eliminated. Some comrades hold that literature and art circles are very sensitive, and so they stay at a respectful distance and dare not provide leadership. Some people who are unfamiliar with literature and art work do not do enough in exchanging feelings and thoughts with comrades in literature and art circles, engaging in mutual consultation, and providing concern and guidance for them, nor do they do enough to solve practical difficulties. A few comrades are still influenced by leftist thinking and do not like or set excessively high demands on certain explorations and creations. They take too serious a view of shortcomings that become apparent in the course of exploration.

We should study and appreciate the spirit of the central instructions on literature and art, enhance understanding in connection with reality, and tangibly improve this situation, so as to promote the further prosperity of Hunan's literature and art.

Liu Zheng pointed out: Literature and art circles in Hunan themselves also have certain problems that need attention and resolving. We must have a good ideological foundation for resolving these problems; we need the conditions and time, and also need efforts by the literature and art circles themselves. At present, it is particularly important that literature and art workers have a

clear idea of the situation, brace their spirits, and strengthen their sense of responsibility and mission with regard to national invigoration.

Liu Zheng stressed that the party committees at all levels must continue to take a firm and clear-cut stand with regard to the general ideas on what should be advocated, what allowed, and what opposed in literature and art. We must do a good job in reforming the literature and art setup in line with the central authorities' arrangements for making reforms dominate the overall scene.

This includes the reform of the system of performing and acting troupes, the reform of cultural enterprises, undertakings, and units, and the establishment and perfection of a cultural market.

Liu Zheng stressed in conclusion that it is necessary to step up the work of the party organizations in the federations of literature and art associations and the cultural publication units, and give scope to the model and leading role of the party members. Party-member writers and artists should implement in a model way the party's basic line for the initial stage of socialism and the party's guidelines on literature and art.

**SHIJIE ZHISHI views KMT 13th Party Congress**

40050441 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 15, 1 Aug 88 pp 12-13

[Article by Chen Shan [2525 1472]: "Test of Strength Between Reform and Conservatism, Between the Young and the Old Guard; Commentary on the 13th Kuomintang Party Congress"]

[Text] Editor's note: Taiwan is an inseparable part of the Chinese motherland. Our Taiwan compatriots are fellow countrymen of our own flesh and blood. In order to satisfy the desire of our readers to better understand Taiwan, with this issue our magazine will start to bring timely occasional articles that will introduce the political and economic conditions of Taiwan. We invite Taiwan compatriots and scholars in China and abroad to send us contributions that we may offer to our readers.

The proceedings at the 13th National Congress of the Kuomintang [KMT], which lasted 7 days, had a very special character. The media generally considered it to have been a congress at which reform and conservatism, the young and the old guard, have engaged in a fierce test of strength. After the debates and extensive canvassing inside and outside of the congress hall, the congress finally was declared closed on 13 July in a calm atmosphere.

The congress elected Li Teng-hui [2621 4098 6540] as chairman of the KMT and passed five resolutions: "On doctrine and ideology," "An Amendment of the Party Constitution," "Restructuring of the Party," "The Party Platform," and "A Mainland Policy at the Present Juncture," and also elected a new Central Committee of the KMT.

Since the 12th KMT National Congress in March 1981, conditions on Taiwan have greatly changed. In January this year, Chiang Ching-kuo died, signifying the end of the rule of the Chiang family. At present, various political forces are displaying great activity on the island, and the people are loudly demanding democracy and reform. Especially since November last year, when the Taiwan authorities allowed people to travel to the mainland for family reunions, the general public demanded that the KMT further relaxes its policy toward the mainland, and the public pressure to establish mutual relations between the two sides of the Taiwan Strait has become an irresistible trend on the island.

The 13th Congress, held against this background, of course attracted general attention. Prior to the 13th Congress, an unending string of discussion meetings and symposia were held, dealing with "recommendations" to be presented at the Congress. People were hoping the

13th KMT Congress will make great strides forward to conform with the overall situation in such matters as political reform, personnel readjustments, and the mainland policy. However, the actual conditions at the meetings were a cause for disappointment and dissatisfaction for much of the public opinion in and outside of Taiwan. Taiwan's LIENHO PAO said, "The content of the five topics of deliberation cannot provide an effective response to the present socially and politically changed situation," but are "obviously in line with past traditions and concepts." The MING PAO of Hong Kong expressed the opinion that the major speeches at the congress "offered few new ideas." The CHINGCHI JIHPAO commented that "the KMT still cannot free itself from the fetters of conservatism," and will, as a result, be ridiculed as trying "to put old wine into new bottles, while it is not unlikely that the KMT will in the near future have to suffer in retaliation a 'crisis of confidence' by its people."

However, it is public opinion that in order to maintain a stable situation on the island, the 13th KMT Congress was in fact not in a position to produce results of a breakthrough nature in its policy. What attracted more attention, on the other hand, were the adjustments in personnel.

**Progress in Lowering the Average Age of Personnel**

For the last 50-odd years, one could well say of the top level of the KMT's power structure that it was the "Chiang dynasty" that held sway over the whole country. Chiang Ching-kuo had realized in his lifetime that this system of rule did not conform anymore to the situation inside and outside the KMT and to the social development achieved on Taiwan. In March 1986, after the 3rd Plenum of the 12th KMT Central Committee, the replacement of older personnel by younger men was accelerated and thereby also the rejuvenation of the leadership. After Chiang Ching-kuo's death, the political situation on Taiwan became rather mixed-up and complex. There was a fierce tussle about the redistribution of powers in the 13th KMT National Congress, the holding of which had been decided much earlier. A KMT personality in high position once remarked with a heavy heart: "Everybody wants to squeeze into the power nucleus, they behave just like unbridled horses." They created all kinds of imagery and tried to win the people's support by hook or by crook. They quarreled about whether the KMT should have a vice chairman, and on how to assess the value of whatever work the Executive Yuan has done. Taiwan newspapers described it by saying: "The power struggle in the KMT has already entered a 'Warring States' era." During the proceedings of the 13th Congress, the rift between the old guard faction and the faction of the young became even more conspicuous in the matter of appointments to positions. Members of the old guard faction cited the common sayings: "When you drink water, think of its source,"

and "don't ever forget your faithful ministers who have worked hard and with great merit." In her written statement to the 13th Congress, Sung Mei-ling [1345 5019 7881] expressed with particular emphasis: "Although the old tree sprouts many new leaves, it stands tall and erect because it is firmly rooted in its soil and relies on old roots and the old tree-trunk." She demanded that everybody "create the new without forgetting the old, advance forward without forgetting the base." But the faction of the young demands that "new men promote new policies" and that many more "young men of outstanding excellence" be attracted to enter the nucleus of the party's leadership.

Looking at the structure of the new KMT Central Committee that was created at the 13th Congress and the Standing Committee of the Central Committee elected at the 1st Session of the Plenum, we see that although quite a few of the old guard have been retained, and many names in fairly high positions, there has been a marked progress in rejuvenating the membership. The average age in the Central Committee was reduced from a 69.84 in the last committee to a 58.68 in the new committee, and the average age in the Standing Committee was reduced by 7 years. The educational level of new members is higher; 80 members of the Central Committee and 13 members of the Standing Committee have doctoral or master degrees. The representative nature of the delegates has been broadened; the ratio of native Taiwanese in the Central Committee was increased by 24 percent, and their names appear high on the list. The ratio of native Taiwanese in the Standing Committee rose to above half for the first time, namely to 51.6 percent. Many Taiwan and Hong Kong newspapers believe that this represents a victory for the reform faction in the KMT and a reverse for the old guard and conservative faction. But that does not mean that all contradictions and struggles are over. Several further personnel changes can be predicted to occur in the KMT subsequent to the 13th Congress.

#### **Restructuring Still Meets With Difficulties**

Reform of party affairs and political restructuring were the main topics of the party congress, but public opinion believes that the KMT "is still unable to take a resolute step forward."

Since the 1970's, following the changes in the political, social, and economic conditions on Taiwan, the general public has become increasingly dissatisfied with the autocratic rule of the KMT, while there is an almost daily growing "awareness of participation in politics," and the demand for reform has become the general trend of developments. Under pressure at home and from abroad, Chiang Ching-kuo put forward a proposal for "restructuring," which contained six specific measures. In somewhat over 2 years, apart from carrying out the one proposal of "abrogating the state of emergency" and adopting in principle the "replenishment of the organ of the will of the people," the other proposals, such as

"Legal Basis for Local Self-Government" and "Changing Social Practices" have become stalled and no conclusions were reached, due to widely differing opinions. The extent of difficulties which the KMT encounters in its restructuring exceeds one's imagination. For instance, in the planning of the 13th Congress, there were endless quarrels over the "revolutionary democratic quality" of the KMT, when the amendment of the party constitution was under discussion. It was the opinion of those who insisted on erasing the term "revolutionary" that this would be the only way whereby the KMT's "democratic quality" would be accurately represented. Opponents claimed that since "the anticommunist aim has not yet been achieved" the "revolutionary quality" must not be treated lightly and must not be erased. Early in June, a group of KMT parliamentarians threatened that if the KMT would only mention the democratic quality, they would leave the party en masse and form a new party. The 13th Congress finally agreed to retain the term "revolutionary," to the extreme disappointment of the reform faction.

From several speeches at the 13th Congress, people easily got the impression that a strong conservative spirit prevailed at the congress. Some people criticized indignantly that some people had "willfully fabricated a will of the people, befuddled the minds of the public, and did not do what they ought to have done," also criticized some people for "starting up something new and advocating the unorthodox, unsettling the foundations of the state." They went even further and loudly raised a cry of warning against "seeking the new and not to eliminate the old," declaring that no change will be tolerated in the "spirit, principles, orientation, and discipline" of the KMT.

We have to realize, of course, that restructuring is after all the tendency of the overall situation. Li Teng-hui has repeatedly stated that he will continue the policy of restructuring, but as the Japanese YOMIURI SHIMBUN says, because of the "deep roots" of the conservative forces, the Taiwanese "are now awaiting and closely following the developments of the situation which they feel is one of uneasiness and complexity."

#### **The Passive Stance in the Mainland Policy**

Since November last year, when the Taiwan authorities opened up in their policy and allowed family reunions on the mainland, there has been on Taiwan an unprecedented intensive popular interest in the mainland. The appeal by government quarters and the general public, high and low, for further opening up is continuously gaining momentum, and there is an endless stream of various new proposals concerning the mainland policy. In contrast, the attitude of the policy-making level of the KMT has been passive throughout. The 13th Congress decided to set up a "mainland work guidance group" at the KMT Central Committee and for the government to arrange for a "joint report on mainland work," and had also decided to become more flexible in allowing people

on the island to visit relatives on the mainland, and in allowing indirect trade as well as sports and cultural exchanges between the two sides of the Taiwan Strait. However, on the other hand, the KMT authorities still persist on their "three no's" policy of "no contacts, no negotiations, and no compromises," and persist in their hostility to communism. They still willfully restrict visits of mainland compatriots and personalities to Taiwan. In such cases they will decide case by case whether to allow mainland compatriots to visit Taiwan to attend funerals of relatives, which drew criticism from public opinion on Taiwan and also outside of Taiwan for the absurd practice of preventing relatives from getting together during their lifetime. They finally decided to additionally allow mainland compatriots to visit Taiwan to see sick relatives.

People have observed that some members of the KMT in positions of highest responsibility are firmly opposed to "Taiwan independence" and advocate "one China" and "China must be reunited." At the 13th Congress, Li Teng-hui pointed out that "all proposals to split up the territory of China are made by public enemies of the

whole people, that such would be intolerable to our national honor, that it would be impermissible under the law of the land, and that it will be spurned with contempt by the whole nation." Yu Kuo-hua in his speech denounced "Taiwan independence, as it is advocated by a small group of people who intend to split up the territory of the country." Li Huan [2621 3562] also fiercely denounced "the movement that advocates politically splitting up the natural affinity of soil and blood, as not only contravening the trends of the time, but as also aggravating the separation and sabotaging reunification."

It is the common desire of the whole people, including all compatriots on Taiwan, to bring about China's reunification and to oppose the independence of Taiwan. People have reason to hope that following the 13th Congress, the KMT will conform to the common aspirations of the people and to the trend of the time and will make earnest efforts in this direction.

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### Improved Prospects for Trade

40060466 Hong Kong CHING PAO [THE MIRROR] in Chinese No 7, 10 Jul 88 pp 70-72

[Article by Tang Jike 0781 0679 0668: "Observing Trends in the Trade between the Two Sides of the Taiwan Strait from Armand Hammer's Efforts To Serve as a Go-between: Events Are Stronger than Personalities; Politics Cannot Halt the Expansion of Trade between the Two Sides of the Strait; And the Move from Indirect to Direct Trade Is Inevitable Now That the Hostility between the Two Sides Is Gradually Subsiding"]

[Text] The recent whirlwind trips to the two sides of the Taiwan Strait to set up transit trade between the mainland and Taiwan by American oil magnate Armand Hammer, board chairman of Occidental Petroleum, have attracted much attention. Hammer's visits, first to the mainland and then to Taiwan, reportedly were aimed at setting up a deal to effect an indirect exchange of \$500 million worth of mainland coal for an equal amount of Taiwan cement. If a 10-year agreement can be signed, Hammer will have put together a \$10 billion deal.

### Hammer's Visit to Taiwan

Hammer proposed the deal to Premier Yu Kuo-hwa of the Nationalist government when he met with the latter in Taiwan. Hammer also met Taiwan cement manufacturers, whom he told could sell their products to the mainland via Hong Kong and some of whom expressed great interest in the idea of buying coal. Hammer explained that since it does not pay for the ships bringing mainland coal to Taiwan to return empty, someone might as well sell Taiwan cement to the mainland, for this would make better business sense and help balance trade. Yu Kuo-hwa reportedly responded to Hammer's proposal by saying that Taiwan authorities are now reviewing the issue of buying raw materials from the mainland, that they still will not permit direct trade, and that there is nothing they can do to stop indirect trade. But at a news conference held on his departure from Taiwan, Hammer said, "A number of changes have occurred regarding the matter of buying coal, petroleum and cotton from the mainland. Yu Kuo-hwa has indicated that Taiwan is willing to import mainland coal, petroleum, cotton, and raw materials via third regions (such as Hong Kong)."

Note has been made of the fact that, prior to Hammer's visit to Taiwan, Taiwan Power Co received a sample of the coal produced at P'ingshuo Mine in Shansi, in which Hammer has participated as an investor, and Taipower officials were impressed with the quality of the coal, which can be shipped from Ch'in-huang Tao, whose port facilities can handle large ships and which is very close to Taiwan, and thus boasts lower shipping costs than coal from the United States, South America, South Africa and other places. Lee Ta-hai, Taiwan's minister of economic affairs, has said that Taiwan authorities are

revising their policy on trade with the mainland and will liberalize that policy in the near future. Thus it is believed that there is a great probability that the Shansi coal deal will go through.

Nevertheless, Taiwan reportedly has misgivings about the deal, fearing that transport problems in the mainland might delay delivery of the coal. The mainland is clearly aware of these concerns and appears to be making preparations in an effort to complete the big deal with Taiwan. It probably is no coincidence that, while Hammer was in Taiwan discussing his deal, Peking reported that Chao Tzu-yang was touring various places on the mainland, including a stop at P'ingshuo Mine, a clear signal to Taiwan that there is absolutely no need to worry about the deal, because Peking takes it very seriously.

### Both Sides Have Benefited from Their Two-Way Trade

Trade between the two sides of the strait has steadily grown for 10 years, since 1978, when it was nearly zero. Though limited to "indirect" dealings, the trade is quite substantial in volume terms and experienced its fastest growth after the Taiwan authorities lifted martial law, which had been in force for 38 years, in July of last year and, in October, approved family visits by Taiwan residents to the mainland, which moves proved to be a tremendous stimulus to trade. It is estimated that two-way trade reached \$1.6 billion last year, with Taiwan showing a surplus of \$940 million, making the mainland Taiwan's fifth largest trading partner and Taiwan the mainland's sixth largest partner. It is estimated that the trade will reach \$2 or even \$2.5 billion this year. According to figures released by Taiwan's Board of Foreign Trade, Taiwan indirectly exported HK \$3 billion in goods to and indirectly imported HK \$800 million from the mainland during the first quarter of this year. At this rate, there is no doubt that two-way trade will exceed \$2 billion for the entire year. The mainland's first-quarter exports to Taiwan through Hong Kong rose by 62.2 percent over the same period last year, and Taiwan's exports to the mainland via the colony climbed by 65.47 percent.

Beginning with ingredients for traditional Chinese medicines and consumer goods, trade between the two sides now involves a great variety of goods, including machinery, electrical appliances and raw materials. Most of Taiwan's exports to the mainland are semifinished technologically processed goods, for example, television picture tubes and polystyrene, whose volumes rose 100-fold between the first quarters of last year and this. Most of the mainland's exports to Taiwan, on the other hand, are foods, live poultry, livestock, and fuel resources. Because mainland demand for televisions has skyrocketed this year, some Hong Kong firms have taken all the orders they can fill during the rest of this year and in some cases will not be able to make delivery until next March. Global shortages of polystyrene have led to a steady rise in the prices of this product, caused problems for the

many plastic factories that the mainland and Hong Kong have jointly established, and forced the mainland greatly to increase its imports of this semifinished product from Taiwan.

But experts note that there are many more goods the two sides can exchange and that both have a wide variety of products that they can export to each other. Although Taiwan has exported some machinery, electrical appliances, synthetic fibers, fabric, building materials and light industrial goods to the mainland, the lack of normal trade channels has prevented the island from selling more goods. But the huge surplus the island has run up in her trade with the United States (most of Taiwan's exports—about one-half—go to the United States) has subjected her to steady American pressure in recent years to revalue the New Taiwan [NT] dollar, which has therefore sharply appreciated, greatly reducing the competitiveness of her exports and driving many of her medium and small enterprises to the brink of bankruptcy. Meanwhile, American protectionism has erected a variety of barriers to Taiwan's exports, and though the island has strived to open up new markets, intense competition will make it impossible for her to succeed in this effort in the near future. So you can imagine how advantageous it would be for Taiwan if she can open up trade channels to the vast mainland market, which has a population of 1 billion and is right nearby.

The Taiwan market also has great potential for the mainland. Each year, the island imports many energy sources and raw materials, such as petroleum, diesel fuel, coal and cotton, which comprise more than 60 percent of her total imports, most of which come from such distant places as the Mideast, the Americas, Africa and Oceania and thus carry high transport costs. And the island is rocked whenever there are major price increases for these goods, such as the two major leaps in oil prices. These are goods that the mainland exports, at cheap prices for good quality, and transport would be much more convenient, yet so far such goods have not been exported to Taiwan. And the mainland can also supply products like soybeans and corn, which Taiwan has to import.

#### **Direct Trade Is Inevitable**

However, given China's "one nation, two systems" policy, namely, the socialist system, which persists and under which industrial and commercial enterprises "belong to all the people" and private, individual households are not major actors, large private firms are not the leading mainland advocates of trade between the two sides. Under Taiwan's capitalist system, on the other hand, enterprises are privately owned, so it is private traders who have been the leading advocates of expanding trade between the two sides.

As stated above, pressured by the rise of the NT dollar, American protectionism and growing competition from Japan and the three other little dragons, Hong Kong,

Singapore and South Korea, Taiwan entrepreneurs are growing increasingly conscious of the necessity and urgency of winning markets on the mainland. They have demanded that Taipei authorities consider approving import of mainland industrial raw materials and semifinished goods, so as to mitigate the difficulties local manufacturers face in production. They have suggested that the authorities adopt the principle of "separating politics and economics" and undertake a full review of economic-trade policy. For example, at the Symposium on the Development of Industrial and Commercial Ties between the Two Sides of the Taiwan Strait convened in Taipei a short time ago, Fan Kuang-ling 5400 0342 7117, chairman of the Industrial and Commercial Management Society of Taiwan, urged the authorities "to face squarely the growth of industrial and commercial ties and competition between the two sides, to abandon the authorities' ostrich policy on the issue, and to promote these ties as the situation permits." He also said that, given the fact that other countries have already entered mainland markets, if we do not exploit the "comparative advantages" of and seize the initiative in this trade, we may lose out in the competition. He noted that it is not just Taiwan firms that are enthusiastic about the trade, the mainland side is, too. Taiwan's economy will suffer if local firms "miss the mainland boat" and get "pushed to the back of the bus." Taiwan industrial and commercial circles and scholars believe that developing economic and trade ties with the mainland will also help provide some of the island's "sunset industries" (such as plastics and toys) new lebensraum, which will benefit both Taiwan's long-term economic development and the mainland's modernization program and, in the long run, will make a positive contribution to the unification of the two sides.

In addition, the Taipei press has strongly encouraged economic and trade ties between the two sides. In a public opinion poll on whether or not Taiwan should immediately open up direct trade with the mainland, conducted by CHUNG-KUO SHIH-PAO, 47 percent of the respondents said that the authorities should permit direct import of mainland industrial raw materials, and 80 percent approved of direct imports of traditional Chinese medicines. A survey of 500-plus firms conducted by Taiwan's semiofficial External Trade Development Council found that more than 70 percent of all firms are interested in pursuing direct trade with the mainland and that 90 percent believe Taiwan must have direct trade with the mainland in order to obtain cheap raw materials and to ensure raw-material supply.

Interestingly, this issue is not only a hot topic among private entrepreneurs but has also become a focus of general interpellations conducted by the Legislative Yuan. In a recent questioning session on "mainland policy," an overwhelming majority of legislators surprisingly demanded that the authorities open up direct trade with the mainland, stop seeking from afar for what lies close at hand, and stop eschewing cheap imports for expensive ones from the Mideast, South Africa, the



United States and other places. Legislator Lin Yu-hsiang 2651 6877 4382 stated that, now that Taiwan firms are being forced by the appreciation of the NT dollar to invest abroad, the best suitable place for that investment, in terms of local ties, resources, markets, language and other factors, is the southeast coast of the mainland. He said that, given the need to ensure the objective, mutual complementariness of the entire economic development process on both sides of the strait, it is necessary to promote and legalize two-way trade. Legislator Jaw Shao-kong [Zhao Shaokang 6392 1421 1660], noting that the mainland's resources and market of one billion people perfectly complement Taiwan's economy, moved to organize Taiwan scholars and experts into two committees, one on law and politics and another on economics, to draft a "mainland relations act" to establish guidelines for indirect trade and quotas on various types of mainland imports so as to establish a legal process for handling the problems that might arise in the unofficial trade between the two sides.

Pressured by demands from industrial and commercial circles and from the public for increased economic and

trade ties with the mainland and by the demands of many legislators for a "liberalization," Taiwan's economic and trade departments have adopted a number of measures—including relaxing controls on principal agricultural and industrial raw-materials imports from the mainland, such as petroleum, coal and cotton, and making mainland economic and trade information available to the public—is considering permitting branch overseas agencies to have contact and trade with the mainland and other such measures. Although these "relaxations" fall far short of the demands raised by the public and by legislators, Taipei officials have not made the final decisions on these matters, which will not come until after the "13th National Congress" of the Kuomintang in July. But events are more powerful than personalities, and it is apparent that politics cannot halt the growth of trade between the two sides of the strait and that the move from indirect to direct trade is inevitable now that the hostility between the two sides is gradually subsiding.

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