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**National People's Congress Faces Problems
During Anniversary Session**

40050374 Hong Kong CHING PAO [THE MIRROR] in
Chinese No 3, Mar 89

[Article by Rong Zhang 2837 4545: "What Problems
Can the NPC Resolve?"]

[Text] Because this year's two sessions coincide with the 40th anniversary of the CCP [Chinese Communist Party] coming to power, the 70th anniversary of the May 4th Movement, and the 30th anniversary of the Tibetan Rebellion, they are of extraordinary significance.

In view of the topics to which the NPC [National People's Congress] delegates and the CPPCC members are paying close attention, such topics as education, commodity prices, public order, official profiteering, party trends, agriculture, the Three Gorges Project, relations between the both sides of the Straits, and multiple party participation in government will all be unavoidable in discussions.

**Three Major Topics for Discussion: Putting in Order,
Eliminating Corruption, and Reforming the Government**

The second session of the 7th National People's Congress, which is about to be held, is a hot news item which Chinese and foreign personages are following with interest. In view of the topics to which NPC delegates and CPPCC members are paying close attention, such topics as education, commodity prices, public order, official profiteering, party trends, agriculture, the Three Gorges Project, relations between both sides of the Straits, and multiple party participation in government will all be unavoidable in discussions. However, in putting these on the NPC agenda, policies and methods must be determined for problem solving such as the following: how to achieve "ordering and rectification" with respect to the economy; how to determine honest government measures for eliminating corruption; how to promote democratic politics, implement a multiple party cooperation system under CCP leadership, and put non-CCP members into the Cabinet; and how to control inflation and overheated consumption, balance budgetary revenues and expenditures, and reduce the budget deficit.

According to information, in Li Peng's "Government Work Report," he represented policymaking authorities in carrying out self-criticism of certain errors and also explained the progress made in the past year in the actual work on the five issues requiring resolution which he had brought up in his report at the first meeting of the Seventh NPC last spring; namely, agriculture, commodity prices, education, public order, and the social mood.

According to estimates, this year's economic conditions will be as follows: agriculture can be expected to rise again, industry is unlikely to slip significantly, the scale of investment will be controlled somewhat, and there will continue to be many unstable market factors.

After a period of intense popular interest in contact for the purpose of returning home to visit relatives on both sides of the Taiwan Straits for the purpose of returning home to visit relatives, specific advantages, disadvantages, and future countermeasures are currently being discussed. The actual functions and results of the State Council's Taiwan Affairs Office, which was founded last fall, are little known to the outside world. The NPC Standing Committee therefore made inquiries and asked Ding Guangen [0002 7070 2704], the head of this office, to report on the work. NPC Standing Committee Chairman Wan Li has expressed agreement to putting this on the NPC agenda.

Since Li Peng assumed office as chief of state, the CPC's "omnidirectional" foreign policy has achieved a breakthrough. Taking advantage of the Sino-Soviet "second handshake," combined with improved relations with Eastern Europe, Mongolia, Vietnam, India, and other nations, it has thereby begun a second new wave of diplomacy following "pingpong diplomacy." It has been disclosed that during the NPC session, Qian Qichen [6929 0366 3819] will publicly announce and discuss the results achieved by the major adjustment of the CCP's diplomatic strategy and its future outlook.

Since this session coincides with the 40th anniversary of the CCP's coming to power, the 70th anniversary of the May 4th Movement, and the 30th anniversary of the Tibetan Rebellion, it is of extraordinary significance.

Open Letter From 33 Intellectuals May Be Reflected

Zhao Ziyang has pointed out the need to step up the pace of political system reform. In mid-February, at a meeting of the CCP Central Committee's Political System Reform Research Center, Bao Tong [7637 1749] advocated "two opens and one supervision"; namely, making public the work system and work results while implementing widespread social supervision. This is expected to produce an effective mechanism for restraining the exercise of authority and reduce the growth and spread of corruption. This session of the NPC will pass a document specifically stipulating that the public be allowed to freely attend plenary sessions, the number of votes be made public in elections or votes on appointments and dismissals, a record of statements by NPC delegates be printed, and so forth. This will change the former corrupt practices of the NPC's closed-door parliamentary government, which had made a mystery of the results of votes, thereby giving rise to conjectures and reproaches.

In addition, it also stipulates that the NPC Standing Committee may promulgate in advance, and solicit opinions from the general public, concerning drafts of important basic laws which are being prepared for submission to the NPC for examination and approval.

With the gradual advance of democratic government, many sensitive topics for discussion have repeatedly appeared in the forum of parliamentary government. As the party in power, the CCP has decided to adopt a position of nonevasion, and has acknowledged that, in such areas as price reform, it had made the mistake of being overanxious for success, and that negative phenomena had been brought about because of this. With regard to this, Zhao Ziyang has stated that first, estimates were inadequate and there had been no prior psychological preparation, and second, there was a lack of experience; therefore, all aspects were unsuitable.

Recently, one topic for discussion aroused a relatively significant response overseas; that was the fact that after Fang Lizhi [2455 0536 0037] wrote to Deng Xiaoping on 6 January 1988 demanding the release of Wei Jingsheng [7614 0079 3932] and others, 33 well-known Beijing scholars, authors, poets, artists, and reporters signed their names on 13 February supporting the proposal. Many of these were members of the CPPCC or the NPC. Chen Jun [7115 6511], who has already obtained the right to reside in the United States, was one of the principal sponsors of this. He has opened a bar in Beijing and is still collecting signatures. A person of authority at the State Council's Ministry of Justice believes that initiators such as Chen Jun, by molding public opinion, putting pressure on the government, and interfering with independent adjudication by state justice, are hindering stability and unity. He has also stated that if Wei Jingsheng, who was sentenced to a 15-year term in 1977, still disagreed with the verdict, he should appeal in accordance with the legal process, and be dealt with by the court in accordance with the law.

(Editor's note: Many of the people who signed the petition have refuted the remarks of the Ministry of Justice official, pointing out that the petition demanded only amnesty and not redress, and had not expressed an opinion about the court's verdict, to say nothing of "interference.")

It looks as if this matter will be reflected to some extent in the NPC and CPPCC. Particularly at the press conferences for Chinese and foreign reporters held during this period, interesting questions and answers will be unavoidable.

I have consulted the new constitution passed by the 6th NPC; its article 67 stipulates that Section 17 of the powers of the NPC Standing Committee is to "decide on special amnesty," while Article 80 stipulates that the State Chairman "issue special amnesty orders."

Establishing a Property and Income Reporting System

Manipulation of power for personal ends and dereliction of duty, engaging in malpractice for selfish ends, corruption, graft, and degeneration have become phenomena of corruption which the people gossip about in the street and bitterly hate. It has been disclosed that since 1982,

over 10,000 persons annually in mainland China have been convicted of corruption, and nearly 2,000 persons have been convicted annually of soliciting and receiving bribes. Of these, a total of 375 are cadres at the county level and above, and these are increasing year by year. Qiao Shi [0829 4258], a member of the Standing Committee of the CCP Central Committee's Political Bureau and Secretary of the CCP Central Commission of Political Science and Law, recently stated that whether we can persist in making government honest and upright under conditions of reform and opening, or whether widespread corruption will appear, is a fundamental problem. In the final analysis, this involves the CCP's position as the party in power. This problem not only can be solved, it must be solved.

It was previously pointed out that the wages of honest government officials are really very low, and having power in their hands can very easily lead to corruption. It was therefore proposed that "generous salaries and cultivation of honesty" be carried out. This proposal was deliberated on to a certain extent at a high level of the CCP, but it was felt that it was not the way to get to the root of the problem of effecting corrupt practices. The key is to establish a series of control mechanisms, supervision, and reporting systems to eliminate corruption and make government honest. Some insist that investigation departments should independently exercise administrative supervisory authority, change the dual leadership system and, unrestrained by local governments and the ministries, committees, factories, mines, and agencies to which they are accredited, establish a vertical leadership system directly subordinate to the State Council.

In addition, at the same time that it establishes reporting centers in various localities, this NPC session will clearly stipulate that the Presidium of the NPC session, more than three delegations, or over one-tenth of the delegates can, by joint signing, move to organize an investigative committee with regard to specific issues, and all concerned state agencies, social groups, and citizens have an obligation to provide accurate reports of the situation and necessary data.

In order to wipe out the phenomenon of corruption, the CCP decided to refer to honest government measures of other nations and establish a system by which government officials report property and income. The state Council's legal system department has already worked out "Temporary Provisions for Reporting Property and Income of Personnel Employed by State Administrative Agencies." The investigation departments are responsible for matters related to this reporting, as well as maintaining the confidentiality of the persons making the reports, in accordance with stipulations. Officials who must file reports include State Council cadres above the level of deputy department or bureau chief in the various ministries and committees, deputy division chiefs in provinces, municipalities, and districts, and

deputy sections chiefs in regions, prefectures, and counties. It is reported that there are 10 kinds of reported items. Officials below the level stipulated above must also file reports if the total value of their property exceeds 16,000 yuan, or if their annual family income exceeds 9,600 yuan, or if they have bank savings and various negotiable securities in Hong Kong, Macao, or Taiwan. These measures will be implemented consecutively following discussion at the NPC meeting.

The 10-chapter, 68-article "Administrative Procedural Law (Draft)" will be deliberated upon and passed at this NPC session. This will set forth specific demarcations of the crime of dereliction of duty and violation of governmental discipline by administrative officials. At the same time, it will also set forth more perfect stipulations regarding such things as the initiation, acceptance, checking, and defense of administrative lawsuits.

Zhao Ziyang Says China Does Not Need a Multiparty System

Through the above-stated measures, China hopes to eliminate the phenomenon of corruption and establish clean and honest government. Participation in government by democratic political parties and groups and persons not affiliated with political parties and groups is also a means of mutual supervision. This is also an inevitable trend toward realizing a multiple-party cooperation system under the leadership of the CPC. Zhao Ziyang has recently stated that China does not need a multiple-party system. Eastern European socialist nations such as Hungary and Poland have advanced the implementation of multiple-party systems and have developed very rapidly. This should not be played up, but rather should be handled in a low-key manner. As long as China maintains unity within the Community Party, no major problems can arise. China must strengthen and perfect party leadership, stressing unifying force within the party and powers of persuasion and attraction outside the party.

Clearly, the CPC's political system reform has not at all changed its position as ruling party and the socialist nature of the state regime. This has by no means been hindered by the increase in non-CCP officials at all levels of the government. Previously, some restricted publications conducted a seminar on "How To Realize Multiparty Coalition Government Under the Leadership of the CPC." It was stated here that simply making indiscriminate use of the style of rule of Western nations, whereby several political parties and groups united to strive for a majority in the legislature, would similarly have the implication of "taking turns dealing the cards," with the result that it was criticized and the discussion was suspended. It appears from this that the stand of the CPC's political system reform is still adherence to the system of "socialism with Chinese characteristics." However, various democratic political parties and groups may have the opportunity to participate in various consultations and deliberations on various major

political policies, and to enter the cabinet and participate in governmental and political affairs. There is information that in the future, one-third of the state council's ministries and committees will be under the control of non-CCP personnel; the original long-range plan can only be partially realized at the current session of the NPC.

Entering a Period of Major Political Adjustment

Zhao Ziyang, whom Deng Xiaoping has called the "number one high-ranking manager," declared not long ago that China had now entered a period of adjustment after major development and reform. It can also be called a transitional period, and requires two years. This so-called adjustment, in terms of economic development, refers to lowering the temperature, while in terms of reform it refers training cadres and teaching them new methods of macroeconomic control and establishing a new economic order. According to information, the CCP's Central Organization Department has established a cadre training center and will begin training high-level cadres from throughout China in leadership and management arts suited to the modern age, and it will invite specialists and scholars in various fields to direct instruction.

The CCP's upper stratum believes that this transitional period is utterly different from the transitional period of the early 1960s in which serious economic difficulties appeared. This time it is adjustment in the course of reform; it is "temperature-lowering measures" adopted under better material conditions and higher social and cultural living standards, for the purpose of smoothly realizing a substitution of a new system for the old and coordinating the continued stable growth of economy.

Recently, the CCP's authoritative theoretical publication QIUSHI ran an article which declared that deficit financing was unsuited to China's national conditions, and was a theory which had been put forth by the Keynesian school in the 1930s in order to resolve the economic crisis of "production surplus." Many Western nations have already abandoned deficit financing. If China readopts such a financial policy, it will continue to stimulate overheating of consumption, give impetus to currency inflation, and obstruct the progress of the deepening of economic reform, such as price reform. It has been disclosed that there will be a change in financial thinking with regard to this year's fiscal revenues and expenditures, and a deflation policy will be implemented. There will be a switch from relying primarily on increasing input, expanding scale, and increasing speed to increase financial input to relying primarily on strengthening control, improving technology, and increasing economic efficiency to open up financial resources. Wang Bingqian's [3769 0014 0051] financial work report will set forth the following four principles: (1) the need for an adjusted distribution policy, appropriate concentration of funds, and guaranteeing of key construction and reform measures; (2) reduction of fiscal

expenditures and an increase in educational investment and agricultural input; (3) strengthened control, tapping latent potential, increasing economic efficiency, and supplementing financial resources; and (4) adhering to estimates of our own strength in our work and keeping the fiscal deficit at a minimum. With respect to economic system reform, at the same time that it is put into order and consolidated, focus will be put on development and perfection of various reform measures which have already appeared. In addition, with respect to several points or certain individual reforms, testing and probing of new reforms will be actively but cautiously implemented. He Guanghui [6320 0342 6540], Vice Minister of the State Commission for Restructuring Economic System, has explained that the housing reform which was originally worked out and put forth this year, establishment of a social security system, and the vividly described shareholding system and separate flow of taxes and profits all still had to be tested and gradually developed in accordance with conditions. The deepening of enterprise reform, which is regarded as the focal point, comprises three main aspects:

The first is further perfection and development of the contract management responsibility system, implementation of a coordinated reform measures, carrying out superior organization and grouping, and establishment of competition among enterprises and risk and self-restraint mechanism.

The second is, in accordance with the principle of compensated transfer of property rights, promoting enterprise annexation; there are said to be over 400,000 bankrupt enterprises in China, and it is estimated that 300,000 will be eliminated. We must also focus on fostering a number of large-scale enterprise groups and allow them to become the backbone of national economy and foreign trade.

The third is to reform property right relations within a certain scope and test and explore new forms of public ownership system. These include trial implementation of the shareholding system and auctioning of state-owned enterprises.

NATIONAL AFFAIRS, POLICY

Article Views Regional Trade Conflicts

40060555 Beijing GAIGE [REFORM] in Chinese
No 2, 20 Mar 89 pp 79-83

[Article by Chen Dongsheng 7115 2767 3932 and Wei Houkai 7614 0683 0418: "Some Reflections on Interregional Trade Friction"]

[Text] I. The Objective Background of the Emergence of Interregional Conflicts of Interests and Trade Friction

The traditional, highly concentrated centralization of state power mandates a planned economy, in which interregional trade frictions and conflicts of interest among various regions do not exist or have been concealed. Because interregional frictions are related to commodity economies or market economies, the prerequisite conditions are that local governments possess conflicting independent economic rights and interests and economic actions, becoming an integral part of the deployment of resources. Under the traditional system, the practice of "taking the whole nation into account" the central government's allocation of resources is the only part, a unitary model. Therefore, under the macroeconomy, an independent, middle-level, interregional economy does not exist. Even though during the years of 1958 and 1971, the central government twice allocated powers to local governments, expanding the rights and interests of those local governments, which then induced interregional conflicts of interest; still, these interregional conflicts of interest have not been manifested in interregional trade frictions.

Since 1978, two major changes have occurred in China's economic system. The first is that a unitary, planned economy is in the process of transition to a planned, market economy. But in this transitional cycle, when the flaws in the market system's growth and the unsuitability of our macroeconomic policy showed how empty each measure for reform of the system was, the turnaround of the price system, and the parent-to-child dependency relationship which existed for so long between government and enterprises, all reversed the market signals and thereby weakened the market's leadership of enterprises. The second change is that the model for the unitary planned economy depended on centralized state power; this is now changing steadily to a model in which the plan and the market jointly share power. In this type, administration and market simultaneously implement power-sharing, on the one hand greatly strengthening the economic rights and interests of local governments, while on the other, the central authorities also strengthen their market leadership through creating market mechanisms. They grant powers to enterprises which moves microeconomic production activity policymaking powers from the hands of government into the hands of enterprises, going the road of production operation powers in microcosm. The result is that central and local

governments and enterprises are all lumped together to become the main part of the resource allocation, thereby allowing a principal, pluralized trend to emerge.

Under the two objective circumstances in the economic system which are related above, there have correspondingly appeared two types of interregional economic relationships. One puts profits first through local governments and administrative interregional relationships by setting administrative divisions as boundary lines; the other puts profits first by enterprises, cutting across administrative divisional boundaries' marketing interregional relationships. At present, the conflicts of interests and trade frictions among various Chinese localities are in the midst of an administrative distribution of powers by the central authorities, therefore administrative interregional relationships are in the leading position, as these emerge and intensify in situations whereby governmental departments have still not resolved the problems of allocation of powers among government and enterprises.

II. The Forms of Present-Day Interregional Conflicts of Interest and Trade Frictions and Their Characteristics

A. Certain local governments by meddling in interregional trade and its essential flow, through the serious and existant "economic behavior of a prince," disrupt the market and hinder the important, rational flow of production. Some local governments meddle with the flow of their localities' raw materials, goods, funds and manpower, and the inflow of products for sale from other places, adding taxes on the latter's sales, gouging, etc., levying excessive duties on products in transit, raising the quota at each level, to obtain "buy route money." Some carry out planned, exclusive arrangements between the market and the province of origin; this is especially the case with the supply of agricultural products, the flow of products and the movement of manpower, where this is a worsening trend.

B. In regulating their area's industrial structure, local governments commonly have a tendency to independent comprehensiveness. This tendency in essence runs throughout the leading thought of "self-sufficiency." It is chiefly expressed in: 1) when allocating powers to both sides, originally allotting provincial resources through the directive plan to assure that the processing province's industrial system movement's vertical area division of labor system. It is already crumbling, while at the same time, a new system of local division of labor has not been formed. On the one hand, most of the central and western section's resource provinces have adopted a "resource exchange" strategy of shifting resources for funds and technology, carrying out processing and reproduction of local resources within their own localities. On the other hand, the processing provinces in the east are under no pressure in their quantities of such high-consumption of energy, high-consumption of material products as calcium carbide, ferroalloys and cigarettes. On the contrary, they have continued to extend their development, and their industrial structure's evolution

has obviously been rigid or characterized by an ultra-steady form. "Hot items" such as television sets, refrigerators, washing machines, duplicating machines, etc., are all at once moving forward in each province; in production building, where they are advancing repeatedly, the composition of their overall arrangement is most critical. These "hot items" advance in waves in time and spread out in level fashion in space, aggravating the contradiction of an already-existing shortage of raw materials coexisting with a surplus of energy for production. This leads to a large-scale loss of foreign exchange, which drives up the prices of raw materials and fuels the fires of inflation.

C. At the same time that processing industries are in overall expansion, materials production has tended to sag, with the repeated result of a war breaking out over each kind of resource. The "tobacco leaf war," the "sheep's wool war," and the "cotton war" are still going on, while the gunsmoke of the "nonferrous metal war," "silkworm cocoon war," and "grain war" has just started. The central point of all these raw materials wars is that the main part of conflicting interests over the allocation of each resource is expressed in its economic function. Because there is no fair allocation of benefits between agricultural and industrial trade, between industries, and between resource-producing and processing areas, this has caused a major conflict of interest in each area and in each department between the processing industries' conflict of interests and desire for investment, leading to a total expansion of the processing industries. At the same time, it also dampens the enthusiasm of rural and resource producing areas for developing materials for manufacturing, which leads to the sagging tendency in materials production.

D. The malpractice of policies and systems carving up item by item, selling the majority abroad, has led to some similar products being exported at low cost; these exports are then high priced, forming a "commodity international grand tour," which leads to sizable losses of foreign exchange for the nation. For example, some raw materials which are in critically short supply domestically, such as petroleum coke, end product petroleum, scrap metal, sugar, nickel, etc., are being imported by many localities, while the foreign trade system is exporting it in quantity. Take petroleum coke, which is in very short supply domestically: in 1987, the nonferrous metal system alone imported 50,000 tons of it; but during the same time period, domestically produced exports of this material totalled 63,000 tons. Due to the one-sided emphasis on "giving priority to exports," and "subordinating domestic trade to foreign trade," we now have the greatly exaggerated "large-scale importing and exporting" and "opening up to the outside." According to the JIN-RONG SHIBAO [FINANCIAL TIMES], the Shijiazhuang No 3 Printing and Dyeing Plant sold lining cloth to a foreign firm, which then turned around and resold it to a clothing plant here in China at twice the original price. From this one instance, the direct economic loss to China is \$20 million annually. Originally, the contract

stipulated that the Shijiazhuang No 3 Plant was to supply 20 million meters of lining cloth annually for domestic use, but because of "giving priority to exports," they have been able to supply only one half of their annual quota, and there have been times when that too went to foreign firms.

E. Central and local governments do not act in the same way, which leads to each local government competing with the central government in investments and policies, carrying out bargaining and seeking overlapping favors. It also exacerbates various kinds of contradictions and conflicts between the central authorities and localities, and among localities themselves. The interregional conflicts of rights and interests and trade frictions related above have seriously impeded China's economic development, and constitute a grave danger. It is of no benefit to the important work of improving the structure, and it increases the circulation of items and the costs of doing business. It has impeded the formation of market flow. It has aggravated the contradiction between a resource shortage and idle facilities. It has given impetus to a rise in the prices of raw materials, and has added to the difficulties of reform.

III. The Reasons Why Interregional Conflicts of Rights and Interests and Trade Frictions Are Becoming More Acute

We can see from the above that the present daily worsening of interregional trade frictions is demonstrated in the conflicts of rights and interests in the economic policies and conduct of each local government. On the one hand, in the central authorities' process of granting powers to localities and enterprises, there is a recognition of the existence of interregional rights and interests; and that the local governments, the central government and enterprises all together form a resource allocation system in which there are independent powers. On the other hand, the reversal of the price system, with its double-track system, its differential earnings from land rent and preferential policy considerations, has caused a turn-around in interregional rights and interests, and has made each locality's development compete with one another in an unequal environment. Confronted with an unequal competitive environment for interregional development, every local government that has independent powers has, without exception, come up with a variety of means of resisting, and has chosen appropriate countermeasures. Simultaneously, the central government placed rigid and powerful restraints on the actions of local governments, which were vague although standardized. This is the fundamental reason for the formation and aggravation of the interregional conflicts and trade frictions that we have throughout all levels in China today. To reverse these conflicts, the following several elements are the most important:

A. Under the existing conditions where there is regional enterprise structural diversity and interregional product circulation, reversing the price system will produce a space

transfer in product value, and thereby cause an interregional rights reversal to take place. Under the traditional system, China's interregional economic development had two basic characteristics. First, based upon resource's and technological economy's space counter-measures distribution, there should be established in this country a west-central resources section (agricultural products and mineral excavations, energy and natural resources industries)—and in the eastern section the processing and manufacturing industries be established, in a vertical, regional division of labor. Second, using the price scissors for industrial and agricultural products, in order to make any sacrifice for the long-term development of agricultural industries, provide a primitive accumulation for the development of industry. The result of this will be that when the eastern, processing provinces set an excessively high price for processed products and the west central provinces set prices too low for agricultural and mineral first-stage exchange of products, there must be a flow of commodity trading, while there will occur a shift in product value from the resource producing areas to the processing areas (that is, from the west to the east). This will in turn cause a "falsification" of regional economic benefits. Moreover this "falsification" will often become the basis for policies formulated by the central government and an important judgmental criterion for examining the achievements of local governments. In this situation, each local government must compete to develop processing industries, so as to increase its own income. Moreover, these will utilize whatever powers they have to adopt a variety of measures aimed at obstructing the flow of resources.

B. Under the dual-track system of prices, the price set by the market is higher than that set by the state. So that in trade between agriculture and industry, and between industries, as well as between localities, when there is a great disparity between two prices, it inevitably leads to an inequitable distribution of profits. If departmental profits are unequal, this causes inequality between localities, with the resource-producing areas getting less while the processing regions and the exporting ports get more. This results in a proliferation of low-technology, small-scale, processing industries in the resource-producing areas, while in the processing areas, other than going through cross investment, goods and materials from place to place partially resolve raw materials, and can also devote their attention to expanding production of raw materials and increasing imports. However, due to the rise in prices of raw materials, 1984-1985 were years of swift development from cross investment; this has lessened daily since 1986.

C. Among every region in China, in the matters of opening to the outside and reforming the system, there objectively exists a kind of opportunity in which opening to the outside and system reform are often accompanied by central government's preferential policies (or granting benefits). Thus, through changes in policy, those areas that are the first to open to the outside and carry out system reforms can obtain greater benefits than they could

before. These policies can then cause a buildup in some areas, which leads to the essential elements of other areas' industries flowing through the built-up areas, and thereby creating a superior position for those areas which took the initiative.

1. How much have they opened to the outside? This concentration is reflected in the proportion of export foreign exchange reserves and in operational powers in foreign trade. China's current methods of reserving foreign exchange from exports, has led to the granting of different areas being granted differing preferential policies. The five special zones reserve 100 percent of the foreign exchange collected from their products (they must assume responsibility for their own profits and losses), Guangdong and Fujian reserve 30 percent, the minority areas reserve 50 percent and other areas reserve 25 percent. At the same time, the central authorities previously had based their subsidies for each province's exports upon actual exchange costs, with each area's total exchange fee differing in amount, and varying greatly. For example, Shanghai and Jiangsu pay four yuan in exchange for each US dollar, while Guangdong pays over five yuan. After the foreign trade areas took on project responsibility, the central authorities began to base all those earlier special economic zone [SEZ] subsidies on fixed figures. This way, such areas as the Shenzhen SEZ and Guangdong, because they have large reserves of foreign exchange and large state subsidies, can use high prices to compete in purchasing resources domestically. Since this spring, the "silkworm wars" which broke out one after another in such areas as Sichuan, the Jiangsu-Zhejiang border, and Wanxi, were all chiefly started for this reason.

2. How much have they reformed the system? The economic system reforms that have taken place since 1978 are basically premised on granting powers and allowing profits. Because reforms could not be done completely all at once, differences existed in time and space; therefore a transfer of benefits took place from those areas that had not yet reformed to those that had, and from those areas that reformed later to those that had done so earlier. Guangdong was the earliest to try the "regional responsibility," system of fiscal responsibility, implementing the "divide income and expenses, turn in one's quota, no changes for 5 years" method of responsibility. The central authorities stipulated that Guangdong would hand over 1.2 billion yuan in revenue to the higher authorities annually, with the province keeping everything over that figure. The significance of this was that the central financial authorities were making a concession to Guangdong's finances. Moreover, the central authorities took most of the revenue for their own area, so in actuality the areas which had been the first to reform were being supported by those areas which reformed later or not at all. This is the fundamental reason why we now have a policy in which local governments compete by bargaining with the central government.

D. What is the effect of China's differential rent? The differential rent makes a spatial curve from the coast to the interior, from the cities to the countryside, while the differential rent income is a monopoly of local governments or enterprises, and will also to a certain degree the area's benefits. There is a great disparity in incomes from differential rents received in the various areas; this is due to differences such as geographic position, endowment of resources, and the economic benefits from production put into these areas by government, particularly the central government. This disparity causes a turnaround in interregional benefits, chiefly for the following several reasons. First, the essential movement is incomplete; moreover, there will be certain transfer costs. However, for a long time China has had a policy of low cost transport and electrical transmission, which has aggravated the transportation and energy shortages, and encourages such irrationalities as duplication and excessive distances. For the many low-technology, small-scale, processing industries along the coast, this has opened some convenient doors. For instance, hydroelectricity costs in the northwest are an average of 20 to 47 percent lower than for the nation as a whole; there is now a surplus in the supply of electricity, while on the contrary electrical prices are higher in the energy supplying and shortage areas. The second is that there is an exclusiveness in sharing the benefits from production which are put into an area by the government. When the central government puts something into an area, this can engender a collective economy or an external economy. Sharing in benefits of this kind generally has an exclusiveness for enterprises outside of the region or for the governments of other areas. As a result, when the central government invests under these circumstances, it should receive a certain subsidy from the benefiting unit's cost share. However, for a long time, what the central government put into each area was basically a gratuitous contribution that didn't count the cost. For example, when a large, coastal, northern city had a water crisis, the state contributed 2 billion yuan for a water project, but there was almost no reflection of this in the price of water. The third is that the greater portion of the income from differential land rents should go to the state, while at present this kind of income basically returns to the local governments or enterprises or is monopolized; this leads to enterprises in different areas or at different levels under similar subjective efforts being incapable of attaining similar benefits.

IV. Deepen Reform of the System, Coordinate Interregional Relationships

The characteristic lack of normality in interregional conflicts of interests and trade frictions has seriously impeded China's economic development, and has also increased the difficulties in deepening reform of the system; this is a great danger. For this reason, the central government has done a considerable amount of work in this area, and since 1988 has closed down completely such markets as cotton, silkworms, etc. Such temporary administrative measures as closing markets and the

recall of such powers as were granted earlier, have been of significant use in deterring the several kinds of investment wars; but these are only stopgap measures: they cannot get at the root of the problem. Moreover, they present the possibility of again sinking into the pre-reform, vicious cycle of "as soon as it is granted, there is a mess; as soon as there is a mess, it is taken back; as soon as it is taken back, there is death." In addition, under the current condition of the markets taking the initial steps to growth, forcibly controlling, and of necessity producing a "public side-effect," has made business in the black market and grey market both public and popular. If this line of thought is followed, the "markets" of the future will only be those "artificial markets" which bring along with them the grey and black markets. In view of this, we believe that any fundamental coordination of interregional relationships and deepened reform of the system must begin with cultivating the markets.

A. Clarify the goals of system reform. We reform in order to develop. Therefore, it cannot be denied that certain measures taken in the last 10 years were no good for development, and the goal of establishing equitable, competitive, unified markets is contradictory. The goal of reform is the establishment of a mechanism for economic movement in which planning and the market are inseparably linked, and therefore contribute to the stable and rapid development of the national economy over the long run. In the current evolution from a centrally concentrated, planned economy to a market economy, "the state regulates the market, and the market guides the enterprises," is a more appropriate goal and model for an economic movement mechanism. However, from the standpoint of a being a long-term goal and model, after the market mechanism is perfected, the new market movement mechanism should be "the government safeguards the market, and the market guides the enterprises." At present, for reasons of market demand and absolute benefits, enterprises are carrying out a policy of investment management. While the government functions to safeguard order in the markets, it must still go through an environment of industrial development, and in order to seek greater benefits, regulate and control the development and overall arrangement of industry. The central government's interregional policies are chiefly concerned with material benefits or equality, to remedy the shortcomings of the market. If the policy's functional direction is the same as that of the market, the central government can totally achieve unified goals through strengthening the market function. Accomplishing the above goal has two prerequisites, which are in opposition to free enterprises and free prices.

B. Strengthen the allocation of powers to the market, and weaken the allocation of powers to administrators. The allocation of powers is at present a worldwide trend. Without question, to have a planned market economy system, the central government should continue to allocate powers. However, to whom should the central government allocate powers, and what powers should they allocate? This is of the utmost importance. If too

many administrative powers are given to local governments before there is a fundamental separation of government from enterprises, it must of necessity lead to "local administrative regimes" or "regimes of princes." An object lesson in this instance is Yugoslavia, which in the course of reforming its system, over-allocated administrative powers, which in turn led to "local administrative regimes." Moreover, in allocating market powers to enterprises, it is possible to accelerate market growth, causing enterprises to genuinely carry out operations on their own initiative and self-responsibility for profits and losses according to the guidance of the market. Moreover, the self-regulation mechanism that comes with market investment can impel enterprises to expand the scope of their operations on the basis of alliance, annexation, transfer, etc., and thereby break out of the existing vicious circle.

C. Abolish certain special policies for minority areas, and change preferential differences among areas to preferential differences among departments. China is currently practicing the methods of export subsidies and foreign exchange reserves, in which there are disparities in the policies for different areas. Establish a policy of abolishing these disparities among areas, and implement a policy of linking enterprises, carrying out a policy of disparities among departments. At the same time, as speedily as possible publish a "Table of Preferential Sequences for Foreign Investment," and stipulate corresponding policies to encourage or deter the import and export of certain products. For example, emphasize the export of textiles, electrical machinery, handicrafts, etc., and discourage the export of certain products which are in short supply in China.

D. Establish a fund for the development of backward areas. Because the state has had a policy of extending corresponding preferences to those areas which were first developed or which reformed earlier, as greater state financial support, there should be established a cutoff date after which a portion of this funding will be moved from these areas and used to fund the development of backward areas.

E. The state should implement repayment for its investment in localities. In circumstances in which the state invests in certain areas, for instance in large power projects, water supply facilities, communications facilities and harbor engineering, etc., the recipient areas and departments should share in certain costs. Investment repayments should be accumulated by the state, chiefly for use in improving the infrastructure.

F. Establish a complete legal system. As soon as possible stipulate a "Competition Law," an "Anti-Monopoly Law," an "Anti-Windfall Profits Law," and a "Law on Implementation of Industrial Policy," etc., using legal measures to encourage fair competition and to deter various kinds of monopolistic and blockading practices.

At the same time, use the law to stipulate explicitly the functions and jurisdictions of the various governmental departments, and thereby standardize governmental practices.

Analysis of 10 Years of Price Reform

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[Article by Gu Shutang 6253 2579 1016 and Zhao Xinghan 6392 5281 3352: "A Probe of Pattern in 10 Years of Price Reform"]

[Text] I. How To Evaluate 10 Years of Price Reform

Ten whole years have passed since China carried out price reform in 1979. Ten years are neither long nor short judged from the angle of changes in social and economic systems. Establishing a socialist economic system (including structure) is a great experiment. So is reforming and perfecting the socialist economic system. In a certain sense, the latter is even more complex and arduous.

At present, the focus of economic work has been switched to improving the economic environment and rectifying the economic order, and the price reform has basically come to a standstill. Under this situation, it is imperative to do some serious thinking and analysis on such issues as reeducating ourselves with the position of price reform in the entire economic reform, how to evaluate the results of 10 years of price reform, and whether or not we can go around the price reform.

We think that the economic reform as a whole has made major breakthroughs in theory and practice in the past 10 years, that the old centralized planning system has been undergoing fundamental changes, and that the level of productive forces and people's living standards have been raised markedly. Such has been the case with the price reform, which once showed fairly outstanding results.

Ten years of price reform has gone through roughly two stages. From 1979 to the first half of 1984, price reform was basically based on the voluntary readjustment of irrational prices with emphasis on the readjustment of the price system. During this period, China basically resolved the problem of irrational price parities between industrial and agricultural products, which was left over from history, thus substantially accelerating the development of agricultural production. Industrial departments readjusted the prices of manufactured goods by raising some and lowering others, which helped in closing somewhat the huge gap between different departments in the profit margin of funds, thereby eliminating losses for the industry as a whole. They began to adopt controlled floating prices for some manufactured goods, accelerating the development of products in short supply. The

national economy as a whole was freed from the imbalanced and tense situation caused by 10 years of turmoil. A good situation of coordinated development appeared in all departments, and the ratio of agriculture to light and heavy industries changed from 1:1.2:1.48 in 1978 to 1:0.9:0.98 in 1982. There were plenty of goods on the market and prices were basically stable. During the 6-year period between 1979 and 1984, the increase rate of national retail price indexes averaged 2.7 percent. The structural price reform during this stage should be affirmed.

From the second half of 1984, price reform has developed from readjusting the price system to reforming the price management system, the pricing power has been decentralized for some commodities, and the policy has been based on decontrol.

In May 1984, above-plan capital goods produced by state industrial enterprises were allowed to be sold by industries themselves and their prices may be 20 percent higher than state prices. In July 1984, the planning system underwent major reforms, the scale and ratio of goods regulated by the market were expanded, the prices of small commodities were basically completely decontrolled. In January 1985, China lifted restrictions on the prices of above-plan capital goods of industrial enterprises to allow enterprises to set their own prices and participate in market regulation, thus forming the "dual-track pricing system" under which prices of capital goods vary substantially. Following the price decontrol, macroeconomic regulatory measures failed to catch up accordingly, and the foreign trade reform in 1987 changed central subsidy to local subsidy for some imported commodities, thereby causing enterprises' production costs to increase and prices to rise. During the 3 years between 1985 and 1987, the average annual increase of national retail price indexes was 7.36 percent. In 1988, the increase rate of price indexes rose sharply to 18.5 percent. Since the prices of decontrolled manufactured goods are out of control, the planning prices of goods which have not been decontrolled and the prices of some goods still under state management appear to be extremely low. Consequently, the prices of contracted grain procurement and some primary manufactured goods have again hit "rock bottom" in the relations of various price parities under the new price standards. Judged from the price reform itself, the orientation of price decontrol after 1985 has been correct, but the tempo has been too fast. While other supplementary reform measures are still incomplete, it is very difficult to achieve the desired effects by carrying out the price reform alone. Instead, it would cause negative consequences.

One view holds that problems occurred in economic development and reform since 1985 are caused by overestimating the role of price reform in the economic reform as a whole. It holds that it was wrong to carry out

the price reform first and that we should have carried out enterprise or ownership reform first, go around the price reform, and save it for the later period of reform.

We cannot go around price reform. This is because the main goal of economic structural reform in China is to develop socialist commodity economy and the basic law of the commodity economy is the law of value which works through the movement of prices. If we go ahead with reforms in other fields without first smoothing out prices, products will face distorted price relations even if we manage to produce them. This will cause the appraisal of enterprise economic returns to lose objective standards. Since the level of prices cannot give enterprises correct signals, it will not be able to correctly perform its regulatory function. So only by first smoothing out price relations can we provide a basically rational environment for market exchange. Of course, we cannot rely only on the price regulation of government to smooth out prices. The final solution lies in a perfected market mechanism and supplementary reforms in other fields. Judging from this, price reform needs to be deepened continuously along with the development of reforms in other fields. Prices cannot be completely smoothed out and the prices of productive elements, in particular, cannot be basically smoothed out unless the economic reform as a whole is completed. Therefore, any reform that overemphasizes a certain field is not recommended. The correct way is to stress some areas while carrying out supplementary reforms.

II. Reasons for the Setbacks of Price Reform

During the 10 years of price reform, China made outstanding achievements in the reform of the price system before 1984 and made marked progress in the reform of the price management system after 1985. But since 1987, China has failed to continue to deepen price reform. Because prices rose continuously and substantially in 1985 and 1986, enterprises lacked the ability to withstand it and suffered from low economic returns. In order to revitalize enterprises, China concentrated efforts on promoting the reform of enterprise contracted responsibility system, trying to go around or put off solving the thorny problem of price reform. Even so, China still could not get rid of the interference of price increases in microeconomic contracts or macroeconomic production structure. In 1988, leaders of the central government again called for efforts to speed up the price and wage reforms. But at this point, the mental ability of the masses to withstand pressure had been substantially reduced. Due to continuous price increases, actual wages could not be fully compensated. In order to maintain social stability, China was forced to put off carrying out the price reform plan again and again until finally it was cancelled. In the summer of 1988, the wind of panic buying that blew across China further increased the difficult factors of the price reform. In September 1988, the central government was forced to adopt the policy decision of switching the focus of work to improving economic environment and rectifying economic orders in the next 2 years.

The price reform progressed fairly smoothly in the first 6 years but had all kinds of problems in the last 4 years. It encountered great difficulties especially in the past 2 years. This is caused mainly by the following three reasons:

A. In the last 4 years of the price reform, China abandoned the principle of stabilizing prices and adopted a tolerant attitude toward the inflation policy. In the first 6 years, China paid more attention to the basic stability of prices and effectively controlled money supply. In 1984, banks suddenly released a large amount of loans. As a result, the increase of money supply in 1984 was 1.89 fold greater than that of 1983, and township enterprises boomed. In 1985, China tightened money supply, causing economic growth to slow down. At this time, calls to maintain growth rate and oppose credit retrenchment appeared. Meanwhile, the view that we should not be afraid of price increases if living standards can be raised also appeared in the theoretical circle. There were even people maintaining that prices should be considered stable as long as living standards improve faster than price increases. This view later developed into the theory that inflation is not harmful but helpful. It contends that China has a shortage economy and that the only way to change the current situation of shortage is to increase money supply to satisfy the needs of industrial development and increase supply instead of passively suppressing demand. This view provided a theoretical basis for China's excessive money supply in the past 3 years. During this period, the principle of stabilizing prices which China had implemented for years was negated and dismissed as "being ossified." (Ossified phenomena did exist in the process of implementation, but this principle should not be negated altogether—author.) In January 1987, the State Council issued a circular, demanding that "market prices be kept basically stable," but it was already too difficult to stabilize at this time. Moreover, since the word "basically" lacks the concept of specific quantity, the demand of stabilizing prices was actually relaxed in work and macroeconomic control. At the time, nobody specified that the major premise should be to stabilize currency first. The consequence of adopting a tolerant attitude toward the inflation policy is making it impossible to continue the price reform.

Inflation is mainly a phenomenon of currency and a product of policy choice. To reform prices, we should first control inflation. In other words, we should be determined to abandon such a policy. As long as we are determined to break cleanly with the inflation policy, measure our projects according to our financial capacity, and do things in accordance with our ability, we will be able to cut the financial source and root of economic overheat and consumption lead.

To eliminate inflation and stabilize prices, it is also necessary to discuss the question of whether or not inflation is unavoidable in a structural price reform. Currently, the conclusion that structural reform must be

accompanied by a sharp increase in the general price level seems to have been accepted by many people. However it is precisely this acceptance that has left a way out for inflation. We think that this conclusion is open to discussion. As the name suggests, structural price reform is to change the structure of previous price parities between different commodities and does not concern the issue of the general price level. However, due to various reasons, especially those concerning the interest relations of the parties involved (departments, industries, enterprises, and workers), we used to adopt the practice of only increasing, not reducing, prices or increasing more than reducing (raising wages in worker's case) so that it could be more easily accepted by the parties involved. The result of such practices was an increase in the general price level. But does it have to be always like this? Is it possible for structural price reform to keep the increase rate of the general price level within the possible minimum scale? We think it is possible and should have been done although the work is harder. For instance, in the structural price reform between 1981 and 1984, the average increase rate of national retail price indexes was only 2.15 percent in the 4-year period. This fully demonstrates that it is not impossible to keep the general price level basically stable in a structural price reform without the interference of inflation. The reform of price management system allows the prices of some commodities to be decontrolled. But as long as overall money supply is stable and the structure is basically balanced, the general price level will certainly remain stable.

B. We were impatient and lacked supplementary reform measures. After the price reform entered the stage of reforming the management system based on decontrol, we became impatient. While issuing an excessive amount of currency, we went ahead with the price reform alone. Since we lacked supplementary reforms in other areas and conditions were not ripe, we found ourselves trapped between the old and new systems and surrounded by their frictions. It was hard for us to escape from the tight encirclement by relying on the price reform alone. Finally we had no choice but resort to the improvement and rectification of economic environment.

One of the reasons for impatience is that society criticized that the price reform held back other reforms and demanded that the price reform be sped up. Especially, some people in the theoretical circle contended that the root cause of long-standing irrational prices is the pricing mechanism, that readjusting only the price system cannot fundamentally smooth out prices, and that we must further decontrol prices and let prices go back to exchanges. Based on these views, they suggested that the price reform must implement the principle of concentrating on decontrol or substituting regulation for decontrol. This belief is undoubtedly correct judged from the orientation of reform, but it ignored then objective environment. This objective environment was that before excess currency issued at the end of 1984 was withdrawn from circulation and as soon as the proposal

of "soft landing" of credit retrenchment was brought up, a new oversupply of currency was started again. As a result, before the monetary retrenchment "landed," the oversupply of currency "took off" again.

In 1985, China announced that the limit on the price increase of capital goods sold by industrial enterprises themselves be lifted. After two consecutive years of inflation, the effect of the market track in the totally unrestrained "dual-track" price system was as good as adding fuel to flames in regard to sharp price increases. During the same period, China did not have adequate management of "dual-track" prices, thus giving "official profiteers" in state commerce a golden opportunity to turn "power" into "money." In 1986, the prices of seven manufactured consumer goods were decontrolled. By that time, the prices of most farm and sideline products were completely decontrolled, but the market was still in the development stage, rules of circulation were basically nonexistent, and the tax system was very imperfect. After central and local financial departments began separate management, local governments' independent conducts expanded. Under the protection of government organs at all levels, the phenomenon of soft budgetary restraint of state enterprises was further intensified, making it impossible to carry out fair competition to eliminate the bad and save the good. As a result, rational readjustment of industrial structure could not be carried out and the practice of raising the prices of commodities after transporting them to a different area spread throughout the nation. "Commodities go on a tour and prices snowball" became the source of wealth in the sphere of circulation. Under the condition of a general price rise, banks played the role of reverse regulation. The interest rates of bank savings and loans remained unchanged, which was conducive neither to absorbing savings nor to reducing loans. Purchasing capital goods with loaned money and hoarding for speculation became an excellent way to cash in on other people's efforts. Under this situation, banks not only could not help stabilize prices but also added fuel to the flames and assisted in price increases. By this time, the price reform was already isolated and cut off from all help. The government not only could not mobilize forces from all fields to support the price reform but also adopted the policy of "fighting inflation with inflation" to substantially increase money supply at a critical moment when the storm of panic buying and bank run blew across the nation in July, August, and September of 1988. This sped up the inflation of currency and created a huge obstacle for the price reform.

As prices increased across the board, the actual income of wage earners declined. According the sample survey of nine districts in Tianjin, in 1988, the average income of urban residents (including those engaged in individual enterprises) was predicted to increase 11.8 percent. After deducting the factor of inflation, their actual living standards declined 4 percent as compared to the previous year. The percentage of households with reducing income continued to increase year after year. It was 17.5

percent in 1986, 44.8 percent in 1987, and 60 percent in 1988. The adaptability of the people declined markedly. The phenomenon of unfair distribution further worsened. Compensations for mental and manual labor are increasingly reversed. The ideological trend based on the theory that education is useless resurfaced and the percentage of students dropped out of school to seek employment continued to increase whereas the phenomenon of unemployment among workers employed by state enterprises was widespread. Since the reforms of labor employment and wage systems were put off again and again, the efficiency of labor production declined and the progress of the price reform was also restricted.

C. Insufficient study of price theory and imperfection of reform plan indirectly affected the scientific aspect of reform policy decisions. During the 10 years of reform, economic theory made major breakthroughs, but the study of price theory appeared to be weak in comparison.

The first expression is that the advanced study of price theory itself was inadequate. It followed practice but could never catch up. It could not deal with any situation. For instance, in the initial period of price reform, theoretical study was limited to the basis of price formation and focused on studying what kind of profit rates is suited to the formation of planned prices under the socialist system. It was suggested that dual-track prices or comprehensive profit rate be used as a basis for the formation of prices. These discussions were not carried out in depth. The projected plan for the reform of price system has never been made public for extensive solicitation of opinions from the theoretical circle. Instead, the focus of study was quickly switched to the reform of price management system—namely the reform of the pricing mechanism. Before a generally unanimous opinion had been reached on the basis of price formation and before the issue of influence of value, supply, and demand on price formation had been fully discussed, the discussion was hastily switched to the issue of pricing mechanism and the dual-track system. Meanwhile, because prices were gradually decontrolled, the theory of even prices was also dished up again. Before the first subject was discussed thoroughly, it was replaced by another subject. As a result, we did not achieve any systematic understanding of either issue. Our information was acquired by bits and pieces which could not played an effective guiding role in the scientific policy decision of price reform and obviously could not satisfy the needs of reform practice.

The second expression is that the theoretical circle did not come up with a realistic measure for concrete policy decisions of price reform. For instance, do we really need to provide a relatively relaxed economic environment as a condition and concrete step to carry out the reform of the price system? What is the major sign of a relatively relaxed environment? What is the basic sign that prices have been smoothed out? What is the strategic plan of price reform? How do we decide what is more important and what should be done first in reforming irrational

price system? Should we adhere to the principle of stabilizing prices in the reform? How do we understand the necessity of increase in the general price level? In what range should we keep the increase rate and how do we control it? How do we combine regulation with decontrol? What supplementary measures should we take and how do we implement them properly in the price reform based on decontrol? Discussions appeared to be very weak on these concrete issues.

The third expression is that the theoretical circle wavered on major policy decisions. For instance, people in the theoretical circle often adjusted their theories according to who was in charge and other political changes in regard to the relation between the pros and cons of inflation and the price stabilization principle, theories on the causes of and ways to narrow "scissors differential," praises of the dual-track price system after it was introduced, and double affirmation of the slogan of "using industry to compensate agriculture, education, and all trades." This kind of attitude obviously could not play a helpful role in the scientific policy decisions of the government. This is further evidence that theoretical preparation was inadequate.

III. Several Issues Concerning Deepening the Price Reform in the Future

China's price reform has been going on for 10 years, but the price relations of many commodities are still irrational. Although the reform of the price management system has taken a large step, due to inflation and other reasons, it has to stop for the time being. Each step in price reform has indeed been difficult, but this does not mean that we may take price reform off the agenda of reform for good. This is because if we do not thoroughly reform the price system and the pricing mechanism and if we do not have rational prices for the correct basis of commodity exchange, we will be unable to effectively evaluate the management of enterprises, promote competition, regulate commodity supply and demand, promote the rational readjustment of production structure, accelerate the rationalization of resource distribution, and realize the conservation of productive elements. All this will eventually cause an increase of social labor productivity and national wealth and prevent China from getting rid of poverty and backwardness as soon as possible. Therefore, judged from the objective demand for the development of the national economy, the price reform must be deepened. Judged from the current situation, urgent issues which we need to focus on right now are how to improve the economic environment, rectify the economic order, handle the relation between the improvement and rectification efforts and the price reform, make preparations for the next step of reform in regard to theoretical studies and reform plans.

A. We should first unify understanding and completely abandon the inflation policy. The inflation policy is neither welcomed by the people nor conducive to the stable growth of the economy, but it is likely to be very

attractive to policymakers. Government leaders can use inflation to tide over current difficulties, but they will leave endless trouble for the entire economic operation. We think it is still necessary to advocate the need to deepen the understanding of the inflation policy and the need to completely abandon it. If we do not unify our understanding and completely abandon the inflation policy, the illness of inflation will not be thoroughly treated. Once the currency situation is slightly better, there will be a relapse and we will go in for inflation again unconsciously or what they called "passively." Then we will still be unable to carry out price reform. There are signs indicating that the danger of being unable to uproot inflation really exists. One of the bases is that while deciding to curb inflation, the government also announced that the average annual increase rate of the price level be kept "under 10 percent" for 5 years. The government demanded that the annual increase rate of prices be kept within 10 percent during the 5-year period except for 1989 in which the price increase should be markedly lower than that of 1988. In other words, the government was not determined to reduce price increase to a still lower level within 3 to 5 years. The annual increase rate of 10 percent itself is inflation. Besides, once inflation entered the fast spiral, its acceleration would be even harder to stop without suffering great pains. The second basis is that delegates to the National People's Congress proposed on many occasions to use law to deal with the currency issue and control money supply through legislation, but nothing came out of it. This explains why leaders are unwilling to accept legal restraint on the issue of money supply, which means no legal guarantee for curbing inflation. The third basis is that the theory of "fighting inflation with inflation" not only was not exposed and criticized but also continued to be applied in practice to seek temporary relief regardless of the consequences. For instance, during the bank runs, banks stubbornly refused to raise the interest rates of savings and loans. They would rather maintain negative interest rates of savings and loans while continuing to seek relief by issuing excessive money. As a result, the amount of money issued in 1988 was tantamount to 2.6-fold of that in 1987, causing more difficulties for curbing inflation. On 1 February 1989, the interest rates of savings and loans were readjusted, but the average interest rates of different savings accounts were raised by only 3.06 percentage points and the interest rate of savings under 3 years still remains negative after deducting the inflation factor. The fourth basis is that the effort to substantially reduce the scale of capital construction was not very effective because 100 projects may have been cancelled but another 80 new ones have been added. The reason why it was not effective is that the gate of money supply was not closed tight. The fifth basis is that public spending increased and group purchasing power remained high. Currently although not too many people openly advocate the inflation policy, many people are still reluctant to some degree to part with inflation and many are still under apprehensions. If we fail to make up our mind this time and continue to procrastinate, we will undermine the stable development of the

economy and suffer greater losses in the end. As a matter of fact, it is very hard to tell who is supporting inflation intentionally and who is doing it "passively." Therefore, we must further unify our understanding to thoroughly eliminate inflation, enable improvement and rectification measures to work as soon as possible, and create a favorable economic environment for the reform.

B. We should carry out the improvement and rectification measures in the spirit of reform and combine the reform with improvement and rectification to prevent the restoration of the old management system. It is necessary to properly strengthen administrative control in the improvement and rectification, and establishing a correct administrative control method is also one of the contents in the economic reform. Some people now fear that "old ways may return overnight although it took 10 whole years to reform them." The cause of such a fear is that a large number of administrative control measures were restored and adopted during the period of improvement and rectification. Take price control for instance. To adjust decontrolled prices, one must report to the authorities for permission. Some major daily necessities in urban areas have resumed planned and rationed supply with coupons. Price level is a ratio between the total amount of currency and that of commodities. If the prices of several commodities are frozen, both production and demand will be restricted, but the suppressed demand will turn to other substitutes or consumption in other spheres. This will again raise the prices of other substitutes or consumption in other fields. When compiling the statistics of price indexes, the prices of commodities included in the indexes may be "stabilized" by administrative means, but the prices of commodities not included in the indexes may be increased sharply. The prices of the rationed amount of a certain commodity may be "stabilized," but the prices of the amount above the ration still may increase. This not only can affect the accuracy of price indexes but more importantly might cause old systems to return. The more old methods we use, the broader the range of restoration.

The current across-the-board price rise and the disorder of circulation should not be generally attributed to the reform. The basic cause of this is excessive money supply. The secondary cause is that the reform lacks supplementary measures. Because of this, in the improvement and rectification we should try to consolidate reform achievements and eliminate factors unfavorable to the reform. Since it was caused by an over-supply of money, we should close the gate of money supply, adopt the method of withdrawing money from circulation, and take various relief measures (such as raising the interest rates of bank savings and loans, earnestly reducing capital construction projects and group purchasing power, restricting the growth of consumption funds, and stopping tax loopholes). Except for a few commodities whose prices were decontrolled improperly should be put under control again, most commodities whose prices have been decontrolled should not be rashly returned to centralized control. As

for imperfections in the decontrol, we should adopt the principle of filling up the gaps, improving, and supplementing to protect the reforms which have already been carried out. Otherwise, the achievements of reform made through 10 years of efforts will be restored to their former state just because of a certain reason. This phenomenon of frequently changing policy is neither conducive to the reform nor to the stability of development.

Adopting the principle of filling up the gaps, improving, and supplementing can, on the one hand, prevent the restoration of undue administrative intervention and, on the other hand, consolidate and develop reform achievements and accelerate the reform. For instance, placing too many restrictions on prices can stifle the efforts to revitalize the circulation sphere; depriving enterprises of their pricing power can create problems for production enterprises in market competition. If we use fewer methods concerning price restrictions and power deprivation and perfect market laws and regulations while strengthening macroeconomic regulation and control, we can kill two birds with one stone—promote supplementary reforms and achieve the effect of improvement and rectification. For another instance, currently the entire coal and crude oil industries are in red and the contracted grain price has dampened peasants' enthusiasm for growing and selling grain. These prices have already restricted economic development. During the period of improvement and rectification, if we continue to freeze these prices, we might force these departments to adopt corresponding measures on their own, which may disrupt or undermine present improvement and rectification efforts. If we can carry out necessary readjustments of a few extremely irrational prices, not only will we be able to stabilize the production of these departments and help them solve actual problems but we will also be able to reduce the profits of follow-up processing departments, restrict the high welfare and consumption of follow-up processing enterprises, and eliminate the huge gap between the income of different departments. Moreover, eliminating extremely irrational prices is also conducive to eliminating profiteering and speculation activities in this regard, which benefits improvement and rectification. In sum, it is necessary to strengthen administrative control in improvement and rectification. Some of the methods used to strengthen administrative control are also part of the reform. However we should avoid or minimize the use of temporary administrative measures which run counter to the orientation of reform. We should use as many as possible of those methods which achieve the purpose of perfecting the reform through supplementary measures. Only by so doing can we combine improvement and rectification with our efforts to develop and perfect the achievements of reform.

C. We should strengthen the study of reform theory. A great reform calls for a great theory. Theory comes from practice whereas practice must be guided by correct theory. Practice and theory form a continuous and gradual process of mutual development. It is impossible

to wish for a complete reform theory before the practice of reform. However theory should not always fall behind the practice of reform; otherwise, it would be unable to play the guiding role. Therefore, in theoretical study we should borrow existing general economic theories and new practical experiences at home and abroad to carry out advanced study in accordance with China's national conditions and put forward a basic trend of thought and a framework for the reform, and then continue to develop and perfect it later in practice. However, since current price theory research forces are relatively weak and scattered, they cannot play the guiding role properly. We think that we should first strengthen organizational coordination among existing theoretical research contingents and bring into play the collective power of coordinated efforts to tackle major problems. We should systematically organize price research forces in the research units of universities, scientific research departments, and government organs, assign and contract to them research projects in a guided manner, allocate to them investigation and research funds, divide work among them, make them coordinate with each other, and demand that they show results on schedule in accordance with requirements. After that we may organize people on proper occasions to conduct comparison and discussion. And then we may screen all theories and plans and induce one that is relatively complete to be used as the theoretical basis of reform. Second, we should properly combine the research of basic theory with that of practical countermeasures. The current government security system has divided theoretical and countermeasure research into two territories with clear boundaries, which do not communicate or interfere with each other. Those in charge of theoretical work have no way of understanding actual conditions; those in charge of practical work are too busy coping with current research of countermeasures to consider basic theory. The divorce of theory from reality has seriously hindered the development of theory as well as the progress of price reform. Therefore, we should further define the scope of security. Data and information not included in the scope of security should be made open. We should contact a group of experts and scholars in the price system to form think tanks and consultative organs at all levels of the price system which will constantly discuss issues arising in the price reform and carry out discussions and comparisons of different opinions to induce rational opinions for the government to use as reference in making policy decisions. Third, we should begin to propound a number of subjects for the advanced study of price reform and mobilize social forces to conduct research. For instance, what is our next step in deepening the price reform? What is the role of value and supply and demand in the formation of prices? How do we form the prices of natural resources and non-labor commodities? All these are theoretical questions that must be answered before the reform can be carried out further. Without advanced study we will be acting blindly in the price reform.

D. We should do a good job in complete overall planning for the next step of the price reform. When we said that the price reform based on decontrol after 1985 showed impatience and an unduly fast pace, we meant that conditions in other fields were not ripe and that the economic reform as a whole was not coordinated. Had conditions been relatively ripe for the price reform and reforms in other fields been coordinated with the price reform, the achievements of the price reform would have been much greater. Judging from the experience of last 4 years in the price reform, we should consider the possibility of coordination and follow-up of other fields in planning our next step in the price reform and formulate a comprehensive plan to steadily push the reform forward.

We think that the complete overall plan of the price reform should contain mainly the following aspects:

The situation of enterprise reform. Since enterprise is the main body of commodity economic movement, the price signal should have a very strong stimulative effect on enterprise in order to bring into play the regulatory function of price and show the results of the price reform. However, since enterprises are protected by the "paternalism" and soft budgetary restraint of government organs at all levels, the price signal cannot function properly. Furthermore, under this situation, enterprises may have a positive reaction. Namely they might mobilize their supervising departments to boycott the price reform which is "unfavorable" to them. They may come up with all kinds of excuses. For instance, what do we do if we cannot fulfill the target of gross output value? What if it affects revenue? What if enterprises face bankruptcy? What if workers lose their jobs? These problems often prevent the government from making up its mind about the price reform. Therefore an indispensable prerequisite for pushing and deepening the price reform is to separate government administration from enterprise management, enable enterprises to become independent economic entities, carry out fair competition, and eliminate the bad and save the good.

The situation of market development. The market is the middle link of commodity circulation. It is also the necessary hub of assembly and redistribution of productive elements. Without a well-developed market and fairly complete market organizations and operational rules in the price reform, especially after the pricing power is delegated to lower levels, it is impossible to realize fair competition and genuinely implement the principle of eliminating the bad and saving the good. Instead, it may provide a good opportunity for profiteering, speculation, and the pursuit of illegal gains. Therefore, we must consider the situation of market development, coordination, and follow-up in pushing the price reform.

The situation of labor and wage reform. Along with the deepening of enterprise reform, labor employment, and unemployment relief systems have also been placed on

the agenda. The price reform will accelerate the development of these contradictions. If the labor employment system fails to make quick corresponding changes, "workers' adaptability" will hinder the deepening of the price reform. Judged from the broad definition of price reform, wage is the price of labor and a component part of commodity cost. So if we do not reform commodity and labor prices, it would be impossible to smooth out prices in a broad sense.

The coordination of tax system. The current tax system is very incomplete and shows great flexibility during enforcement. For instance, taxes are willfully reduced, exempted, and evaded, causing the state to lose a large part of income. (Judged from the problems exposed during the current financial, tax, and price general investigation, this part of losses may be estimated at around 10 billion yuan.) If the price reform strengthens the price lever on the one hand and relaxes the tax lever on the other, it still would not be able to have a regulatory effect on enterprises. Besides, along with price variations, new changes will occur in the interest relations between different departments and industries. If we fail to readjust tax categories and rates, happiness and suffering will be imbalanced again. All this is unfavorable to the coordinated development of the national economy.

The reform of the prices of other productive elements. The current price reform is limited only to commodity prices. As the reform deepens, the need to reform the prices of productive elements will be placed on the agenda. Without reforming the prices of productive elements, the price reform would not be thorough. After the reform of the prices of productive elements, we should readjust the prices of commodities because the production cost of commodities would be affected and the price relations of follow-up commodities would be changed. Currently the power to manage productive elements is centralized in non-price management departments. Because of this, price management departments should coordinate with other departments in charge of productive elements in studying the reform issue and pricing productive elements. For instance, at present we urgently need to solve issues concerning the price of funds (namely the interest rates of savings and loans) and the fees of land use (generally referred to as compensated use of land).

The macroeconomic regulation and control ability of the state. The state macroeconomic regulation and control target refers mainly to the balance between aggregate supply and demand. Increasing the state's macroeconomic regulation and control ability is an important condition for guaranteeing the smooth progress of the price reform. Only when the state has such ability can it adopt various means to coordinate and balance unexpected situations in the price reform.

The 10 years of price reform were 10 years of brave exploration. Although progress has been made in the reform, a certain degree of imbalance and disorder has

also occurred in economic life. But it is a setback in the process of advance, it should not shake our faith and orientation in carrying out the reform. The reform has brought life and hope to the state. As long as we are good at summing up the experience of reform, exploring the law of reform, further deepening our understanding, and carrying out improvement and rectification, we certainly will be able to make greater achievements in deepening the reform in the future and fulfill the important task of reform entrusted to us by history!

PROVINCIAL

Survey on Zhejiang Economic Readjustment
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17, 18, 19 Apr 89

[Article by Huang Guowen 7806 0948 2429, Shi Xisheng 1395 5045 3932, and Qian Yonghong 6929 3057 4767: "A Local View of Macroeconomic Regulation and Control Issues"]

[Text] *Editor's Note: In the course of improving the economic environment and rectifying the economic order, we must use "five means of control simultaneously," i.e., we must take comprehensive economic, administrative, legal, disciplinary, and ideological-political steps to carry out macroeconomic regulation and control. Our staff reporters recently conducted several surveys in Zhejiang Province on ways to carry out this policy. We are publishing a series of their findings reports in three parts for reference by readers.*

[17 Apr 89 p 1]

I. Ways To Change From Using "One Means of Control Alone" to Using "Five Means of Control Simultaneously"

[Text] How should we view the series of steps that are being taken to strengthen macroeconomic control in China? People from economic and business circles in Zhejiang Province have different views on this question. Some people think that these steps should have been taken long ago and that they are still not being taken firmly enough. Others say that using "five means of macroeconomic regulation and control simultaneously" is simply "controlling" and "blocking." But even more people have very strong doubts and ask, "Even though steps must be firmly taken to reorganize our macroeconomic regulation and control, are not the ones that are being taken now likely to reverse our reforms or stagnate our economy?" Their doubts are certainly not unrealistic.

It should be pointed out that initial successes have been won in the last few months in reorganizing Zhejiang's economy and in macroeconomic regulation and control. Credit has been controlled, investment in capital construction has been reduced, market prices have been controlled somewhat, chaos in the field of circulation has

been initially brought under control, various "commodity price wars" have been quelled, various companies are in the process of being brought under control and reorganized, and a number of both "official and private profiteers" have been investigated and punished.

But when discussing these conditions, concerned people repeatedly warned us not to rejoice too soon, because these initial successes were certainly not the result of the comprehensive use of "five means of macroeconomic regulation and control simultaneously," but were simply brought about by implementing the following strong intervention and stern administrative steps:

A. Some administrative steps controlled the chaos by cracking down on certain reform achievements and were a symptom of "a return to the old system." For instance, Zhejiang was experiencing the sharpest "silkworm cocoon price war" competition of any province. Even though tremendous efforts were made to quell this "war," they produced very little effect. Then, as soon as the state council issued an administrative order to "centralize management," the "war" was over immediately. But since then, commodity circulation that had just been stimulated was stifled again by a forest of barriers and the upsurge in the production initiative of many local silkworm growers was lost because cocoon prices were controlled.

B. Some administrative steps were too rigid, did not take the complexity of economic issues into consideration, and became obstacles to the relationship between deepening reform and rationalizing prices. Since Ningbo was opened up to the outside world fairly early, it was thought that the people were quite able to deal with price increases and that public finance was oversubsidizing prices. So plans were made to carry out price reform and deregulation in successive half-steps. But after the 3d Plenary Session of the 12th CPC Central Committee, price reform was not allowed to move ahead forcing Ningbo to suddenly change its tune. When accounts were settled and Ningbo's reform plan was not allowed to go into effect, it was estimated that public finance price subsidies in Ningbo increased from 17 million to 22 million yuan in 1988, and that 27 million yuan might not even be enough to cover them in 1989.

C. Some administrative steps were difficult to "put into operation," and their actual enforcement enabled the old mistake of "indiscriminate application" to be committed. For instance, even though it was emphasized that in controlling credit and stabilizing financing, the best should be ensured and supported while the worst should be reduced and restricted, banks reported that this was not easy to accomplish. Therefore, some banks were forced to reduce all loans regardless of enterprise quality and others even stipulated that loans would not be granted, but only recalled, for a period of time. The

result of this "indiscriminate application" was that the enterprises that had better economic efficiency and provided more effective supplies suffered more because they needed funds more.

D. In addition, some administrative steps appeared to produce quick results, but often controlled "symptoms" only and not the "root causes." For instance, of the 1,237 capital construction projects underway in Zhejiang which were stopped or postponed, the following two issues are worth emphasizing: One, some have been cut back on paper only, but not at their construction sites, and the builders are racking their brains to find counter-measures in attempts to resume construction; and two, most of these projects have not yet been "truly stopped," but only "seemingly so." That is, their funds are still on account books, their building materials are still in warehouses, and their builders have been sent away only temporarily. People are concerned that they will be resurrected one after another as soon as the "situation" eases.

How should these present administrative steps that use "one means of control alone" actually be viewed? What issues should be emphasized? Certain people from economic circles in Zhejiang have made the following suggestions: a) While it is not necessary to be too concerned about these steps, their "negative effects" should still be emphasized. It was necessary to take more coercive administrative steps that produced results more quickly in the initial phase of controlling and reorganizing the economy because "strong examples had to be set to control chaos." But if the inherent disadvantages and side effects of these coercive administrative steps are treated lightly, China's reforms and economic development might be reversed. b) The art of using "five means of control simultaneously" must be studied and genuine efforts must be made to "improve" it. Studies must be conducted to resolve the current issues of economic steps being "ineffective," legal steps being "unsuccessful," disciplinary steps being "unenforceable," and ideological-political steps being "illogical." c) Studies should be conducted on ways to coordinate the use of the five means of macroeconomic regulation and control. The present macroeconomic regulation and control method of having administrative means of control "in effect" and "the only means of control" should be changed to putting more economic and legal steps "into effect" and taking administrative, disciplinary, and ideological-political steps as a "backup." This could both resolve the problems caused by using "one means of control alone" and keep macroeconomic regulation and control from being "superficial." d) In addition, attention should be paid to overcoming the short-term disadvantages of administrative steps. Administrative steps may be able to control chaos effectively, but are generally hard to sustain. Thus, once the "time of chaos" is over, ways should be found to change administrative steps to economic or legal ones.

[18 Apr 89 p 1]

II. The Lack of "Policemen" on Duty at Intersections Where "Automatic Traffic Lights" Have Been Installed

[Text] People from economic circles in Zhejiang have pointed out the following two major defects that exist in China's present macroeconomic regulation and control mechanism: a) Some macroeconomic regulation and control consciousness is stagnant and out-of-date and steps are taken too slowly; b) there is a shortage of "executive officers" who can take the overall situation into account and take conscientious macroeconomic regulation and control steps. This is just like certain important lines of communication and intersections where, although automatic traffic lights have been installed, there are no policemen on duty to enforce them. The second of these major defects is the most dangerous. These people claim that in the present economic readjustment, it is not enough to simply demand "strict enforcement of orders and prohibitions," but that steps should be taken to correct this defect in China's macroeconomic regulation and control mechanism.

It should be pointed out that "policemen on duty" have long been provided in China's present economic management system to assume the function of enforcing macroeconomic regulation and control. They are in the local governments at all levels and relevant planning, management, and supervision departments. The pity is that most of these "policemen" are certainly not conscientiously "on duty." The most basic reason for this is that a "functional disorder" has appeared in local governments at all levels and relevant departments. They have assumed the dual function in economic construction of both having to represent the central government in intervening in the local economy by undertaking the job of macroeconomic regulation and control, while also being responsible for the job of leading and organizing the development of the local economy. Since their dual function in carrying out a "separate rice bowl" system of central and local government public finance has produced collisions and the growth of one requires the decline of the other, it has gradually tended to be regarded by microeconomic leaders and organizers as a "single function" disorder.

A. Local governments at all levels and relevant departments have been driven by speed and target proficiency assessments and "career achievement demands" to regard the job of enforcing macroeconomic regulation and control as a "flexible target" and development of the local economy as a "mandatory job." When conflicts arise between national and local economic interests, they often consciously take the part of local interests. Since township industries in Zhejiang have grown too fast in recent years, it is reasonable to say that they should be controlled macroeconomically to "cool them down." But since these township enterprises are "ready sources of money" for all counties and villages, they have been protected at all levels.

B. Local governments are sometimes unable to even fend for themselves (much less look after national interests) because of too much pressure to protect their own local "rice bowls." Even though Zhejiang is a farm province, its agriculture has sagged severely in recent years mainly because of a sharp drop in agricultural input. Some people have held that macroeconomic regulation and control should be strengthened and local public finance should reduce industrial investment and increase agricultural input. But this has been hard to accomplish because provincial finances are so tight. If industrial investment were reduced and agricultural input ensured, public finance revenues could not be increased because the financial recovery rate from agricultural input is very low, and it would be difficult for Zhejiang to even maintain its own "rice bowl."

C. Local governments have too many responsibilities and are indecisive about macroeconomic regulation and control. For instance, a comrade in the Shaoxing government spoke as follows, "Even though everyone can see the seriousness of the problem of too much investment in capital construction, who dares to reduce it? Leaving everything else aside, if capital construction were reduced, there would be no jobs in Shaoxing for some 100,000 laid-off capital construction workers alone, many of whom are children and relatives of leading cadres who cannot be offended."

This local government "functional disorder" has caused the functional departments that are responsible for the specific job of macroeconomic regulation and control, such as planning, banking, finance, taxation, and pricing, to gradually become more "locally oriented." Although some of these departments are in a position of dual leadership, their national orientation is generally one of only professional guidance while their appointment and dismissal of cadres and sources of finance are both local. Since their local "rice bowls" are under local jurisdiction, it is very hard for them to follow "Beijing's orders." A certain county leader publicly told the cadres in the tax department under his jurisdiction that, "You cannot follow 'Beijing's orders' here. I will buy a ticket for and send to Beijing anyone who wants to!" Since various departments have differing ideologies, intentions, goals, and plans, it is hard for them to take concerted macroeconomic regulation and control steps.

These people from economic circles in Zhejiang think that the most important way to establish an effective macroeconomic regulation and control mechanism will be to take steps to resolve the problem of the lack of "policemen" on duty at intersections where "automatic traffic lights" have been installed. The key will be to cure the "functional disorder" by deepening reform and rationalizing the relations between the central authorities and local subordinates. For instance, local governments should be freed from the "three-in-one job" of being the owners, managers, and administrators of the local economy through the separation of government administration from enterprise management, and their

macroeconomic control function should be emphasized; disciplinary limitations should be strengthened, and the responsibility of local governments for national interests should be clarified to resolve the problems of prohibitions that do not work and orders that are not carried out; the method of assessing the proficiency of local governments at all levels should be improved, and the local government job of enforcing macroeconomic regulation and control should be made equally important with development of the local economy and regarded as a "mandatory target." The national leadership quality of all local management and supervision departments should be improved, and higher authorities should be better coordinated, devolving more administrative authority to the lower levels so that they may occupy their "posts" of macroeconomic regulators and controllers for the central government more creatively, independently, responsibly, and authoritatively.

[19 Apr 89 p 1]

III. There Must Be "Laws for Economic Advancing or Retrenching and Easing or Tightening"

[Text] When discussing the issue of macroeconomic regulation and control with people from economic and business circles in Zhejiang, we discovered a surprising contradiction. The same people would often both show great concern that macroeconomic regulation and control was "too superficial," while frankly admitting that "they were alarmed when they heard macroeconomic regulation and control mentioned." What is the reason for this?

Certain comrades who were conducting studies on economic legislation in Zhejiang gave their opinions on this issue. They thought that one of the basic reasons why people have this contradictory attitude is that, having examined historical experiences and lessons, they are extremely concerned about the fact that China's economic principles and policies are often illegal, lack legal guidance and limitations, cannot reverse macroeconomic imbalances, sometimes causing new chaos instead, resulting in macroeconomic control being carried out improperly and being neither "tough or flexible" enough when necessary.

They pointed out that macroeconomic control of economic activity is carried out simply according to the political orientation of various times or places and is aimed at either supporting, controlling, deregulating, or tightening down on various economic activities. The crux of the matter is that all macroeconomic regulation and control principles and policies should be carried out according to law and be rational and proper. The pity is that people have never sufficiently understood or emphasized this basic requirement. For instance, some comrades have misunderstood the legality of macroeconomic regulation and control, thinking that it meant simply that the legal step of using "five means of control simultaneously" must not be overlooked, while having

absolutely no understanding of the concept that all of our macroeconomic regulation and control steps should be taken in accordance with laws and regulations. What is even worse is that they think that there is "absolutely no relationship" between economics and law.

It is reported that "having no laws for economic advancing, retrenchment, easing or tightening" is actually a serious obstruction to the normal development of China's macroeconomic regulation and control function.

Everyone reported that the worst problem is that there are no "limits" without "laws" and that macroeconomic regulation and control has always been a "gusting wind" that causes economic activity to suffer from "convulsions." A comrade from the political research office of the Zhejiang Provincial Party Committee said that approval of the national budget by the National People's Congress in China is generally a mere "formality," and its enforcement has almost never been supervised. He continued by saying that the situation is often that as soon as the higher authorities say "get going and go all out," there is uncontrolled overfulfilling of quotas and, for fear that "enthusiasm" is not "strong enough," dosing with "tonics" and "adding of fuel to the flames." Also, as soon as control is required, there is uncontrolled and indiscriminate chopping down, cutting back, and dosing with large amounts of "repressive medicines," which makes it impossible to maintain even simple reproduction. Certain economic policies are put into effect with more pronounced arbitrary decisionmaking and often reflect the will of only a very small number of officials.

Without unified legal guidance, many of the macroeconomic regulation and control policies that China draws up get "distorted," and the effects of taking distorted steps to regulate distorted economic activities are obvious. When discussing this issue, a deputy director from the Zhejiang Taxation Bureau said that the tax lever should actually be the most effective means of macroeconomic regulation and control and that many economic problems could be rationally controlled as long as this lever was used. He continued, "It is just too bad that our present tax policy can be summed up in the one word of 'chaotic.' This can be seen mainly as follows: 1) There are no reliable laws. Only three of the approximately 40 current tax collection categories have been signed into law and the rest are regulations, temporary provisions, or even trial drafts. The result of unreliable laws is frequent changes; 2) There are too many and too great policy differences."

The tax burden includes "enterprise differences," i.e., state-owned, collective, private, and foreign trade enterprises are taxed at the different rates of 40 percent, about 30 percent, 35 percent, and about 38 percent, respectively. It also includes "regional differences," i.e., the national differences of Hainan Province, special economic zones, economic development zones [EDZ], zones that are open to the outside world, and the

interior, and the intraregional differences of EDZs, high-tech zones, trade zones, and manufacturing zones. And finally it also includes "product differences," i.e., regulatory tax differences not only for heavy industry, light industry, and textile products, but also some dozen differences for textile products, such as wool, cotton, linen, silk, and high and low yarn counts. Since it is very hard for tax collection specialists to even fully understand such complicated tax collection legislation and policies, how can they be expected to play an effective role in macroeconomic regulation and control? Therefore, since the tax lever is often discovered to be ineffective and the "magic weapons" of administrative orders and "indiscriminate application" often have to be put into operation, economic development and normal enterprise operations are often infringed upon.

Macroeconomic regulation and control having no legal basis also causes many "vague points" in regulation and control and leaves those who should be taking regulation and control steps in the predicament of not knowing whether to advance, retreat, or maintain their position. They neither take a hard enough line nor dare to be flexible enough when they should. The most typical example of this concerns the issue of controlling "official profiteering." Some comrades reported that there is still no way to distinguish and clarify legislative criteria and principles on "official profiteering" and no one knows for sure the difference between normal operations and "profiteering." This has caused conflicts in the following three areas: 1) It has made the masses of people mistakenly think that "official profiteering" is running rampant throughout China, raised their hopes too high that "official profiteering" can be controlled, and has been extremely detrimental to the job of controlling corruption; 2) it has made it hard for relevant departments to know exactly what to do and let "higher-level 'official profiteers' sneak by, intermediate-level 'official profiteers' move free and unfettered, and lower-level 'official profiteers' making self-criticisms;" 3) it has severely affected the normal operations of the vast numbers of companies and enterprises. For instance, a comrade from the Hangzhou Coordination Department reported that things are getting increasingly difficult for them. He said that on one hand, they feel a responsibility to help enterprises solve the production and management problems of raw material and power shortages that they are crying about and, on the other, the "sword" of "having to control official profiteering" is hanging over their heads, making everyone very nervous and not daring to do anything.

People from business circles in Zhejiang have even more complaints about the many "unreliable laws" and "legal wrangling" that exists in the present economic readjustment. They think that the basic cause of "unreliable laws" is that legislation has suffered from too many political crackdowns and lost its authoritative nature.

Many of the people from economic and business circles in Zhejiang who we interviewed on these issues demanded that economic readjustment be "regulated

and controlled according to law." They said that it is precisely the lack of legal guidance that has caused many problems to accumulate, caused macroeconomic regulation and control to be out of control, and is forcing them into a 2-year austerity program. Moreover, they said that if this issue is not confronted and resolved in the present readjustment, it may very possibly give rise to new conflicts.

They suggested that efforts be made in the following four areas to gradually change the situation of "their being no laws for economic advancing or retrenching and easing or tightening:"

1. Legal education in economic circles should be improved. In particular, a legal consciousness must be established as quickly as possible among leading cadres of economic management departments and in the departments that are in charge of macroeconomic regulation and control.

2. Studies should be conducted to establish an economic legislation mechanism. Since economic activity is in the category of systems engineering, its legal unity should be emphasized. Solutions to the following two issues should be emphasized: First, attention must be paid to developing the roles of authoritative legislative organs, such as the National People's Congress; and, second, the problem of macroeconomic control policies "being formulated and fought over by too many sectors" must be resolved.

3. Legislative studies must be improved and their authoritative nature must be emphasized. Every macroeconomic regulation and control policy that is put into effect should be enacted into law as soon as possible. When formulating provisional regulations for those that temporarily cannot be enacted into law, special organs must study them from a legal perspective, i.e., study their legality, suitability, and even more so their possible negative effects. Moreover, attention must be paid to adapting old laws to new conditions after the present situation has been cleared up.

4. China's corps of law enforcement officers must be strengthened so that application of laws can be gradually coordinated. The quality of our present corps of law enforcement officers must be improved and our law enforcement forces must be expanded.

FINANCE, BANKING

Effective Ways To Handle Fiscal Predicament
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[Article by Liu Xiuwen 0491 0208 2429, Chen Juqi 7115 1446 1142, and Jiang Fengzhi 1203 7685 5347: "Seeking an Effective Way To Extricate Ourselves From the Financial Predicament"]

[Text] **The Predicament: Bad Operation of the Fiscal Machinery**

Production is increasing, and the economy is booming, which should mean happy days, financially. But in recent years, China has encountered a time of shrinking income and growing encumbrances. In 1987, fiscal income was only 3.8 percent more than the year before, almost 13 percentage points below the rate of increase of the GNP and of increases in commodity prices. In 1988, fiscal income increased by somewhat less than 9 percent over the preceding year, and if a deduction is made to account for commodity price increases, the fiscal income shows a declining trend in absolute value.

The financial predicament is not only caused by the size of the income, but more significantly by the ratio of income to expenditure, as manifested in expenditure exceeding income and the perennial financial deficits. Reform and development have been the main theme of the last 10 years. If we analyze the above-mentioned predicament against this larger background, we find that the true financial predicament manifests itself as a failure to effectively establish a good working mechanism for public finance. This is evident from the following aspects:

The Way of Increasing Wealth Falls Short of Expectations

To contribute its part to enterprise reform, the state favored the state-run enterprises with tax reductions, yielding larger portions of profits to them, and allowing repayment of loans before payment of taxes. The amount involved up to 1987 was over 100 billion yuan, and this resulted in a continuous decline in the proportion of profits turned over to the state. The proportion of profits withheld by the enterprises rose from 12.3 percent in 1976 to 40 percent in 1987. In 1979, the enterprises withheld only 9.6 billion yuan, but by 1987 this figure had risen to 48.9 billion yuan, an increase of over 5 times. In the course of reforming the system of central state control of all income and expenditure, reduction of taxes and yielding up profits had become unavoidable during a certain period of time. The problem was primarily that the past financial and enterprise reforms, consisting in reduction of taxes and yielding up of profits, could not be integrated with the completion and perfection of the internal operational mechanism in the enterprises, and that this aspect was even completely neglected.

In a comparison of the productivity of key elements, we see that during the Sixth 5-Year Plan, productivity of key elements increased only 0.6 percent, while it had been an increase of 3.8 percent during the First 5-Year Plan. From 1979 to 1986 China's productivity of key elements only increased at the rate of 0.9 percent, which was lower than Brazil's rate of 3.7 percent in the 1950's, the Soviet Union's rate of 1.3 percent in the 1950's, and much lower than Japan's rate of 4.5 percent in the 1960's. In 10 years, the losses of China's industrial enterprises crested twice. The first crest occurred in 1982, and we are now experiencing the second crest. Losses in 1987 amounted

to 7.6 billion yuan, which exceeded the 1982 figure, that had been 5.6 billion yuan. Losses during the first 5 months of 1988 already exceeded the losses during the whole of 1985. In macroeconomic respects, the contribution to economic growth by China's productivity amounts to only 50 percent of that in the developed countries. Whether in lateral or vertical comparisons, China's economic efficiency has not been going up, but rather going down. Taxes were reduced, profits were yielded up, and still no effective way was arrived at to increase wealth.

No Unimpeded Flow in the Way of Accumulating Wealth

In 1987, the gross output value of China's industry was 17.7 percent above that of the year before; the increase was 11.3 percent for state-run industrial enterprises and 25.7 percent for the increase of output value in other enterprises. The increase in output value of the former, the state-run enterprises, was low, but they provided more of the fiscal revenue (at present, the state's fiscal revenue comes to 75 percent from state-run enterprises). The increase in output value of the latter, the sundry nongovernment enterprises, was high, but they provided less of the state's fiscal revenue. One of the important reasons for this state of things—apart from the enjoyment of more extensive preferential treatment in taxation during the first few years—is the less than perfect distribution system, tax collection system, and accounting system. Whenever a state-run enterprise is concerned, we find many of these and similar problems. In the great financial and tax investigations of 1985, 1986, and 1987, over 50 percent of all enterprises in all the various localities were found to be misappropriating or evading taxes, to the amount of at least 10 billion yuan per year, and the trend of such malpractices was even increasing.

Considering fiscal revenue in relation to the increases in commodity prices, we would imagine that, generally speaking, circulation tax and income tax might be able to keep abreast with the increases in commodity prices, but actually, due to the influence of various factors, such as the tax system, tax policies, the tax collecting system, etc. the loss of what should have accrued to revenue is very serious. Data of recent years, computed by relevant departments, show that increased revenue because of increased commodity prices was to a large part lost among the enterprises, being offset by higher costs. A further considerable part was taken away by peasants, self-employed businessmen, and profiteers; a portion also went to the banks and enterprises, so that the treasury got very little, while much additional expenditure was incurred due to the rise in commodity prices.

Excessively Liberal Practices in the Way Financial Resources Were Used

The long-term influence of the financial system of centralized control of income and expenditure makes it difficult for the present Chinese financial system to

thoroughly differentiate between central government and local government jurisdictions. Although some improvements and advanced breakthroughs have been achieved in the last 10 years, the problem is far from being resolved. At present, the central finance organs are not only burdened with unforeseen expenditure in connection with especially large natural disasters, but also with portions of purely local expenditure, such as local city buildings, transformation of old cities, restoration of cultural relics and temples, subsidies for grain and oil crop production to be bought above procurement quotas, subsidies for industrial expenses in the border regions, etc., which item by item amount to a total expenditure remitted by the central authorities to local authorities of 20 billion yuan per year. Besides that, the central authorities also exercise the right of salary and wage adjustments, fixing the schedule of expenses for traveling on duty, and the tariff rates for various fees. Under these conditions, the central finance organs are not only unable to cope with the realities of a country as large as China, but are also causing many difficulties for implementation of the current contractual responsibility system.

On the other hand, although for many years the investments for capital constructions provided for among budgeted expenditures are a small proportion of the total expenditure of society on capital construction projects, especially since there is a declining tendency in recent years, it still constitutes a very large expenditure in the state budget, which state finance finds difficult to shoulder. Since instituting the "capital construction fund system," this expenditure has become essentially a rigid expenditure similar to regular items of budget expenditure, and as such has become difficult to eliminate. As a result, either the expenditure structure has to be changed, or money has to be borrowed or the accounts overdrawn, a situation that public finance cannot possibly allow to go on.

Confused Ways of Administering Finances. In the course of the financial reform, there was, on the one hand, a decline in fiscal revenue year after year, while fiscal expenditure was not correspondingly reduced, and deficits tended to grow. On the other hand, because the state had dumped all responsibility for the supply of circulating capital onto the banks, and furthermore, had ordered issue of investment loans, if we add in the circumstance that turnover of circulating capital slowed down, the increases in loans was much faster than growth of deposit funds. In 1985, while having only sources for 290.5 billion yuan long-term credit funds, the credits actually granted amounted to as much as 307.7 billion yuan. Under the present circumstances, when public finance is in the red, banks are in the tense situation of their expenditure exceeding income, and the two parties concerned unable to help each other out, it is either a matter of seeking a balance by retrenchment of total demand, especially by pressure on investments in capital constructions, or, hopefully, to be able to accumulate capital by a huge bond issue, so that the existing scope of

constructions can be maintained. Here there is the suspicion of a "policy of financial deficits," and this will lead to new problems as well.

As things are now, the issue of bonds would draw away all kinds of deposits and savings from the banks, and the result would be a reduction of capital sources for the banks, while they will again be unable to correspondingly reduce various kinds of their loans. Public finance will actually find it impossible to supplement this loan imbalance by the use of currency funds provided in the budget, and the only way out would be to willy-nilly issue more currency and to use more and more credit in excess of currency in circulation, to satisfy the overheated social demand. We may say that public finance accumulating huge amounts of capital while the banks hold huge amounts of outstanding loans, is actually instituting a tactic of a kind of light degree of currency inflation.

Effective Ways To Extricate Ourselves from the Predicament

1. Simplifying administrative structure, cutting down expenditure. At all times and in all countries, this has been the main expedient to solve financial difficulties. In recent years, while experiencing financial difficulties, administrative expenses, however, are still continuously inflating. Taking the Sixth 5-Year Plan as example, compared to 1981, fiscal expenditure in 1986 was 95 billion yuan higher, an average annual progressive increase of 13.9 percent. In these 95 billion yuan of new expenditure, 50 percent was taken up by expenditure for personnel. The burden of "feeding" them is getting increasingly heavier, and the fundamental reason is that financial reform could not be coordinated with a reform of the political structure. Whatever measures the government may have taken, and even though repeated injunctions ordered reduction of administrative expenses, people were unwilling to do it. Actually, when administrative organs are continuously being split up and increased, and administrative staff rapidly increases, reducing administrative expenses would have required effective and reliable measures. If there is a demand for a 20 percent reduction, the least condition would have been to reduce the administrative staff by 20 percent. Otherwise, with all commodity prices rising and the criteria for various expenditures going up, all effort to reduce administrative expenditure would be nothing but empty talk.

2. It must be made clear that the strategic objective of the structural reform of the finance administration is not decentralization of financial authority. Either centralization or decentralization must be the clear and definite strategic objective when conducting a reform of the structure of public finance. This directly relates to the choice of structural pattern, formulation of policy measures, and the distribution of state finances. According to the demands made in China's economic structural reform, the chief developmental trend of the reform is

expansion of enterprise self-determination and expansion of local financial strength. This kind of an objective demand determines that reform of public finance must be developed in the direction of a corresponding reduction of financial authority and strength at the central financial organs. However, according to the strategic objectives of China's economic development, it is necessary to ensure construction of key infrastructure projects concerning energy sources, and communications, etc., as the logistics for China's economic upswing. This realistic demand again determines the need to strengthen the regulatory and control powers of the central finance organs. Central authority financial administration must be centralized and must not be excessively decentralized.

3. The correct way of dealing with the relationship between macroeconomic regulation and control and microeconomic invigoration of the economy. The relationship between macroeconomic regulation and control and the microeconomic invigoration of the economy relates not only to the relationship between central government finance and local government finance, but also to the financial relations between the state and the enterprises. There are indeed contradictions in the distribution of financial authority between the two sides. Only by taking the interests of both sides into consideration can a harmonious development of the economy be promoted. The method of the past, when the existence and development of the enterprises was maintained at the price of tax reductions and yielding of profits, must be radically changed. For one thing, our policy must be adjusted, the pre-tax repayment of loans must be changed as soon as possible to a repayment of loans after tax, and the distribution relations between state and enterprises must be normalized as far as possible, on the basis of the contractual responsibility system. At the same time, the rigid authority of the state's tax laws and of the budget system must be strengthened, allowing all enterprises to start at the same starting line and run along the same course in their competition. For another, we must resolve, in respect of the financial structure, especially with regard to regions which turn over to the state large proportions of financial revenue, and which enjoyed much tax reduction and yielding of profits, to adopt certain contractual responsibility systems, which may possibly restrict these measures of tax reductions and yielding of profits.

The way to cope with the trend of enterprise actions taking on short-term character and accepting responsibility only for profits and not for losses, and the way to effect macroeconomic invigoration of the economy is in fact no more to be sought in reduction of taxes and yielding of profits. Deepening the reform must start out from a change of the operational mechanism. Enterprises must be enabled to increase the profits they are entitled to withhold through improved business operations and by improved efficiency. Staff and workers must increase their incomes by improving the quality of

their labor and by increasing the volume of their production. This is the only way in which the contradiction of our difficulties in public finance, on the one hand, and the need to invigorate enterprise operations, on the other hand, can be resolved.

4. Reform of the structure of public finance must be coordinated with other economic structural reforms. The three heaviest burdens now being borne by public finance are subsidies for enterprise losses, price subsidies, and import-export support in foreign trade. Although certain results have been achieved in these respects, reform of public finance is still very unsatisfactory. In recent years, price subsidies for the three items of grain, cotton, and edible oil alone have steeply increased to 30 billion yuan, to which must be added price subsidies for vegetables and other nonstaple foods supplied to the cities, subsidies that were intended to be abolished but could not be abolished; the amount is very large indeed. Public finances thus sank into the pitfall of price supports. It is necessary to integrate all these reforms and once more explore the range and scale of subsidies.

It is a common phenomenon in all countries that financial support is given to import-export trade, but the scope and methods of such support are worthwhile studying. At present, we must do away with the "eating from the big pot" phenomenon in our foreign trade system, undertake coordinated reforms, and lighten the ever increasing burden of subsidies to compensate for foreign trade losses.

5. As one of the important measures for deepening the reform of public finance and to extricate ourselves from the financial difficulties, we must complete and perfect legislation concerning public finance. The financial difficulties experienced in the course of reform and development have actually long ago been reckoned with by the central government, which has adopted many measures and employed many methods, issued a considerable number of notifications and resolutions, carried out many large-scale investigations regarding financial affairs, tax collection, and commodity prices, but has failed in the end to resolve the problem. Why? One of the main reasons is that financial work and financial reform lacked the protection of much needed effective legal provisions.

The relations of public finance are essentially relations of benefit distribution between the state, the collectives, and the citizens. Reform of public finance is essentially adjustment of interests and creation of a mechanism to deal with these interests. From whichever viewpoint we look at, what is involved here are not general economic actions and administrative actions, but legal actions. From tax collection patterns and content to main agents in the taxation process, everything has legal significance. Without the processes of law, tax relations cannot arise nor end. Tax collection itself has its very source in an activation of tax law. In the same way, the budget, which

is the fundamental plan for the state's fiscal income and expenditure, is the true plan for all government activity. It must embody the will of the state, i.e. the will of all citizens, and every item of income and expenditure in it must have been arrived at only through legal procedure. Sound and perfect financial and economic legislation is the starting point for democratic government, as it is also the effective way for deepening the reform of public finance and extricating ourselves from our financial predicament.

FOREIGN TRADE, INVESTMENT

Competitive Export Price Strategy

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[Article by Lu Manping 7120 3341 1627: "On the Application of the Low-Price Competitive Sales Strategy in the Export-Oriented Economy"]

[Text] Since the implementation of the open policy, China's export trade has made substantial development. But judging from the situation as a whole, the prices of China's export goods are generally lower than the average price level of the international market. This has a lot to do with China's pricing strategy in the export-oriented economy in addition to the fact that China's export goods are less competitive in regard to such non-price factors as quality, packaging, advertisement, service, and delivery. This article will discuss some views on the application of the low-price competitive sales strategy in the export-oriented economy.

I. Problems and Consequences of Applying the Low-Price Competitive Sales Strategy

The low-price competitive sales strategy in the export-oriented economy refers to pricing methods and various pricing standards deliberately chosen, applied, and adopted by foreign trade organizations (or enterprises) in accordance with quotations on the international market and other concrete price targets in order to make the prices of their own products lower than the general price level of the international market.

A prominent problem in the application of the low-price competitive sales strategy is that, along with the development of the export-oriented economy, the deepening of the foreign trade system reform, the separation of government functions from enterprise management in foreign trade, the expansion of decisionmaking power, and the implementation of the contracted responsibility system, some localities, departments, and enterprises proceed from their own interests, overemphasize decision-making power, and ignore the interests of the state as a whole. With each going its own way to pursue its own interests under diversified management of foreign trade, they compete with each other on the international market, vie for markets, fight among themselves, and

"benefit outsiders." This has caused serious distortion in the application of the low-price competitive sales strategy in the export-oriented economy and created a series of bad consequences.

A. The economic interests of the country as a whole have suffered tremendous losses. China's foreign trade generally uses the export of high-profit commodities to make up losses incurred by the export of money-losing commodities. The result of blindly applying the low-income competitive sales strategy is that the export situation of money-losing commodities has become worse and that the products which used to have a monopoly on high profits have been unable to display their export advantages. This is the main cause of foreign trade deficits. China's paraffin wax had always been under the unified management of the Petrochemical Import and Export Company since 1964 and its development had been very rapid. In 1981, it was switched to the multi-port management of foreign trade and sales based on the quotation of prices. As a result of the diversified management of foreign trade and the blind practice of low-price competitive sales, China's paraffin wax export was reduced by over 13,000 tons in 1981 as compared to that in 1980, and its free on board dropped on the average of \$23.6 per ton in the exports with a few varieties dropping as much as \$300 per ton, resulting in a loss of more than \$10 million. According to a report of "U.S. Metal Market Journal" on 27 February 1985, some Chinese companies sold tungsten products at prices lower than the international market price, which surprised foreign business analysts. They said that it is very hard to understand why they do this because China's tungsten export volume is the highest in the world. On the issue of the foreign trade deficit, theoretical circles used to debate over "real deficit" and "fake deficit." But no matter whether it is "real deficit" or "fake deficit." The fact that the prices of export commodities are generally lower than the average price level of the international market still constitutes the direct cause of foreign trade deficits.

B. It has exerted poor influence on the international market. The distorted application of low-price competitive sales strategy has disrupted the international market. The biggest characteristic of the modern international market is orderliness and its network. Due to the diversified management of foreign trade and the blind practice of low-price competitive sales, the same products are sold to dealers and consumers at the same price. As a result, some foreign dealers are afraid to do business with China. This has affected China's opening up and caused poor influence internationally. China's over-the-counter traditional Chinese medicine has been known at home and abroad for effectiveness, convenience, and low prices. It is popular, especially in Hong Kong, Macao, and Southeast Asia. But in recent years, due to the diversified management of foreign trade and blind competitive sales practice, over-the-counter traditional Chinese medicine was banned overseas because its quality could not be guaranteed, which has exerted extremely

bad influence. For another example, corn is a relatively sensitive commodity on the international market. We should do a good job in market organization and coordination. Japan once said, "We wish you could unify windows. High price is not a problem, but a disorganized window is." At one time, everybody in China—from provinces to counties, government organs to enterprises and institutions, even some military units, schools, literary and art organizations—were all engaged in the corn export business. This diversified approach has not only left loopholes for foreign businessmen to exploit us and prevent us from getting a good price but also caused losses to the state.

C. It has undermined the many years of marketing channels. To compete with low prices, some localities, departments, and enterprises hire any businessmen who come along as their agents and dealers and completely ignore their regular agents and dealers. Due to inadequate investigation and study of foreign businessmen and failure to update files, many incidents of fraud have occurred. Some regular agents and dealers complained that we are "killing the donkey the moment it leaves the millstone [getting rid of somebody as soon as he has done his job]."

D. It has cost us traditional overseas markets. For instance, Chinese paraffin wax in the past monopolized the Hong Kong market, accounting for 98 percent of total sales. Later, due to the diversified management of foreign trade and the blind application of the low-price competitive sales strategy, the sales volume of Chinese paraffin wax dropped from 10,000 tons annually to 2,000 tons, and its average price also dropped from the previous HK\$3,800 to HK\$2,900 per ton. In the meantime, the paraffin wax of West Germany, Japan, Indonesia, France, and Italy took the advantage and captured about 85 percent of our traditional market.

E. It has caused China's name-brand commodities to lose their reputation and markets. For instance, Chinese black-cloth rubber-soled light-weight Kung Fu shoes once enjoyed a definite reputation in the U.S. market and laid a relatively good foundation. They were sold for \$8 per pair. Some large department stores sold them for as high as \$9.99 per pair. Later, Shanghai, Tianjin, Fujian, and Hunan all exported Kung Fu shoes to the United States. Many brands such as Butterfly, Golden Deer, Shanghai, and White Dove brands competed with each other at low prices in the United States. As a result, prices dropped again and again, and yet Kung Fu shoes lost the market.

F. It has caused legal disputes and trade frictions. After World War II, protectionism in capitalist countries began to rise and has grown increasingly stronger since then. There have been vast numbers and kinds of nontariff barriers, presently reaching nearly 1,000. For instance, there are "quota restrictions," "anti-subsidy tax," "anti-dumping tax," and "minimum and starting prices." Diversified management of foreign trade and

low-price dumping often invite restrictions of nontariff barriers, cause legal disputes, and even create bilateral trade frictions. For instance, the above-mentioned black-cloth Kung Fu shoes were sued and levied "anti-dumping tax."

G. It has affected the overall balance of the national economy. China has a large territory and rich resources, but their distribution is extremely uneven. An export commodity which is profitable and needs to be vigorously developed from the viewpoint of certain localities and departments may turn out to be something urgently needed in national construction. Blind management of foreign trade and low-price competitive sales have increased the quantity of exports, reduced domestic supply, and reduced the amount of foreign exchange earnings. This is bound to affect the overall balance of the national economy, especially the balance between domestic and foreign trades.

II. Causes of Distorted Application of the Low-Price Competitive Sales Strategy

A. Under the old system, the foreign trade system was "unified," so the phenomenon of diversified management of foreign trade and blind low-price competitive sales could not occur. But along with the opening up and the reform of foreign trade system, "control, flexibility, regulation, and decontrol" have been combined, making it easy to distort the application of the low-price competitive sales strategy. Because it requires a process to genuinely establish a commodity economy system and develop from China's current foreign trade, which is similar to the free competition system of capitalism, to a situation in which economic organizations voluntarily form a new united front in foreign trade and properly and effectively apply the low-price competitive sales strategy.

B. We have failed to really control the macroeconomy and vitalize the microeconomy in the course of the reform of the foreign trade system. After years of isolation from the world, China suddenly opened up to the outside to develop the export-oriented economy. Obviously Chinese lack necessary knowledge and experience in this regard, foreign trade personnel's quality is relatively poor, and the channels of foreign trade organs to get foreign market quotations and price information are clogged. This often causes newly established foreign trade enterprises to quote their prices too low and brings about the phenomenon of decentralized policy decisions and crisscross pricing practices in regard to the prices of foreign trade commodities, resulting in the distortion of the application of the low-price competitive sales strategy.

C. Generally speaking, non-price factors of Chinese commodities, such as quality, grade, variety, packaging, decoration, payment conditions, advertisement, service,

delivery, and preferential treatment, lack competitiveness on the international market. This is why they have to resort to low-price competitive sales.

D. The structure of export commodities is irrational. At present, international market prices are weakening, especially the market prices of primary products. But most of China's export goods are primary products. Because of this, many commodities find no market at high prices. This, plus the diversified management of foreign trade, has encouraged low-price competitive sales.

E. Departmentalism and decentralism exist in operational units. Under the new economic situation, enterprises have become independent economic entities. It is easy to adopt this mentality when decisionmaking power is delegated to lower levels, making it difficult to handle the relationship between macroeconomic and microeconomic interests well. Enterprises try to outdo each other at all costs.

F. Some people believe in selling in volumes at stable prices and low-price competitive sales, having a one-sided understanding of the reform. They think they can export more and earn more foreign exchange on the international buyer's market as long as their prices are low and stable. The White Bear Brand peppermint jelly and oil made in China enjoy a good reputation on the international market. But their prices have always remained at the 1950's level, which is really a big joke considering the constantly changing foreign trade situation on the international market. In their understanding of the reform, they think that since under the new situation the monopoly of foreign trade has been changed and enterprise decision-making power has been expanded, everybody, including workers, farmers, soldiers, students, and businessmen, can all become involved in foreign trade. This has violated the division of labor and is not conducive to the conservation of social labor.

III. How To Correctly Apply the Low-Price Competitive Sales Strategy

A. Theoretical analysis of the low-price competitive sales strategy in the export-oriented economy:

1. Raising social labor productivity is the basis for applying the low-price competitive sales strategy in the export-oriented economy. Because labor productivity varies in different countries, there are differences between the individual and international value of products in different countries. Some countries have a higher labor productivity, and their commodity value is lower than the international value. For instance, Japan is a country with very scarce domestic resources. Most raw materials needed by Japanese industries are imported. Because Japan stresses raising labor productivity, it can achieve better economic returns in foreign trade. Japanese cars enter the U.S. market and make a profit even though their prices are one-fourth to one-fifth of those of

the United States. Therefore, the application of the low-price competitive sales strategy must be based on higher social labor productivity and lower production cost. This is the best choice between the general market price allowed by the international market and the low price which is low production cost plus the average profit margin of the international market.

2. The theory of comparative advantage is the basis for the low-price competitive sales strategy in the export-oriented economy.

The theory of comparative advantage is the focal point of the international trade theory as well as the theoretical basis of the international division of labor. Its emergence marked the beginning of the international trade theory and its development ran through the entire development process of the international trade theory. It has great vitality and broad guiding functions in international trade. In the pricing strategy of the export-oriented economy, we should borrow not only traditional comparative advantage theories on the international trade, namely absolute and comparative relative advantage theories, but also developed comparative advantage theories such as the principle of mutual demand, the curve of supply conditions, the supply curve, the trade equilibrium curve, the Heckscher-Ohlin theory, Samuelson-Stolper theory, (?Lie ang ti fu's [0441 2491 1912 1133]) mystery. In addition, in pricing strategy, we should pay special attention to borrowing new comparative advantage theories on the international trade such as the theories of special factors, acquisitiveness, human capital, research and development factor, technological disparity, scale economy, information factor in trade, sufficiency element, emulation curve, better income similarity, production cycle, inter- and intra-industry trade, new division of labor, and the international trade as a whole. In sum, only by borrowing and relying on the theory of comparative theory can we lay a theoretical foundation for the development of the export-oriented economy and establish a relevant strategic pricing system that meets the requirements of the development of the export-oriented economy. Only then will we be able to scientifically apply the low-price competitive sales strategy in the export-oriented economy.

3. The theory of supply price elasticity in the low-price competitive sales strategy of the export-oriented economy and the analytic base for relative quantity, capital, and profits.

Scientific application of the low-price competitive sales strategy in the export-oriented economy refers to the pricing strategy on the international market in which the sales volume of a commodity is expanded by minimizing the profit included in the unit price of the commodity in order to achieve greater or maximum gross profits. The low-price competitive sales strategy of the export-oriented economy includes the following situations: 1) When the unit price of an export commodity contains a

gross profit higher than the average profit of international market while domestic production enterprises have the potential to increase production, we may increase the supply of export goods while reducing their prices to reduce the excess profit in the unit price of export goods, increase sales, and capture the market; i.e., trying to gain better or maximum gross profits through low-price competitive sales. 2) By lowering prices to or even below the average profit level of international market, we may increase sales, speed up capital turnover, increase the efficiency of social capital use, and enable the annual capital utilization to achieve a capital return rate higher than that of the international market. 3) Unless we expect prices to pick up considerably on condition that commodities may be or can be stored, all unsalable commodities on the international market must adopt the low-price competitive sales strategy according to the principle of marketability to avoid excessive losses. In either case of the low-price competitive sales strategy, we must forecast the supply and demand elasticity of export goods on the international market. With regard to supply elasticity, when supply lacks elasticity, namely when the supply of export goods cannot increase rapidly due to the restriction of non-price conditions, we usually can conduct low-price competitive sales at a price slightly lower than the international market price. We should focus on establishing commodity reputation and capture the market preliminarily while gaining a certain amount of excess profit. When supply elasticity is greater, namely when the supply of export goods can increase rapidly, we may make output and pricing decisions according to the method of near-zero marginal excess profit and adopt the low-price competitive sales strategy. With regard to the demand elasticity, we must adopt the low-price competitive sales strategy on condition that the demand elasticity coefficient on the scope of price changes and demand curve is larger than 1. Otherwise, we will be unable to satisfy the demands for the low-price competitive sales strategy and the analysis of quantity, capital, and profit. In addition, the selection and utilization of pricing strategies in the export-oriented economy is closely related to the terms of trade. The so-called terms of trade refer to the ratio of the price index of export goods to that of import goods. In the following formula, P_e represents the price index of export goods, P_i represents the price index of import goods, and T is the terms of trade.

$$T = \frac{P_e}{P_i}$$

The change of price elasticity can be represented as:

$$T = \frac{\Delta P_e}{P_e} \div \frac{\Delta P_i}{P_i} = \frac{\Delta P_e}{\Delta P_i} \cdot \frac{P_i}{P_e}$$

It is thus clear that the terms of trade are also closely related to the elasticity of export prices. Therefore, great elasticity of export price indicates that trade terms have been improved, that it is favorable to increase exports, and that we may adopt the low-price competitive sales strategy. Otherwise, we can only adopt other pricing strategies or non-price strategies.

B. Relative measures for the scientific application of low-price competitive sales strategy in the practice of the export-oriented economy.

1. Adhere to opening up further to the outside world, develop the export-oriented economy, deepen and perfect the reform of economic system, and shorten as much as possible the transitional period in the structural reform. While carrying out the macroeconomic reform, we should focus on the restructuring of microeconomic basis centering on the reform of enterprise system to gradually form enterprise groups for the export-oriented economy and make them control the application of the low-price competitive sales strategy.

2. At present, the general trend of development of international trade system is changing from the direct-control "pyramid" type to "forest" type mechanism which protects competition and encourages coordinated management of foreign trade, horizontal structure, united operation, concerned efforts in foreign trade, sharing of risks and profits; from "extensive cultivation" to "intensive cultivation;" and from the old set of complicated international trade practices to the direction of simplification, standardization, information, and automation. China's reform of foreign trade system must follow this trend. Judged from this point, I think the system that combines industry and technology with trade and the foreign trade agent system implemented in China are all fairly good methods which have created conditions in the foreign trade system for scientifically applying the low-price competitive sales strategy in the export-oriented economy.

3. Establish chambers of commerce at home that meet the requirements of export-oriented economy. The chambers of commerce should be put in charge of formulating a foreign trade pricing plan and use it as a basis for guiding foreign trade organizations in inquiring about, quoting, counter-bidding, and accepting prices, thus forming a pricing strategy in the export-oriented economy and enabling the application of the low-price competitive sales strategy to become more scientific.

4. Further develop the export-oriented economy, absorb and use foreign investment, and gradually establish and develop China's "multinational corporations" to protect overseas markets. We should pay equal attention to imports and investment. By so doing we can avoid the restrictions of some tariff barriers and protect and open up overseas markets, thereby avoiding inappropriately and blindly applying the low-price competitive sales strategy to seize and protect overseas markets.

5. We should intensify the study of foreign anti-dumping laws if we want to develop the export-oriented economy and apply the low-price competitive sales strategy. Many questions concerning the pricing strategy of the dumping range of countries not practicing the market economy are worth studying. In the past, due to our lack of experience and ineffective measures, we lost many cases which could have been won. We should intensify the study of foreign bills and strive to avoid being sued against the anti-dumping law when we use the low-price competitive sales strategy. Or when we are being sued, we should try to get a ruling that is favorable to us according to legal procedures. At the same time, we should strengthen the ties and coordination between export departments and arrange well especially the order of time and place of export commodities so that the time and place of delivery will not be too concentrated.

6. Correctly understand and apply different forms of prices related to the low-price competitive sales strategy such as dumping, competitive, or attractive prices. Dumping price is a monopolized organization of one country that beats competitors and seizes the overseas market with a price much lower than the international market price level or even lower than the price of production cost and then raises the price to get a much higher profit to make up previous losses and make extra earnings. Competitive or attractive prices refer to the prices of export goods which are lowered slightly below the international market price level to increase competitiveness and appeal when export goods face foreign competitors, especially in the competition of monopolized commodity. When we apply these two forms of price, we must pay attention to the following points. First, we should use it in a flexible manner in accordance with the trend of international trade and the movement of the international market. We should not consider it as the only and definitive competitive pricing strategy. Second, we must let several or a certain enterprise take care of it under the coordination and supplementary guidance of the state.

Finally, we should point out that the current international economic relations are getting increasingly complex. Judged from the development of international trade, inter-industry trade accounts for only a third of total world trade, and intra-industry trade accounts for two thirds. From now on, the ratio of intra-industry trade such as U.S and Japanese trade, will increase continuously, and protectionism will also worsen as each day passes. The effect of non-tariff barrier on prices is increasing daily. Under this situation, since China is such a large country that started late in practicing the export-oriented economy, lacks experience, and has relatively great gaps between different levels, the effect of any simple pricing strategy will be weak in the export-oriented economy, not to mention that its effect is restricted by many domestic and foreign factors. Therefore, we should intensify the study of the pricing strategy of the export-oriented economy, start from the study of pricing strategy of each and every product, gradually

establish a strategic pricing system of the export-oriented economy, and implement it in a coordinated and comprehensive manner in practice.

Guarantee System for Loans To Foreign Trade Enterprises

40060630a Beijing JINRONG SHIBAO in Chinese
7 Jun 89 p 1

[Article by Zhang Yizhi 1728 0076 0662: "A Guarantee System Must Be Set Up for Loans to Foreign Trade Enterprises"]

[Text] Foreign trade enterprises now use over 100 billion yuan more in loans every year, but own little more than 2 percent of their operating funds, far less than average for other industries throughout China. This not only increases the financial burden of the Bank of China [BOC] but, since there are no credit guarantees, also makes enterprise risks, bank credit risks, and the security guarantees for the huge amount of credit funds very poor. This makes it impossible for creditors to either transfer their credit risks, because they are always facing the possibility of bad debts, or to guarantee the security of their credit capital. From another perspective, since there are no loan guarantees and foreign trade enterprises are under very little pressure, they include as many losses (that they sustain from operating problems) in costs as they can, and owe the rest to banks, which turns short-term loans into long-term ones. This not only increases irrational use of credit funds and worsens their shortages, but also raises operating costs of foreign trade enterprises, increases their losses, lowers their profits, and is unfavorable to improving their business accounting, management, and administration.

In order to guarantee the security of credit capital, decentralize bank risks, and internationalize the BOC's credit operations, while spurring foreign trade enterprises to improve their sense of operating responsibility and take risks, a full guarantee system should be put into effect for circulating fund loans to foreign trade enterprises. The following conditions already exist for putting loan guarantees into effect: 1) China's legal system is being gradually perfected. The promulgation of laws and decrees, such as "The General Rules of PRC Civil Law," "The PRC Economic Contract Law," and "The PRC Provisional Regulations on Notarization," have provided legal guarantees for setting up and perfecting a loan guarantee system; 2) foreign trade enterprises are quite experienced in both international market operating strategy and domestic market operating guidance and, as far as their economic strength is concerned, are capable of taking risks; 3) the BOC is both China's special bank and also its commercial bank. As China's special bank, it is dutybound to support foreign trade and, as China's commercial bank, it must earn profits to invest in China's "four modernizations." In order to safeguard its

rights and interests and guarantee that its credit funds are used correctly, the BOC has the authority to take steps that are favorable to the security of its credit capital.

I think that credit guarantees can be based on the actual present conditions and credit fund risk levels of foreign trade enterprises and take the two forms of loan guarantees and mortgage guarantees. Either one or both of these forms could be adopted. Loan guarantees could be enforced according to relevant Supreme People's Court provisions, and guaranteees should be incorporated enterprises or other economic institutions that are able to repay defaulted loans. Mortgages could be guaranteed by convertible assets, such as real estate, goods in stock, recallable funds, or negotiable certificates. Mortgage guarantees would have to be notarized by local notarization departments, covered by property insurance, and have possession of rights and interests transferred to the BOC.

New Measures Taken To Develop Silk Production
40060652b Xian SHAANXI RIBAO in Chinese
23 May 89 p 1

[Article by Hao Li 6787 0448: "Provincial Government Takes New Measures To Develop Silk Production"]

[Text] This reporter has learned during the recently concluded working conference on provincial silk production that the provincial government will adopt a series of new policies aimed at supporting silk production in order to enable Shaanxi Province's silk industry to rise once again to a new level.

—Due to the diligence of various sectors, Shaanxi Province exhibited a healthy trend toward even increases of silk cocoon purchases and foreign exchange-earning exports. However, the chaos of the "Great Silk Cocoon War" was still not avoided in Shaanxi, and it created chaos in the economic order. In order to avoid a repetition of the "Great Silk Cocoon War" and enable the silk industry to achieve stable development, vice-governor Xu Shanlin [1776 1472 2651] announced during the conference a series of policies that the provincial government is going to adopt.

—Beginning in 1989, the Provincial Commission of Economics and Trade will take 1.5 million yuan every year earned through the export of silk cloth and use it to support silk production

—Four percent of the total profits earned every year through the sale of silk cocoons will be taken and used for technological improvements. It will be used primarily for silk technology training, cultivation of improved varieties, development of new technologies, and scientific research of silk varieties.

—The production obligations and purchase quantities of 1988 will serve as the base figures for counties which primarily produce silk, and these base figures will definitely not change for 3 years. Excess production will be split up at a 4:6 ratio between the provincial government and the silk-producing county.

—Silk cocoon purchases and exports will be under the unified operation and management of the provincial silk company. Silk products and semi-finished silk cloth will be subject to unified purchasing, planning, and allocation by branch offices of the export department located in the producer's area. Other departments may not become involved.

During his speech, Xu Shanlin also called on public security, supervisory, and industrial and commercial administrative and managerial organs to step up their investigative work, and to deal as the law requires with those who break the law by purchasing silk cocoons across district boundaries, recklessly offering non-price compensation, and covertly jacking up prices. At the same time, in the future no locality or department may carry out unauthorized increases of silk production capacity.

Key Issues Pertaining to GATT Reentry
40060630b Shanghai SHIJIE JINGJI DAOBAO in Chinese
8 May 89 p 12

[Article by Ye Yi 0673 5669: "Key Issues Pertaining to China's GATT Reentry; It is a Task of Top Priority for China To Thoroughly Study Certain Key Issues and Take Appropriate Steps To Speed Up Its Reentry to the GATT"]

[Text] The government of the PRC formally applied for restoration of China's rightful seat in the GATT in July 1986. After almost 3 years of repeated bilateral consultations, the GATT finished its assessment of the relevant Chinese trade regulations in China's membership application on 22 April 1989, and formal talks on China's reentry to the GATT were scheduled to begin in July 1989. China must make it a task of top priority to thoroughly study certain key issues and take appropriate steps to speed up its reentry to the GATT.

Most of the members states at the GATT meeting that was held in Geneva in April 1989 warmly welcomed China's reentry application. But the United States, the EC, and certain other industrialized countries still had doubts about China's development of a commodity economy and reservations about its dual price and import control systems. It is true that China's present foreign economic relations and trade system still contains some inconsistencies with GATT principles. The major ones are that China's price system is imperfect, we still have quite a few import and export subsidies, and our foreign exchange reserve method and exchange rates are irrational. But in comparison to a decade ago, key changes have occurred in China's economic situation.

China's present foreign economic relations and trade system is a mixed economy in a special form that combines market forces and planning. Only 12.5 percent of China's gross value of industrial output and one-fourth of our foreign trade was controlled by directive planning in 1986, and market forces will be playing an increasingly greater role in our economy along with the deepening of economic reform. China is also increasingly conducting its foreign economics and trade according to current international practices. In 1984, we issued a customs law, began to regard tariffs as an important means of protecting and promoting trade, and joined the customs cooperation council. China is now gradually meeting the conditions to recover its GATT seat through tariff reductions and concessions.

Since China's economy is still characterized by planning, we continue to encounter the same problems in recovering our GATT signatory status that other countries with planned economies generally have, such as the transparency of optional safeguard provisions, discriminatory quantitative restrictions, and trade regulations. Some of the participants in the recent GATT deliberations held in Shanghai thought that China could consider accepting optional safeguard provisions, but that they would definitely have to be optional for both sides. Thus, if certain countries abused them, China could take legal steps to retaliate. Some of the participants in the recent GATT deliberations in Shanghai thought that the same method could be used to accept discriminatory quantitative restrictions, while stipulating that they should be gradually eliminated, along with setting a deadline for completely eliminating them, in line with China's deepening reform.

The problems that China is experiencing in negotiations to recover its GATT seat are caused, on one hand, by the issue of our foreign economic relations and trade system and on the other, by certain developed signatory states taking advantage of China's state as a large, developing country, enabling them to gain the greatest benefits. Many countries have acknowledged through bilateral trade agreements that China is a developing country. Thus, when restoring China's seat, the GATT should legally acknowledge that China is a developing country and that United States, as a signatory state, should also agree to deal with China on a generally preferential basis.

When China is able to reenter the GATT will depend on the wishes of the other signatory states as well as the outcome of the bilateral talks on key issues in July. Shen Jueren [3088 6030 0086], vice minister of Ministry on Foreign Economic Relations and Trade, is optimistic about China's reentry to the GATT. He said at the GATT deliberations in Shanghai that the issue of China's internal principles is expected to be settled by the end of 1989 and the outcome of the talks on key technicalities will be known by the beginning of 1990.

Preventing Decrease in Shanghai Textile Production

40060652a Shanghai JIEFANG RIBAO
in Chinese 18 May 89 p 1

[Article by Ding Xun 0002 6598: "How To Prevent Decreases in Shanghai Textile Production, Exports Mayor, Bureau Heads, Factory Managers Discuss Measures; Zhu Rongji Emphasizes Strict Labor Discipline, Hard Work To Achieve Technological Advances, Expansion of International Markets."]

[Text] How can a decrease in production and exports in Shanghai's textiles be prevented? The Municipal Textile Industry Bureau has been conducting round-table discussions since the twelfth of this month with factory managers from all large and medium-size textile enterprises in order to jointly discuss how to strengthen Shanghai's textile industry this year.

Shanghai's Mayor Zhu Rongji [2612 3579 1015], Vice-Mayors Huang Ju [7806 5468], Gu Chuanxun [7357 0278 6064], Liu Zhenyuan [0491 2182 0337] and Zhuang Xiaotian [8369 2556 1131], Municipal People's Congress Standing Committee vice-director Wang Chongji [3769 1504 1015], Municipal General Labor Union Chairman Jiang Rong [3068 5554], and leading comrades from concerned administrative committees, comprehensive departments, and banks, attended the meeting to listen to the viewpoints of 105 factory managers and discuss together methods of strengthening Shanghai's textile industry.

From January through April of this year, Shanghai's textile exports decreased by more than 10 percent over the same period of the previous year. During the 3-day roundtable discussion, the factory directors delivered the analysis that serious problems connected with energy, finances and raw materials have been the primary causes of slipping production and exports this year. In addition, the factory managers also discussed their views and requests concerning a series of contradictions and difficulties encountered in the process of implementing the export agent system.

After hearing the views of the factory managers, Mayor Zhu Rongji stated that the success of the textile industry, which accounts for 40 percent of the city's exports, in increasing its production and exports, is very important to the economic development of Shanghai. He stated that the most important thing at this point is to bring the initiative of staff and workers into play. Their enthusiasm must be aroused, and they must set about their work earnestly. First, there must be strict labor discipline, and scientific management must be strengthened. Enterprise leaders must do a good job with thought and political work. They must bolster the confidence of staff and workers in socialist reconstruction and the revitalization of Shanghai. The awarding of bonuses must be linked to work attendance in order to reinforce the awareness that the interests of the workers are the same as those of the

enterprises. Second, the task of technological improvement must be taken well in hand, and rational reconstruction activities must be promoted vigorously. There must be a factory manager in each enterprise in charge of technological improvement, and workers' unions at all levels must actively encourage staff and employees to make small improvements and innovations. Third, ways to expand international markets must be studied, and the product mix must be actively adjusted. Product variety and quality must be improved, and goods must not be delivered late, in order to increase competitiveness. Lastly, Mayor Zhu Rongji emphasized that our understanding of the integration of industry and trade, the dual-track contract system, and the implementation of the export agent system, must be unified. He said that this policy was arrived at through careful study, and is based on actual implementation of last year's integration of industry and trade. It is in accordance with the export system reforms. At the same time, it takes planned steps to weather the crisis, and the measures are reliable and appropriate. Therefore, it must be energetically carried out, and confidence must not waver. He requested that all comprehensive departments formulate realistic and feasible plans for solution of the textile industry's problems within a definite time period.

During the round-table discussion, every concerned department listened to opinions and discussed how to solve the problems. Seven measures to solve the difficulties currently facing Shanghai's textile industry were adopted at the municipal government's administrative conference of May 16. These measures include: the guarantee of coal and power supplies and the raising of power consumption quotas; supply of 500 million yuan by the People's Bank of China for the specific purpose of settling problems between industry and export enterprises involving undelivered goods and funds; completion of the dual track contract system and implementation of target wages. If target wages are exceeded, 0.8 percent of excess wages will be taken away for every percentage point in excess wages. Those enterprises which do not complete the dual-track enterprise system, or cannot implement the target wage system, will have 10 percent of their wages taken away.

In order to better carry out the spirit of this conference, the municipal textile industry bureau called a conference for all the cadres in the entire bureau and carried out an urgent mobilization. They called for the staff and workers throughout the bureau to brace their spirits in order to prevent slippage in production and exports and thoroughly carry out the "double increase, double economy" policy, so that the task concerning export and foreign exchange-earning can be completed.

Greater Use of World Bank Loans Urged

40060552 Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 27 Mar 89 pp 36-39

[Article by Shi Zhaokui 4258 0664 1145: "China Should Make Greater Use of World Bank Loans"]

[Text] World Bank loans are loans of funds for construction on favorable terms. Differing from commercial

loans in international financial markets and loans from foreign governments, loans from the World Bank offer such advantages as low interest rates, long time limits and few added conditions. Therefore, the various nations making use of World Bank loans have all along maintained a clearly competitive posture. I believe that the vigorous introduction and utilization of World Bank loans has become an important means for resolving China's capital shortage problem.

Achievements and Problems

Since China was restored to its legitimate seat on the World Bank in May, 1980, it has definitely progressed in the introduction and use of World Bank loans. According to statistics, at the end of the World Bank's 1987 fiscal year (the Bank's fiscal year runs from 1 July to 30 June, and will be the same below), the bank turned over intangible and tangible loans to China for 52 projects, a funding volume of \$5.5755 billion. This has produced positive benefits and use for the development of China's national economy, by accelerating the development of China's agricultural, natural resources, transportation and communications industries, and our cultural, educational, health care, research and development efforts, and the development of municipal construction.

However, China's share of World Bank loans has been smaller than that of other recipient countries, and much smaller than that of nations such as India and Brazil. By the end of 1987, the World Bank had extended loans to its member states amounting to \$183,594.5 billion. The chart that follows illustrates the distribution of loans to those countries receiving more than \$3.5 billion.

Debt Situation of World Bank's Large Scale Debtor Countries

Unit: \$100 million

No	Country	Projects	Amount	Share
1	India	119	274.237	14.88
2	Brazil	162	143.461	7.81
3	Indonesia	165	111.127	6.05
4	Mexico	102	104.961	5.72
5	Turkey	99	82.443	4.49
6	South Korea	90	67.418	3.67
7	Colombia	117	57.509	3.13
8	China	52	55.755	3.04
9	Philippines	102	49.309	2.69
10	Yugoslavia*	83	47.367	2.58
11	Bangladesh*	113	41.037	2.24
12	Morocco	79	38.840	2.12
13	Thailand	92	38.177	2.08
14	Egypt	71	38.015	2.07
15	Nigeria	66	36.701	2.00
16	Argentina	32	36.078	1.97

Note: * Indicates unstructured, soft loans; share column indicates each nation's proportion of the total volume of World Bank loans. (Source of data: World Bank 1987 Annual Report.)

Especially in the 7 years since China was restored to its legal seat on the World Bank, India has obtained World Bank loans for more than 95 projects, in the amount of \$16.2699 billion, which is 15.7 percent of the total volume of World Bank loans during that period. Brazil has borrowed \$9.0234 billion, Indonesia \$7.2249 billion, Mexico and Turkey \$6.3825 and \$5.6584 billion respectively. All of these were higher than China.

China's efficiency in the utilization of World Bank loans has been much lower than what the bank would like. After China was restored to its legal seat on the World Bank, officials of the bank indicated that in order to subsidize the pace of China's reform and opening up, and accomplish China's objectives by the end of this century, they would expand China's loan share. At that time the World Bank's tentative idea was that during the 5-year period of 1982 through 1986, the bank would furnish China \$6.4 billion in loans, with its soft and hard loans arranged as follows: the \$6.4 billion would be in hard loans, but there would be another \$3 billion in soft loans. However, most regrettably, when carried out, the results were far from what the bank had planned. Actually, during this 5-year period, China reached agreement with the World Bank on only 39 projects with loans amounting to \$3.8328 billion, barely accomplishing 40.77 percent of what the World Bank had intended, less than one-half. It was very clear that those funds that China could have used had flowed to other nations through competition.

This unsuitable situation showed that in China's use of World Bank loans there was a huge gap between other recipient nations and China. There are two important specifics to note. The first is that projects cannot come up to standards. China's established loan procedure initially was for grassroots units and national departments or commissions to make application, obtaining project proposal documents, submitting the proposal for State Council examination and approval after obtaining agreement from the State Planning Commission, and finally making application to the World Bank after agreement by the Ministry of Finance. After the World Bank has made an initial decision based on its study of the application, it will dispatch a group to study or appraise the project, then write a feasibility report which is submitted to the World Bank's managing directors for approval. The problem lies in the fact that the number of project applications that China can submit each year to the bank was small originally, with few options to choose from; added to this is the fact that China's appraisal methods and feasibility for the projects it submitted were somewhat inappropriate. For example, in price-setting analysis, the World Bank opted for the method of long-term limited cost analysis, while China for the most part used average cost analysis. The result always was to create a considerable disparity between conclusions concerning the same project, which led to a low passing rate for Chinese projects. The second is the unitary nature of loan types. In addition to project loans, the World Bank also has other types of loans, such as departmental

adjustment loans, structural adjustment loans and emergency loans. Up to now, China's usage of World Bank loans has gone no further than project loans, while the governments of other nations have acquired from the World Bank special subsidies for structural adjustment and economic reform. China has still not set foot in those areas, has not yet made a start on using these other types of loans. This has also limited China in expanding the scale of World Bank loans it acquires.

In order to change this backward situation, the World Bank has pressed its hope that China will expand the scale of its borrowing. Last March in Washington, the manager of the bank's China office, Boergi [0130 1422 1015], called upon China to raise the scale of its loans from the present level to \$5 billion annually. Barber Conable, President of the World Bank, while on a visit to China last March met with Premier Li Peng, disclosed that the bank would expand its aid to and cooperation with China, providing China with loans amounting to \$12 billion during the 5-year period from 1988 until 1992. His thinking is clear: In recent years the World Bank has opened wide the gate for China, but we have been rather halting in walking through it, developing sluggishly, our volume not attaining what the bank had anticipated, and far from catching up to the level of such other receiving nations as India. Moreover, the developmental situation all along has hinged upon what kind of strategy China has chosen for attracting funds, and the manner in which it is implemented. We know that China should formulate its own goals and plans for attracting funds, and our long range plan is to choose a strategy for attracting investment which will add even more positive benefits. Especially in the next several years, China not only should carry out the World Bank's proposed model of \$12 billion, we should act according to our own calculations and comparisons with foreign nations. That way, in case we learn from our developmental strategy that it is sufficiently compatible with the work of the various projects, we could implement a target of \$16 billion. However, even if this does come about, a comparison of China with India will show that there still exists a considerable gap.

Policies and Recommendations

A. Heighten awareness and mastery of current favorable opportunities. China is a large country with low income, and in the course of its industrialization and modernization is faced with such sharp contradictions as an expanding economy, a shortage of funds and stable prices. Its usage of funds loaned by the World Bank is doubtless of the utmost significance. Another aspect is that the focus of the World Bank loans is on developing China, and the bank's International Development Association soft loans are limited only to low income nations. According to China's goals for social and economic development, by the year 2000 the nation will have a per capita income of \$800, which will place China in the category of middle income nations. According to the World Bank's stipulations, middle income nations are

not eligible to obtain Development Association soft loans. In the period from now until the year 2000 we are in the process of moving from the status of a low income nation to that of a middle income nation. Therefore this is our last opportunity to make use of World Bank soft loans. We know that China should carry out the self-examination needed to obtain and use World Bank loans, again recognizing the bank's urgings. To heighten awareness of World Bank loans, we should, above all, not miss the great opportunity we have now. The period from 1988 to 1992 is of critical importance. We maintain China should make use of World Bank loans as much as possible, especially its Development Association soft loans, in order to accelerate the pace of China's developmental reform and economic expansion.

B. Establish a specialized organization to set up a new loan order. World Bank loans are extended only to governments or require governmental guarantees. In China, the Ministry of Finance performs this function. However, we still lack an authoritative specialized organization to carry out the unified leadership and coordinated program for obtaining and using World Bank loans. Therefore, in order to be more effective in usage of World Bank loans, we realize that a new system environment should be set up, with either the State Council or the State Planning Commission establishing a specialized organization for handling World Bank loans, representing the State Council in the unified direction and coordination work related to World Bank loans. This will be in order to strengthen everyday consultation and cooperation with the World Bank, and recommend policies for obtaining and using World Bank loans. In addition to what it does now—submitting projects to higher levels for examination and approval—this handling organization will also, beginning with the development of the overall national economy and macroeconomic equilibrium, stipulate China's objectives in obtaining World Bank loans for the short- medium-, and long-term, and specific implementation measures. It will submit its views of direction and purpose of projects to the departments of the State Council and localities at various levels which use World Bank loans. According to China's developmental situation, it will lay out a long-term loan project list. It will make application to the World Bank according to projects' order of precedence, while providing consultative service for projects' proof and appraisal. We hope that establishing such an authoritative specialized organization will be beneficial in raising our efficiency in using World Bank loans, while also raising the transparency of those loans.

C. Pay attention to controlling the focal points of World Bank loans, and resolve project bottlenecks and industrial funding requirements in our national economic development strategy. The World Bank has a different loan focus for differing stages of development. A changing trend in the 1980s has been: assisting with projects bottlenecks in national economic development strategies and industry, vigorous striving to raise the production rate and thereby raising the subsidies for those projects

that raise the standard of living of the poorest urban and rural areas; a rapid increase in loans for agriculture and rural areas; and an increase in loans for education. Besides these, there has also been an increase in loans for such areas as population, municipal construction, and tourism. China should regularly pay attention to mastering the intention of the focal points of World Bank loans, constantly choosing new countermeasures, making proposed projects not only a part of what is urgently needed for China's economic construction, contributing to developing the national economy more rapidly, but also conforming to the demands of the World Bank, sufficient to fulfilling the requirements and interests of both sides.

D. Learn from India's experience and provide some understanding of the guiding principles behind World Bank loans. A very important reason for India's becoming the largest recipient of World Bank loans has been that country's comprehension and respect for the management and guiding principles behind World Bank loans. In the 1950s through 1970s, India obtained loans of the maximum limit from the World Bank. However, after 1980, due to the loan requirements of such impoverished nations as Africa and Bangladesh, India's favorable position was challenged, and the World Bank had no choice but to decrease India's share of the soft loans from 40 percent to 20 percent. However, in the past few years India has still been able to maintain overwhelming superiority, becoming the World Bank's largest recipient. Key to this has been India's willingness to accept the World Bank's suggestions for a process which emphasizes loans and economic regulation. India has implemented a policy of openness, vigorously developed its natural resources, expanded its exports, loosened up on imports and expanded its limits on private monopoly capital and foreign exchange. For example, only the natural resource department could receive large loans, and from 1980 to 1987 loans for electric power alone amounted to \$5.33 billion, virtually the same as our total borrowing. Naturally, when the Indian Government had any unreasonable suggestions from the World Bank, they did not immediately adapt to these, so there were many projects and topics over which they locked horns. However, they realized that the great majority of the bank's suggestions were the product of serious investigative research, and were in accord with India's national characteristics. The Indian side realized that it is "unreasonable to oppose World Bank appraisal of plans and policies of the Indian government, just as it is unreasonable for the Indian government to be suspicious of sincere advice offered by the World Bank." Therefore, the Indian government gave complete understanding to all opinions and suggestions from the World Bank, and after serious study, adopted a positive attitude. We know that this experience is worth China's emulating.

E. Emphasize using adjusted loans to more deeply reform China's economic system and adjust the structure of the economy. The World Bank grants its loans along different lines, which can be classified as loans for

support of investment, departmental adjustment loans, fiscal intermediary loans, structural adjustment loans, technological assistance loans and loans for critical reconstruction. The structural and departmental adjustment loans are called rapid appropriation adjustment loans. For a long time, the World Bank has realized that the typical project loan is relevant to only one separate department; if they wish to exert pressure on all departments of a nation and their structure, then there must be some restrictions. As for the important matters of setting out price setting policies to advance adjustment of the economy's structure and implementing reform of foreign trade policies, it is impossible to resolve these through project loans. Therefore, since 1980, the World Bank has begun to subsidize borrowing nations in implementing adjustment of their macroeconomic structures and their departmental adjustment programs. Structural adjustment loans and departmental adjustment loans have proven to be important tools for the World Bank in supporting programs of overall economic reform. In recent years nations using adjustment loans have grown steadily stronger, while there has been a sharp rise in the proportion that these loans have constituted in the yearly total of World Bank loans. In 1981, adjustment loans were only 6.9 percent of the total granted by the World Bank in that year; this had risen to 18.99 percent by 1986, and to 23.3 percent in 1987. China is now in a period of totally reforming its agriculture and industry, investment, prices, foreign exchange, finance, trade, goods and materials, and circulation. The World Bank has made a preliminary decision to grant China \$300 million in adjustment loans for agriculture and industry, to aid in advancing our rural areas to the second stage of reform. It appears in general that China should expand the space of its World Bank borrowing, utilizing adjustment loans to the fullest to make China's economic structure more rational, give impetus to reform of the overall economic system and implement the coastal development strategy.

If World Bank loans are going to flow continuously into China, we realize that it is of the utmost importance we establish and develop a group of officials and experts skilled in dealing with the World Bank, with all levels from central to local having this kind of specialized contingent. China's present manpower in this aspect is at two extremes, while those personnel who understand business and technology as well as foreign languages are generally in short supply. In order to create this sort of specialized contingent, a series of measures for encouraging them is needed, as well as a process for developing them.

ECONOMIC ZONES

Rural Surplus Labor Migration Problem

40060582 Beijing RENKOU YANJIU [POPULATION RESEARCH] in Chinese No 2, 29 Mar 89 pp 28-30

[Article by Chen Bing 7115 0393, Work Unit, Editorial Department, ZHONGGUO TONGJI XINXI BAO [CHINA STATISTICAL INFORMATION]: "Rural Surplus Labor Migration Problem"]

[Text] In 1986, and particularly since 1987, there has been a clear slow-down of rural surplus labor migrating to nonagricultural jobs, although in some provinces and

regions the agricultural labor force is acting to the contrary. We must pay attention to this trend.

I. Migrating Trend

According to data from some provinces, at present migrating rural surplus labor faces a severe test. In 1987, the number of nonagricultural laborers returning to agricultural jobs accounted for 10 percent of those headed in the opposite direction. The situation has affected different economic sectors.

Statistics from a Hubei province sample rural investigation team indicate that the pace of rural labor migration rose markedly in 1985. The number of labors existing agricultural jobs was 1.04 million that year, dropping the percentage of those in the primary industry to 74.95 percent. After 1986, the speed of migration of agricultural labor in the province suddenly slowed down. A study of 72 counties, 216 villages, and 147,000 agricultural labors in Hubei shows that in 1987 the percentage of primary industry labor returned to 80.81 percent, an increase of 6.26 percentage points over 1986. The increase in the proportion of primary industry labor on the one hand is due to the continued rise in the percentage of the labor force in the planting and growing industry, to 65.82 percent or a 1.7 percent increase over the previous year, and on the other hand to increases in the animal husbandry labor force which rose to 12.28 percent or 3.9 percent over the previous year. At the same time, the percentage of secondary industry labor fell from 12.63 percent in 1986 to 10.40 percent, the first notable drop in recent years, among which the relatively largest drop was in rural industry. Compared to the previous year, the drop was 2.9 percent. In 1986 tertiary industry labor showed a relatively large drop. In 1987 the level of 1986 was maintained, at 8.79 percent. However, only commerce, transport, and service industries among the tertiary sector rose, while there was a falling trend in the employment picture for other industries such as education, sanitation, research, and finance, which fell from 1.87 percent in 1986 to 1.41 percent.

The results of a sample survey by the Sichuan Province statistical department likewise indicated that the pace of rural surplus labor migration slowed over the past 2 years. At present, it is difficult for a certain portion of surplus labor to migrate. Migrant labor only accounts for 7.44 percent of total agricultural labor and in 1987 the increase rate was up only 1.36 percent over 1986. Among the 50,027 laborers surveyed, during 1987, 585 people left the rural secondary and tertiary industries for agriculture, or 20.4 percent of the total labor force entering the secondary and tertiary industries.

The situation regarding Sichuan agricultural labor moving into nonagricultural industries is still unstable. The majority of migrant laborers still have not quit the land. Their work is part industry, part agriculture, or part commerce, part agriculture. According to a survey of eight counties, 16 rural groups, 808 households, and

3,345 people in Sichuan undertaken by the state statistical bureau and the Sichuan Province population study office, among those surveyed, 487 people or 23.72 percent of the total labor force (2,053 people) left agricultural jobs. Some 138 people or 28.34 percent migrated to towns and 118 people or 24.23 percent moved to cities, for a total of 52.27 percent. Another 231 people or 47.43 percent stayed in villages. However, if analyzed in terms of their relationship to the land, only 11 people left the land and contracted it out for cultivation; this is only two percent of the migrant force. There were only 18 mu of transferred land, or 0.6 percent of the contracted cultivated area. The large majority of rural surplus labor still are attached to the land. Because there is a "surplus" they have not flown away. The results of the survey also indicate that in the 3-year period 1984-86, the consolidated rate of migrant labor was only 65 percent, and only 35 percent considering those who returned to agricultural production due to bankruptcy of industries, work stoppage, or completed project contracts.

Coastal Zhejiang Province also provided similar data. In 1987, the growth rate of the province's rural labor in the secondary and tertiary industries was likewise notably slow. In that year 9.8641 million people engaged in planting and growing, 255,900 fewer people or 2.52 percent less than in 1986. Compared to 1985, the drop was 6.9 percent.

Initial nationwide and provincial results of sample surveys indicate that the process of rural surplus labor migration has the following characteristics:

1. The surplus ratio of China's agricultural labor is still comparatively high. In 1987, it was 12.94 percent in Zhejiang province. There was an average of more than one surplus person per household in Sichuan. The surplus ratio was 13.1 percent in Shandong.
2. There is an unstable migrating trend of surplus agricultural labor. In 1985 it grew rather quickly but has obviously slowed in the past 2 years.
3. The scale of migration is closely related to educational make up. According to a survey by the state statistical bureau, the percentage of migrating labor with a junior high school education was comparatively large, at 55.5 percent, while those with specialized training only accounted for 19 percent. Considered in terms of the relationship between education and migration, on the one hand, there is a positive ratio between migration and education: 9.2 among 100 laborers with more than a senior high school education migrate; 8.3 among 100 with a junior high education migrate; 4 among 100 with an elementary school education migrate; and only 1.5 among 100 illiterate or semi-illiterate migrate. On the other hand, there is also a close relationship between negative migration and a laborer's educational level. A survey by the Hubei Statistical Department revealed that among those who returned to agriculture in 1987, those who had less than a junior high education accounted for

17.16 percent of migrants at the same educational level. The ratio for illiterates was as high as 21 percent, while those who completed more than junior high only accounted for 9.46 percent of migrants with the same educational level.

II. Factoral Analysis

The slow-down in the pace of surplus rural labor migration is mainly a result of the following factors:

A. Rural Enterprises Have Reached Their Labor Capacity Limits

Under the original concept, we considered rural enterprises as the home bases of rural surplus labor. A minority of rural enterprises (located mainly in developed areas) actually developed well in line with the growth of the commodity economy and have a certain amount of labor capacity. However, with regard to the majority of rural enterprises, their inherent shortages have become all the more apparent. First, their technical and mechanical levels are low. Second, they are poorly managed. Third, they have little true understanding of markets. Fourth, the educational levels of their workers are low. In a certain sense, the fourth factor is fundamentally significant. Taking Henan province for example, a 1987 rural sample survey team found that the educational levels among 42 rural enterprises and 5,547 workers were as follows: 58 or only 1 percent of the total had college, specialized, or high school educations; 1,957 or 35.3 percent had senior high educations; 2,583 or 46.6 percent had junior high educations; and 943 or more than 17 percent of the total had less than an elementary school education. The distribution of work assignments was as follows: among the 42 enterprises, there were 417 technical personnel, or 7.6 percent of the total workers, of which, 55, or only one percent of the total workers were engineers, for a 1:77.5 ratio with production personnel. Although the percentage of managers was high, the majority of them were "rural cadres." Facts prove that low educational quality likewise begets low technology. Rural enterprises can still survive in circumstances where markets are incompletely developed and a buyer's market has yet to be formed, although they face the every more adverse conditions of severe competitive pressure and shortages of energy resources and raw materials. Economic efficiency obviously falls. According to a survey by Hubei statistical departments, in 1987 the fixed and floating assets of the province's rural and village enterprises rose 20.52 and 32.45 percent, respectively, over 1986, while real total profits and net profits dropped 2.49 and 3.61 percent, respectively. Moreover, the percentage of profit and net profit generated per 100 yuan of fixed assets fell 19.09 and 20.02 percent, respectively, over 1986. Therefore, circumstances restrict the accumulated scale and development potential of rural enterprises. Similarly, they naturally have an enormous influence on the capacity for rural surplus labor. From 1983 to 1985, on the average, the province's rural

enterprises annually absorbed approximately one million rural laborers. In 1986 the figure fell to 210,000. In 1987 it slid further to 100,000. This trend provides a noteworthy signal: labor employed at rural enterprises during a recession may very well make a different choice, namely, to go back to the land again.

B. Rural Education Is Backward, the Peasants Have Low Educational Levels, and They Lack the Ability To Compete With Urban Residents

As mentioned above, there is a close relationship between the rate of rural surplus labor migration and educational level. A higher education suits one for new circumstances and more quickly grasping new techniques, and gives one greater freedom in choosing work. On the contrary, one has few job choices with little education. The rural situation is that since education is backward, there is a higher percentage of illiterates and semi-illiterates. Taking Hubei for example, among the rural labor, elementary school graduates, illiterates, and semi-illiterates account for 68.2 percent. The educational levels among the primary industry labor force are even worse. Elementary school graduates, illiterates, and semi-illiterates account for 74.3 percent, of which, the latter two categories are as high as 31 percent. In the city of Shenyang, 94.6 percent of the rural labor force has no specialized production or technical training. Facts prove that it is very hard to transfer this portion of the labor force into other jobs. If their poor educational status is not remedied soon, it will be very difficult for them to compete with urbanites. This suggests that it is inevitable that the group of rural surplus laborers who have already gone into the city will one day move back and return to the land.

C. Labor's Natural Increase Peak Intensifies the Burden of Migration

At present, China's second baby boomer population is now entering the labor force. Taking Hubei province, for example—900,000 to one million people enter its labor force annually. After subtracting those who retire, that is an annual increase of around 600,000 people. Within the next few years, if the pace of acceptance of rural surplus by nonagricultural industries continues to be slower than the natural labor increase rate, then concealed rural labor unemployment will become even more serious. According to predictions by Shandong, calculated by the province's average rural labor increase rate of 2.56 percent during the Sixth 5-Year Plan period, in 1990, rural labor will grow to 38.6489 million. Taking the 1986 surplus labor rate of 13.52 percent, the number will exceed 5 million. The situation in other provinces is more or less the same. Correspondingly, rural consumption demand likewise continues to climb. Greater consumer demand implies falling stocks, thus affecting future rural surplus labor's migration rate.

III. Several Points

In order to protect the smooth implementation of rural surplus labor migration, we feel that the basic measure

for selecting the correct route to urbanization is to improve the educational quality of the rural population and the cultural levels of all nationalities.

As mentioned above, there is a direct relationship between the migration of rural surplus labor and their educational levels. Provided that the quality of education of the rural population improves, their freedom of unemployment will expand, and it will be possible for them to compete with urban residents from the same starting point. Toward this end we must first increase rural educational outlay and provide special funds solely for this purpose. Second, we must really and truly improve the treatment of intellectuals. We must relate an individual's income to his educational level and create social mores where education is sought after and respected. Third, we must thoroughly implement a compulsory education restraining law making the using of children punishable by law so that we may improve the rate at which the school-age population enters the work force.

At the same time, we must promote China's urbanization under different forms in different areas. We believe that in East China we must fully harness the potential of big cities and establish big urban areas in concentrated industrial areas while increasing their population capacity. In this way we can both rapidly move materials, energy, and information while saving material, human, and financial resources by creating a huge economic radiating force; as well as accommodate a large volume of secondary and tertiary industry population, and promote economic growth of both city and country by the migration of rural surplus labor. Regarding central China, which still lacks the means for creating a complete urban network, on the basis of fully developing the potential of each city we should set up satellite towns around the perimeters and accelerate the pace at which they can absorb rural surplus migrants. As for west China, concurrent with using the existing cities as development bases, we must actively build new cities in places that have the conditions for being opened to the outside world. We must also formulate policies for attracting people to these cities and gradually expand their population absorption capacities, turning them into important bases for accepting outside migrants.

Finally, regarding management of rural cultivated land, we should gradually move from dispersion to concentration. Agricultural development proves that having scattered agricultural plots is not beneficial for moving away from traditional and toward modernized development. Likewise, it can become a restraining force which binds peasants from migrating to towns. Learning from this, we should formulate policies helpful to the concentration of rural land, and promote the gradual concentration of land in the hands of agricultural managers. This is useful to accelerating the pace of agricultural modernization and will greatly improve productivity in agriculture. It

may also act as an external mechanism to urge rural surplus labor to leave the land once and for all and migrate to nonagricultural occupations.

AGRICULTURE

Anhui Hybrid Rape Area

40060658b Hefei ANHUI RIBAO in Chinese
29 May 89 p 2

[Summary] This year the per area yield of the 86,000 mu sown to hybrid rape in Anhui Province is expected to be 146 kilograms.

Henan Wheat Purchases

40060622b Beijing JINGJI RIBAO in Chinese
8 Jul 89 p 1

[Summary] As of 4 July, Henan Province had purchased 5.128 billion jin of wheat, fulfilling 86.1 percent of the task.

Heilongjiang Lacks Procurement Funds

40060658e Harbin HEILONGJIANG RIBAO in Chinese
23 Jun 89 p 1

[Summary] This year Heilongjiang Province will need about 800 million yuan to procure farm and sideline products, provincial agricultural banks, industrial and commercial banks, and procurement departments have raised 500 million yuan.

Hubei Grain, Rapeseed Output

40060658d Beijing JINGJI CANKAO in Chinese
3 Jul 89 p 1

[Summary] Gross output of summer grain in Hubei Province will be about 4.8 billion kilograms, and gross output of rapeseeds will be over 10 million dan.

Hunan Increases Grain, Cotton Area

40060658f Beijing NONGMIN RIBAO in Chinese
27 Jun 89 p 1

[Summary] Over the past two years, agricultural banks and credit cooperatives in Hunan Province have allocated 102,570,000 yuan in loans to develop 265,000 mu of grain and cotton fields. This year the area sown to early rice increased 1.2 percent over 1988 and the area sown to cotton increased 11.9 percent.

Shandong Wheat Storage

40060662a Beijing JINGJI RIBAO in Chinese
15 Jul 89 p 2

[Summary] As of 9 July, Shandong Province had put 1,998,800 tons of contracted wheat in storage, fulfilling 89.2 percent of the task.

Sichuan Rural Finances

40060553 Chengdu CAIJING KEXUE [FINANCE AND ECONOMICS] in Chinese No 2, 31 Mar 89 pp 1-7

[Article by Dan Chenguang O83O 2525 0342, Diao Dingde O43I 1353 1795, and Huang You 7806 0645: "A Study of the Problems and Countermeasures in the Supply and Demand of Funds in Sichuan Finances for Supporting Agriculture"]

[Text] I. Historical Problems Sichuan Has Experienced in Financial Support of Agriculture Since the Founding of the People's Republic

During the 38 year period from 1950 to 1987, the amount of funds Sichuan used in agriculture totalled 13.4 billion yuan which accounted for 15.82 percent of the 84.7 billion in total financial expenditures. This agricultural support consisted of 3.7 billion in appropriations for capital construction, or 27.61 percent; costs of undertakings in agriculture, forestry, irrigation, meteorology, and agriculture machinery totalled 4.1 billion yuan, or 30.60 percent; the 3.8 billion yuan used to support production in rural areas accounted for 28.36 percent; 1.2 billion yuan was used as rural relief funds and accounted for 8.96 percent; state allocated circulating funds (1950-1983), costs in the areas of science and technology projects, funds for reform and tapping latent potential of enterprises, costs of simple structures, and other funds for supporting agriculture add up to 600 million yuan, or 4.47 percent. Investment of public finance in agriculture has to a certain degree stimulated the improvement of conditions for agriculture production and raised the peasants' standard of living in Sichuan. Looking at the 38 years that Sichuan has practiced allocating public funds for supporting agriculture there has been a marked difference in public finance expenditures for supporting agriculture in various stages. This difference is due to the close relationship of national financial resources and national policy during these periods.

During the 33 year period from 1953 to 1985 the ratio of funds spent on supporting agriculture in Sichuan's overall financial expenditures had "three growths and three declines," and can be roughly divided into the following six stages.

First Stage: A period of low-level growth from 1953 to 1957. During this period China's economic development was centered on readjusting the industrial structure and stressed development of heavy industry. For this reason, public finances invested in agriculture accounted for only 8.23 percent of total public expenditures. The key areas of agriculture development were the establishment of an agriculture management structure and development of the agriculture scientific research ranks with the corresponding expenses in agriculture operations accounting for 45.53 percent of the total expenditures for supporting agriculture. The funds for agriculture capital construction made up 24.04 percent of this amount and

the expenditure structure laid a foundation for later development of agriculture operations. Agriculture production achieved fairly rapid development with the total output value of agriculture showing an average annual increase of 6.70 percent.

Second Stage: The first period of declining public finance expenditures for agriculture, 1958 to 1960. During this period a great change took place in the international situation, and giving priority to increasing the means of production domestically resulted in a major policy implementation that focused mainly on steel and iron smelting and gave priority to development of heavy industry which caused a major change in the structure of public finance expenditures. Sichuan's funds used to support agriculture went from accounting for 11.49 percent of all public finance expenditures in 1956 down to 6.49 percent in 1958 and then to 10.43 percent in 1960, the largest reduction was seen in operating expenses.

Third Stage: The period from 1961 to 1967 was one of the large-scale increases in public finance expenditures for agriculture. In 1961 the central authorities put forward the policy of the entire country needing to concentrate its strength to improve the agriculture front, and used the sequence of "agriculture, light industry, heavy industry" to develop the national economy. Public finances used to support agriculture rose from accounting for 12.90 percent of total expenditures during the Second 5-Year Plan to 19.32 percent. The funds for agriculture capital construction during this stage increased from 21.89 percent of total expenditures for agriculture during the last period to 31.29 percent causing agricultural production to quickly pick up again.

Fourth Stage: The second period of declining public financial investments in agriculture was from 1968 to 1970. This period consisted of years in turmoil and public finance funds for supporting agriculture were greatly reduced. Its ratio of total financial expenditures went from the adjusted periods 18.95 percent down to 12.81 percent. Agriculture production again suffered damage.

Fifth Stage: The years from 1971 to 1980 was the second period of large-scale increases in public finance funds for agriculture. The state put forward the slogan of realizing agricultural mechanization by 1980 and put a large amount of investment into agriculture through public finances. By 1971 public finance funds for supporting agriculture accounted for 26.22 percent of total public finance expenditures, the largest level in history and an average of 22.05 percent for the entire stage. The aim of this investment was to improve the conditions of agricultural production, funds for capital construction accounted for 35.99 percent of all expenditures for supporting agriculture, operating expenses accounted for 21.96 percent and expenses in supporting agriculture production accounted for 31.86 percent, a total of 89.81 percent for these 3 areas.

Sixth Stage: The years from 1981 to 1985 was a period that public finance funds for supporting agriculture again declined. During this period Sichuan's rural economic structural reform was fully implemented and with the household contracting responsibility system as a principle production management method becoming a major part of rural production management, the long suppressed rural productive forces developed by leaps and bounds, and the peasants standard of living greatly improved. Under this excellent condition people were not sufficiently conscious of how fragile the agriculture economy was and neglected agriculture investment, which caused a large decline in direct public finance funds for agriculture. The proportion of agriculture investment in public finance fell from 23.93 percent during the Fifth 5-Year Plan to 14.48 percent. The absolute amount that public finance funds for supporting agriculture was reduced in the Sixth 5-Year Plan compared to the Fifth 5-Year Plan was 766 million yuan.

Since the start of the Seventh 5-Year Plan the public finance funds for supporting agriculture have had large increases in relation to the average during the Sixth 5-Year Plan, however its percentage of total finance expenditures has remained about equal to that of the Sixth 5-Year Plan. Because investment into agriculture was neglected during the Sixth 5-Year Plan the agricultural infrastructure was not greatly improved and hidden dangers to agriculture production became acutely visible. In particular, since the beginning of 1985, there have been some large fluctuations in the agriculture products of grain, cotton, sugar, and pork, making the market supply tight and attracting the attention of leaders at all levels to again make the status of agriculture the order of the day. The state has put forward "rely on policy first, science second, and investment third" to develop agriculture and has called for all areas to increase investment in agriculture when planning their financial budgets. By utilizing measures such as establishing agriculture development funds the amount of funds for supporting agriculture was increased a considerable amount: 1987 showed an increase of 33.18 percent compared to that of 1985, which was at the end of the Sixth 5-Year Plan. Due to large decrease in funds for agriculture during the Sixth 5-Year Plan plus being under the pressure of rigid wage and material price reforms, the funds for supporting agriculture did not keep step with the growth of financial expenditures. Funds for supporting agriculture only accounted for 11 percent of overall public finance expenditures in 1987, and although this was more than in 1986, it was still less than the 11.5 percent in 1985.

Looking at the situation of having three growths and three declines in Sichuan's agriculture support funds, the scope of public finance for agriculture support was determined by two factors. The first is that it was restricted by state financial resources; secondly, it was affected by changes in the national economic policy. In the 38 years since the founding of the Peoples' Republic the national economic policy has been very unstable and the policy for agriculture investment even more unstable

which has led to an arbitrary approach in public finance for supporting agriculture and has severely affected agriculture economic expenditures. Whenever the condition of agriculture production was good at one stage the state would neglect agricultural investment at the next stage, and whenever agriculture was in danger the state would again readjust its investment policy to make large increases in agricultural investment, creating a regular cycle. Agriculture production was heavily damaged during the Second 5-Year Plan due to the effects of the "Great Leap Forward" policies. By the "third-year adjustment" period, public finance greatly increased its investment in agriculture with these funds accounting for 18.95 percent of all expenditures. During the Third 5-Year Plan this percentage dropped to 14.58 percent. During the Third 5-Year Plan and Fourth 5-Year Plan the annual increases in the total value of output and grain production were reduced each year. During the Fifth 5-Year Plan, in order to revive agriculture production, the state put a large amount of investment into agriculture. The percentage of total expenditures represented by agriculture support made a sharp rise to 23.93 percent in comparison to the 19.26 percent during the Fourth 5-Year Plan. This figure was the highest since the PRC was founded. However, during the Sixth 5-Year Plan the percentage of agriculture support in total expenditures again fell to a 14.38 percent level.

This situation of having three growths and three declines shows clearly that agriculture has not been put in a correct position in the provincial and national economy. At present the state is still sacrificing agriculture and proceeding along a path of using agriculture accumulation to develop industry with state investment being slanted in this direction which produces the result of a backward agricultural economy. The experience of 38 years has proven that China's national economic development cannot be separated from its agricultural foundation. Even a slight vibration in agriculture causes a shock throughout the entire national economy with, of course, a price being paid in economic development. The Seventh 5-Year Plan is the key period for price and wage reforms and under the pressure of these rigid measures, even a little carelessness can cause a reduction in agriculture investment. This is something that leaders at all levels should pay close attention to.

II. Predictions on the Supply and Demand of Public Finance Funds To Support Agriculture

A. Predictions on the amount of public finance funds needed to support agriculture.

1. The strategic goals for Sichuan in the national economy by the end of this century. According to the plan of the provincial government, by the end of this century Sichuan's grain production is to total 50 million tons, an increase of 10.79 million tons over 1987 and a growth of 27.52 percent with an average annual growth of 1.89 percent and a per capita grain production of 416 kg. Meat production is to total 5 million tons, which will be

a 1.64 million ton increase over 1987; a growth of 48.81 percent, with an average annual increase of 3.10 percent and a per capita meat production of 41.50 kg. Income for the entire province is to total 135 billion yuan, an increase of 76 billion yuan over 1987, a growth of 1.29-fold and an average annual increase of 6.57 percent. The average income in the province is to be 1100 yuan, which will be close to the national average, and the subsistence level of 800 yuan also close to the national average. The average income for urban residents will be 1150 yuan and 660 yuan for rural residents with there being varying levels of prosperity for people.

2. Trends in Sichuan's requirements of public finance funds for agriculture development. To achieve the strategic goals of our province, one key will be to ensure steady growth in agriculture and especially grain production. In future development, agriculture, especially grain, will increasingly play the part of a "bottleneck" in economic development. Sichuan's relatively fragile agriculture base, its seriously deficient agricultural logistics, and hidden troubles in grain increases are mainly due to the following: First, a serious shortage in cultivated land resources. Second, a large portion of the cultivated land is poor quality with low yields, causing the many difficulties in transforming this land. Third, inadequate irrigation works and little capacity to combat natural disasters. Fourth, a weak base in agriculture, forestry, water conservation, and meteorology. For these reasons we must take precautions, in addition to deepening the reform, actively spreading advanced agriculture science and technology, further adjusting and perfecting the agriculture and industrial structures, and increasing the scope of management. Another very important measure is to increase agriculture investment to strengthen the infrastructure of agriculture and to lay the most important material base for economic growth. The best way to increase agriculture operations in the near-term lies in developing the rural productive forces, mobilizing the collective enthusiasm of peasants to develop agriculture, and improving the rural self-accumulation capability while keeping the key state financial support from being reduced. Based on the current situation in the make-up of Sichuan's public finance funds for supporting agriculture, future agriculture development and needs for public finance funds are for the most part contained in the following 8 points:

a. Strengthen the agriculture infrastructure, improve conditions for agriculture production, and promote steady agriculture growth. First, we should strengthen the building of commodity grain and oil-bearing crop bases. By the year 2000 we should establish 93 commodity grain base counties, 50 oil-bearing crop base counties, and 102 base counties for fruit, tea, and seeds, also 25 million mu of medium and low yield fields will be transformed and a total of 50 million mu of high yield fields realized by the year 2000. These projects will require 2.5 billion yuan of state investment. We should first enhance the spreading of agriculture technology in rural areas and prevention of plant diseases and insect

pests in crops, and do a good job of combining the complete technology of fine breeds, good methods, and better measures while popularizing the use of chemicals and fertilizer. It will require 1 billion yuan of investment to basically achieve control of plant diseases and insect pests by the year 2000. Secondly, we should energetically develop agriculture enterprises and key on developing agriculture machinery, improve the consolidation of scientific research, education, and the dissemination of this knowledge, train large numbers of personnel in agriculture technology, economics, and popularize these methods. Establishing first class agricultural technology extension centers and agriculture service centers throughout the countryside and forming them into an agriculture technology service network so that agriculture specialization and socialization can begin to take shape and farm machinery can achieve universal use, will require agriculture operating expenses of 4.2 billion yuan plus 800 million yuan in agriculture machinery costs. Third, we must improve irrigation. "Irrigation is the lifeblood of agriculture." By the year 2000 newly irrigated land will be increased by 17.038 million mu with 76 new or extended large- and medium-sized reservoirs and 10 water diversion works needed. Repairs, reinforcement, and completion should be carried out on more than 4,400 small reservoirs that are faulty or dangerous, as well as more than 670,000 mountain ponds and stone dams. Extending trunk and branch channels to a total of 30,000 km plus facilities for combating drought and the previously mentioned repairs will require 8.5 billion yuan of investment. This amount will consist of 4.2 billion yuan for capital construction, 2.4 billion yuan for small agriculture irrigation projects and maintenance costs, and 2.2 billion yuan for irrigation operation expenses. The total investment for all these areas will total 17.3 billion yuan.

b. Support steady development of animal husbandry. Animal husbandry holds an important position nationwide and Sichuan is one of five major livestock areas in China. In 1987 Sichuan produced 3.36 million tons of pork, beef, and mutton with a per capita production of 32.3 kg and accounting for 16.90 percent of the nations total. Pig raising is a strong point of Sichuan and an important mainstay of the rural economy. Sichuan however, has a weak animal husbandry base, it has backward feeding methods, has yet to form broad scale management, and has little ability to combat disasters. Its social services for improving livestock and poultry breeds, preventing epidemics, processing of commodities, storage, and circulation are all weak and it falls far short of meeting the needs of large scale commodity production in animal husbandry. The resources of grasslands, mountain pastures, and rolling pastures have not been reasonably used or developed. By the year 2000, plans are to establish 30 million mu of man-made pastures, have 800,000 head of dairy cows, 1.6 million sheep, and essentially change live pigs to the lean meat variety, improve poultry breeds, and basically have livestock diseases under control. Over 1 billion yuan will be needed for rural pastures and for subsidies to protect livestock and poultry production plus 1.7 billion yuan for operating expenses for the livestock industry.

c. Develop the aquatic products industry and relax the problems in the supply and demand of aquatic products. The problem urban and rural residents of Sichuan have in finding fish to eat is fairly acute. The aquatic products fall far short of satisfying these demands and the per capita aquatic product production of 1.7 kg for 1987 was less than one fifth the national average. There is 3.93 million mu of water area that can be used for cultivating aquatic products but less than 60 percent of it is being utilized, thus the potential for increasing production is very great. By 2000, 20 base counties are to be established that produce 5,000 tons of fish annually, have 8 million mu of rice fields used to raise fish, and intensive breeding technology will be popularized to achieve a 500,000 ton annual production with a per capita production of over 4 kg and basically solve the problem residents have in finding fish to eat. A total of 800 million yuan will be needed for aquatic product subsidies and 1 billion for operating expenses in the aquatic products industry.

d. Support rural afforestation, protection of forests, and promote a balanced ecology. Sichuan is one of the major forestry and lumber producers in the nation but its per capita resources are small with merely one mu of forest per person which is only one half the national average. The percentage of forest cover is only 12 percent, 0.7 percent less than the percentage nationwide. There are 91 counties that have a forest cover of less than 10 percent and Sichuan has 13 counties that have less than a 1 percent coverage. There is severe soil erosion as about 600 million tons of silt flows through the Sanming Gorge annually, equal to taking away 5 million mu of tillable land 17 cm deep each year. This makes for a thin growing layer of soil, causes the fertility of the soil to be reduced, storage ponds to silt up, the effectiveness of irrigation works to go down, and weakens agriculture's ability to combat disasters. Forestry needs to be greatly developed, by the year 2000 to reforest 59.18 million mu of new area and raise the percentage of forest cover to over 20 percent plus other measures in state rural afforestation and subsidies for protecting forests will require 1.2 billion yuan. Operational expenses in forestry will need over 1.3 billion yuan.

e. Develop agriculture by continuing to support rural cooperative production organizations. First, continue to support township enterprises. Second, continue to support rural cooperative organizations and rural households in developing various management methods, develop the commodity economy, promote broad-scale agriculture management and raise the level of agriculture specialization. During the Sixth 5-Year Plan funds for supporting agriculture cooperative organizations increased by an average of 13.71 percent. Based on this scale the amount of funds needed through the year 2000 to support rural cooperative organizations is 3.2 billion yuan, and 200 million yuan will be needed for operating expenses of township enterprises.

f. Help to quickly change the backwardness of impoverished areas. Sichuan has 92 counties with deficits that will require 3 billion yuan ton by the year 2000. In addition, the province has 4.4 million people in 46 counties with an income of less than 200 yuan. When you add the other counties, Sichuan's rural population below the poverty level is even greater. These people have difficulty making a living and need continued state support. Based on actual expenditures of 1987 it is predicted that 1.7 billion yuan will be needed by 2000 for this support.

g. Approximately 300 million yuan will be needed for the three areas of science and technology, tapping latent potentials and reform of enterprises, and costs of simple structures.

h. It is expected that about 400 million yuan will be needed for natural resource surveys and division, land management, meteorology, and other operating expenses in agriculture, forestry, aquatics, and meteorology.

Based on initial predictions for the above eight areas, not including the factor of price increases, Sichuan will need 33.1 billion yuan for economic development of agriculture. These figures are based on the lowest requirements for public finance in agriculture development during the 1988-2000 time period. Sichuan's agriculture base is extremely fragile, the required funds for its agriculture development to reach the level of the modern agriculture standard cannot be met by the end of this century when you look at the actual situation of Sichuan's economy.

B. Predictions on the supply scope of public finance funds for supporting agriculture.

Agriculture support funds are an important part of public finance expenditures. These funds for agriculture are determined by the financial income for that year and the economic policies in effect during that period. The amount of financial resources for a given year is also closely connected to national economic development for that year. Changes in the economic situation cause fluctuations in financial income, have a direct effect on the scope of expenditures, and as a result influence financial expenditures for agriculture. Looking at the relationship above, we can make calculations on financial expenditures for agriculture through the year 2000 by utilizing data from concerned departments in Sichuan, results from past years, and recent figures to analyze the relationship between the national income and public finance income and expenditures, the relationship between public finance expenditures and agriculture support funds, and the effect state economic policy has on expenditures for supporting agriculture.

1. Development goals for national income. In accordance with the strategic goals of the provincial government plan, the national income will increase by 6.6 percent annually during the Seventh 5-Year Plan, 6.9 percent during the Eighth 5-Year Plan, and 6.2 percent during the Ninth 5-Year Plan. See chart 1 for target goals of specific years.

Chart 1—Calculated Sichuan National Income Figures for 1988-2000.

Unit of measure: 100 million yuan.

Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
National income	590	629	670	715	764	817	873	933	998	1060	1125	1195	1269	1349
Yearly Growth Rate		6.6	6.6	6.6	6.9	6.9	6.9	6.9	6.9	6.2	6.2	6.2	6.2	6.2

Note: Based on current rate prices of 1987.

2. Relationship between national income and financial income and calculations of finance revenue and expenditures. Sichuan's financial income along with development of the national economy has achieved large growth. From 1952 to 1987 the national economy increased 15-fold and financial income increased by more than 8-fold (if the factor of

material prices are taken into account then the actual growth rate would be slightly lower). Financial income has clearly increased at a slower rate than the national income. Looking at the percentage of the national income that financial income accounts for, the average amount for the last 19 years is 13.24 percent. See chart 2.

Chart 2—Percentage of Financial Income in the National Income

Unit of measure: 100 Million yuan

Year	Financial Income	Percentage of National Income	Year	Financial Income	Percentage of National Income
1952	8.17	22.24	1979	35.51	14.70
1957	11.10	15.19	1980	34.62	13.04
1962	10.58	15.02	1981	31.52	11.33
1965	16.65	16.46	1982	35.54	11.25

Chart 2—Percentage of Financial Income in the National Income

			Unit of measure: 100 Million yuan		
Year	Financial Income	Percentage of National Income	Year	Financial Income	Percentage of National Income
1966	18.64	16.06	1983	40.32	11.70
1970	16.90	13.79	1984	46.37	11.50
1975	22.62	15.35	1985	58.76	11.96
1976	18.40	14.77	1986	67.34	12.75
1977	24.30	15.22	1987	75.86	12.86
1978	37.31	18.58			

Since 1978, along with the gradual unfolding of the economic structural reform, Sichuan has carried out a policy of delegating authority, reducing taxes, and generating profits in public finance. The growth of this financial income however has not achieved a corresponding growth when compared to the growth of the national economy and this is shown by the downward trend of the percentage of financial income in the national income. This percentage reached a historical low in 1982 at 11.25 percent. After 1983 this percentage started to climb again and was near 13 percent by 1987. Even with this increase the level is still far below the average for the whole nation. This is the reason that Sichuan's economy is still extremely fragile. In light of this situation it is expected that the proportion of financial income in the national income cannot make a quantum leap by the year 2000, otherwise it would be like killing the goose that lays the golden egg. We believe

that financial income will remain at the pre-1990 level of 13 percent of national income with financial resources increasing by about 600 million yuan each year and the financial income for 1990 expected to reach 9.3 billion yuan, a 22.53 percent increase over 1987 and an annual increase of 7 percent. During the Eighth 5-Year Plan the percentage will increase to 13.5 percent adding from 700 to 900 million yuan to financial resources yearly. By 1995 financial resources will total 13.5 billion yuan, a growth of 77.60 percent over 1987 and a 7.44 percent annual growth. During the Ninth 5-Year Plan the percentage will grow to 14 percent adding 0.9 to 1.1 billion yuan to financial resources annually. By 2000, financial income could reach about 18.9 billion yuan, a 149 percent increase over 1987 and an annual growth of 7.26 percent. Looking at the actual financial income realized during the Sixth 5-Year Plan, these 3 proportions are not high but very possible. See chart 3 for specific figure predictions.

Chart 3—Calculations on Financial Income for 1988-2000

Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
National income	599	629	670	715	764	817	873	933	998	1060	1125	1195	1269	1349
Financial income's Percentage of the National Income	12.86	13	13	13	13.5	13.5	13.5	13.5	13.5	14	14	14	14	14
Financial income	75.86	81.77	87.10	92.95	103.14	110.30	117.86	125.96	134.73	148.40	157.50	167.30	177.66	188.72
Income from central authority subsidies	11.98	12.50	13.0	13.5	14.0	14.5	15.0	15.5	16.0	16.5	17.50	17.5	18.0	18.5
Total financial income	87.84	94.27	100.10	106.45	117.14	124.80	132.86	141.46	150.73	164.90	174.50	184.80	195.66	207.22
Finance expenditures	87.76	94.35	100.10	106.45	117.14	124.80	132.86	141.46	150.73	164.90	174.50	184.80	195.66	207.22

In 1987 Sichuan's net income from subsidies from the Central Authorities totalled 1.198 billion yuan. Because these subsidies from the Central Authorities are uncertain, figuring a 50 million annual increase for subsidies would let Sichuan plan on a total of 198.5 billion yuan in financial resources for 1988-2000.

3. Calculating the scope of financial expenditures for supporting agriculture. The scope of financial funds for

supporting agriculture are restricted by financial resources for the year and are also affected by the government's economic plans and policies for that year. Agriculture support funds for the most part increase and decrease along with the increases and decreases of financial expenditures. When financial expenditures for 1979 increased to 3.747 billion yuan, expenditures for supporting agriculture also increased to its highest level of

983 million yuan. After 1979 Sichuan carried out the policy of cutting taxes to create profits and its financial resources fell for several consecutive years making financial expenditures also fall and as a result the expenditures for supporting agriculture also had consecutive decreases. Following 1983 financial resources began a gradual regrowth with financial expenditures and agriculture expenditures also showing increases. However the expenditures for supporting agriculture grew at a slower rate than did financial expenditures. By 1987 financial expenditures had increased by 134.21 percent compared to 1979 but expenditures for agriculture were yet to return to the 1979 level and remained close to that year's level at 98.24 percent. Looking at the proportion of financial expenditures that were for agriculture we see that after 1979 this proportion went steadily down.

This analysis shows that we must consider the effect of all the above factors when calculating a feasible scale for agriculture support through the year 2000 and adopt

several schemes for predicting budgets and making comparisons. Based on historical data and the recent situation we adopted 3 methods for predicting the budget. First, we used the average ratio of agriculture support funds in financial expenditures from 1950-1987 which was 15.79 percent (specifically used 16 percent), this was our high-range plan. Using this, agriculture support would total 3.316 billion yuan in 2000, a 2.4-fold increase over the 965 million yuan of 1987 and a yearly growth of 9.96 percent. Second, we used the 14.37 percent (specifically 14 percent) average of the Sixth 5-Year Plan, this was our medium-range plan. By 2000 this would have financial resources for agriculture support total 2.901 billion yuan, a twofold increase over that of 1987 and a yearly growth rate of 8.84 percent. Third, we used the 11 percent that expenditures for agriculture accounted for in overall financial expenditures for 1987 as our low-range plan. This plan has agriculture support funds at 2.279 billion yuan for the year 2000, this would be a 1.36-fold increase over 1987 and an average yearly growth rate of 6.83 percent. See chart 4 for specific figures.

Chart 4—Predictions on the Scope of Funds for Supporting Agriculture for 1988-2000

Year/Plan	Financial Expenditures	High-Range 16 Percent	Medium-Range 14 Percent	Low-Range 11 Percent
1987	87.76	14.04	12.29	9.65
1988	94.35	15.10	13.21	10.38
1989	100.10	16.02	14.01	11.01
1990	106.45	17.03	14.90	11.71
1991	117.14	18.74	16.40	12.89
1992	124.80	19.97	17.47	13.72
1993	132.86	21.26	18.60	14.61
1994	141.46	22.63	19.80	15.56
1995	150.73	24.12	21.10	16.58
1997	174.50	27.92	24.43	19.20
1998	184.80	29.57	25.87	20.33
1999	195.66	31.24	27.33	21.47
2000	207.22	33.16	29.01	22.79
1980-2000 combined	1894.97	303.14	265.22	208.39

III. Measures for Strengthening Agriculture Support Finances

The most important thing for developing the agriculture economy is to improve conditions for agriculture production, the improvement of these conditions is extremely difficult without the support of state financial resources. Sichuan's economy is not very developed, its agricultural economy is especially weak. The objective needs in financial planning are that we must possess strategic foresight, begin by considering long-term benefits, have unified planning, stress key areas, and protect agriculture. Our specific proposals for dealing with these are as follows.

A. Develop the economy and work hard to increase total financial income. Growth of funds for supporting agriculture depends on the growth of financial resources

during that year, and the growth rate of financial resources is determined by the speed and scope of development of the national economy. Development of production is the source for fund accumulation and development of production also depends on expanded funding which promotes accumulation of funds on a larger scale. Only by developing the economy can financial income be increased and larger amounts of funding be utilized for agriculture support. Measures for increasing the amount of financial income are first, to develop the economy and work hard to increase national income. Increasing the national income is equivalent to increasing funding for all of society and financial resources will correspondingly increase. Second, raise the percentage of financial income in the national income. The percentage of Sichuan's financial income in the national income has tended to be low and needs raising. In 1987 the percentage of financial income in the national income was only

12.86 percent, far below the average of 22 percent for the entire country. At the present time we need to focus more funds on key projects, speed up the pace of economic development, promote a good economic cycle, relax the tight financial situation, appropriately raise the rates of some taxes, revive and open up new tax sources, and add new taxes for use in developing certain projects, and establishing funds for special projects. In addition, we should speed up price reform and quickly eliminate the "dual-track" system of pricing. Income from price increases of name brand popular products such as bicycles, color televisions, cigarettes, and alcohol should for the most part be used as public financial income to increase the amount of financial income.

B. Draft agriculture investment laws and use laws to ensure a steady investment ratio between the state and local areas in agriculture. Since liberation, the policy of "using an agricultural foundation" has not been fully carried out after a long period of time. This is reflected in there not being a steady proportion of state finances for agriculture, fluctuating investment policies, and the proportion having large rises and falls. The instability of investment policies will naturally lead to unstable development of agriculture production and affect the progress of the entire economy. In recent years due to insufficient agriculture investment the conditions for agriculture production have not been caught up and grain production has not been able to recover to its 1984 level. The current rise of market prices and the tight supply of grain and pork are definitely related to the state's improper policies concerning agriculture investment. It has been proven in practice that relying on temporary stop-gap measures cannot extricate agriculture from a difficult position. To improve agriculture logistics and speed up agriculture development we must increase financial investment in agriculture. The state should ensure an appropriate and steady proportion of finances as uses for agriculture investment. This proportion should be determined by law to insure the steady amount of investment of agriculture. Based on the above calculations, to ensure that financial funds meet the basic needs of agriculture development for the year 2000, we propose that Sichuan's funds for supporting agriculture should not be less than 16 percent of overall financial expenditures. As financial resources permit, this percentage should be gradually increased. Additionally, various reserve funds should mainly be used for agriculture.

C. Draft a special "using agriculture to supplement agriculture" policy and ensure steady growth of agriculture support funds. First, continue with the policy of the last few years using a portion of taxes attained from land use for agriculture and to establish agriculture development bases. Second, use all new taxes on special forestry products to develop agriculture, establish special forestry product bases, and earmark these funds for specified purposes. Third, taxes received from livestock slaughtering should essentially be used in development of the livestock industry and for establishing livestock development bases. Fourth, increase the percentage of tax

income received from township enterprises used to support agriculture. In 1987 tax revenue from township enterprises totalled 900 million yuan, an increase of 200 million yuan above 1986. Based on these calculations by the year 2000 financial resources for supporting agriculture could be increased by about 3 billion yuan. Fifth, 10 percent of all profit taxes attained from the processing industry that uses agriculture products as raw materials should be used to support agriculture and to establish corresponding agriculture support bases. In 1986 profit taxes realized from light industry owned by all the people and those collectively owned that used agriculture products as raw material totalled 2.147 billion yuan. If we take 10 percent of this amount then 210 million yuan could be used to support agriculture which is equal to 23 percent of the funds used to support agriculture that year. Based on calculations on development goals for the year 2000, a total of 4 to 5 billion yuan could be accumulated between 1988 and 2000 for support of agriculture and greatly relax the problem of agriculture support funds. Sixth, a portion of profit taxes attained from agriculture product circulation should also be used to develop agriculture. Utilize the above measures to realize "using agriculture to supplement agriculture" and promote a good cycle in the agriculture economy.

D. Raise the effectiveness of funds used to support agriculture. At present, funds for supporting agriculture are still managed item by item and separately, the issue of funds is "highly decentralized, stresses operation and neglects management" lacks follow-up analysis, identical projects receive duplicate investment from various areas, various funds and operations are not coordinated and naturally there exists losses and waste and violation of regulations and uses which is not good for effective utilization of funds, these situations must be changed. 1) The management structure should be improved to appropriately concentrate funds. To avoid having the issuance of funding too scattered and to strengthen management we must clearly define the management boundaries for all interconnected and responsible departments, gradually take back some of the funding issuance that was put under the control of or entrusted to the responsible departments, eliminate unnecessary links, beneficially concentrate funds, and concentrate putting goods on the market. The funding for large and medium sized water conservation projects, annual repairs and maintenance of irrigation works, combating drought, flood prevention, combating disasters and protecting livestock, the prevention of epidemics, plant diseases and insect pests, forest protection and fire fighting should all be managed at the provincial level so that funds can be allocated for actual needs and the construction of key projects strengthened. Special development funds for "agriculture, forestry, animal husbandry, aquatics industry, and township enterprises" should be gradually established and used towards giving full play to the local goods that are an advantage to the local economy. 2) Concentrate on putting these goods on the market and implement a management responsibility system for achieving production targets. Each year we

should select and evaluate goods to concentrate support on. A report on these goods selected for concentrated support will be required to verify reliable production, advanced technology, economic results, benefits to society, and ecological benefits. We should concentrate our support first on goods that can give full play to the advantages of natural sources of funds and economy of the local areas, improve conditions for agriculture production, raise their ability to combat natural disasters, spread advanced technology, improve varieties with little expense, and attain large economic benefits. A management responsibility system for achieving production targets and a system of follow-up analysis should be implemented for all these supported goods to ensure production targets are achieved on schedule. 3) Have good management and active use of revolving funds supporting agriculture and reduce the revolving period. During 1987 there was 592 million yuan in circulating funds province-wide, according to statistics of the current development rate there could be about 3 billion in circulating funds by 2000. If the average revolving period is 5 years, then by the end of 2000 there could be around 600 million yuan put into agriculture, this would be strong support for agriculture. During 1987 the recovery rate of revolving funds was only 56.16 percent and a total recovery rate of 68.46 percent, we should further improve the management of revolving funds. At present the method of collecting varying usage fees in revolving funds is good but based on actual conditions, usage fees should be reduced or not collected for some goods to speed up the circulation of funds. In areas where conditions are ripe, we can establish financial department leaders that are directly responsible for revolving fund management and also implement independent accounting economic entities—agriculture support service companies. This will be beneficial to attracting funds, increasing agriculture financial resources, increase the rate of constructing agriculture support projects, and raise the utilization efficiency of funds supporting agriculture. 4) Improve the management system of operating expenses for agriculture, forestry, irrigation, and meteorology undertakings. First, improve the current "budget responsibility system" method of operating funds, change the unsuitable management system, smash the operating funds "base figure method" of distribution, regulate vested interests, check and ratify organization structure funds and business funds, and effectively control the growth of non-specialized personnel. Adopt a dual responsibility method for unit funds and personnel strength. Second, urge institutions to shift to an enterprising style of management. After a certain degree of enterprising style of management has been formed, financial funds can gradually be reduced with these reduced operating expenses used to develop other agricultural enterprises. 5) Appropriate economic and legal sanctions should be handed out to those that misuse, hold, use for personal means, or use for corrupt purposes any agriculture support funds and those that incur monetary losses due to accidents for which they are responsible.

E. Develop rural cooperative fund committees and strengthen rural self-accumulation and the ability for self-development of agriculture resources. This will lighten the requirements that agriculture development puts on public finance funds. Public finance can then consolidate funds and concentrate on supporting and developing the commodity production of necessary goods and as a result increase the financial resources for supporting agriculture. The use of these funds should be directed by rural public finance and be used primarily for agriculture development. Perfect the money management system and adhere to the collective management principles of the board of directors and stockholders. Clearly define the limits of authority of responsible persons at all levels to prevent the fund committee from becoming a treasury for township leaders.

F. Stabilize the prices of materials used in agriculture production. During the last few years there has been excessive inflation in prices of materials used in agriculture production which has affected the peasants zeal for production. This has made it extremely difficult for agriculture and especially grain production to step up to a new level. Therefore, prior to the prices of grain and other agriculture products being relaxed the state should have used economic and legal measures to restrain the prices of materials used in agriculture production. This would be an effective measure for promoting steady agriculture growth and would show strong support by the state for agriculture.

Sichuan Cotton Imports

40060658c Chengdu SICHUAN RIBAO in Chinese
12 Jun 89 p 1

[Summary] Due to raw material shortages, the Sichuan No 1 Cotton Mill has imported 5,000 tons (100,000 dan) of cotton from Pakistan since the end of 1988.

Sichuan Food Industry

40060655f Chengdu SICHUAN RIBAO in Chinese
27 May 89 p 2

[Summary] In 1988 the gross output value of the food industry in Sichuan Province was 13 billion yuan, after-tax profits totaled 2.02 billion yuan, and foreign exchange earned from exports totaled \$150 million, increases of 18.2 percent, 30.3 percent, and 25 percent respectively over 1987. In 1988 meat output increased 12.2 percent over 1987, and canned food output increased 38.2 percent.

Yunnan Tobacco Area

40060658a Kunming YUNNAN RIBAO in Chinese
5 Jun 89 p 1

[Summary] As of 5 June, the area sown to tobacco in Yunnan Province was 3,290,000 mu. Yunnan will need over 1.5 billion yuan to purchase tobacco this year.

Relation Between Farm Size, Economic Development Discussed

40060601 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 3, 20 Mar 89 pp 47-53, 46

[Article by Wang Chengde 3769 6134 1795 of the State Council's Rural Development Research Center: "The Scale of Farm Operation and Economic Development—Theoretical Thoughts on the Basic Structure of China's Agricultural Development"]

[Text] What indeed is the relationship between the scale of farm operation and economic growth? Is China's existing small-scale farm economy in which families are the basic operating units an obstacle to the development of the agricultural economy? In other words, is increasing the scale of farm operation a realistic way to promote growth in China's agricultural economy? This has become a hot topic of discussion today. This article is attempt to sum up China's agricultural development and the experiences in other nations and to make a preliminary theoretical analysis and summation of the relationship between farm size and economic development. I beg to learn from the others.

I. Farm Size and Land Productivity

China has very little arable land but a huge population; therefore, what the economy demands of agricultural development is the maximization of land productivity. It is also the norm on which we base our determination of the appropriate size of the farms. Then, what is the relationship between land productivity and farm size? In general, the productivity of land is a direct function of the rate of input into the land. Given the standard of technology, the amount of input into the land determines its output. So when we examine the relationship between farm size and land productivity, we should also examine the relationship between the input into the land and its output. In other words, we need to analyze whether the process of adding inputs into the land to increase its output inherently has anything to do with the scale of operation.

There are three major categories of inputs we can add to land: labor, capital, and technology. Technology is the most important kind of input, but its input is dependent on other inputs, that is, some of it is in material form and is put into the land along with the capital goods, and some is personified and is added to the land along with the labor input. Thus, the three factors of production can be combined into two major categories, labor and capital, when we analyze their relationships with the productivity of land and with the size of the farms. Furthermore, because labor input is not a function of farm size, we will focus our attention on capital. We can divide capital goods which we add to the land into two sub-categories: the first group is the mechanical capital goods such as the different kinds of farm machinery; they are for improving the physical aspect of farming. In essence, they are substitutions for labor. This group of capital is

indivisible, and its input is a direct function of farm size. The second group of capital goods has to do with the biological aspects of farming; they include chemical fertilizers, pesticides, improved seed varieties, and farm-use plastic mulch. Their function is to change the biology and chemistry of a farm's production process. In essence, they are substitutions for land. Their input directly determines the productivity of land. Inherently, they are highly divisible, and their input is not conditioned by farm size. Thus, only the input of the first group of capital goods (the mechanical kind) is directly determined by the scale of farm operation, but the function of this group of capital goods which is to replace labor can be taken over completely by labor; it will have no substantive effect on the productivity of land. But as we said earlier, labor input is not determined by the scale of farm operation, and so there is no intrinsic relationship between the productivity of land and the scale of farm operation. In other words, the structure of peasant households working on small farms poses no real obstacle to increasing the productivity of land. As long as we can guarantee ample effective input of the second group of capital goods, it is quite possible to increase the land productivity of the peasant households which have ample labor resources.

II. Farm Size and the Cost of Agricultural Products

To examine the relationship between farm size and the cost of agricultural product is to analyze the internal mechanism of how the different sizes of farmland affect the expanded operation of peasant households and the allocation of resources which in turn cause different products to have different production costs, given that the allocation of land as a basic factor of production is fixed.

Given that the farm size is fixed, the peasant households has two options if they want to expand their operation: one is to increase capital investment, and the other is increase labor input. First, let us analyze the effect of different farm sizes on the peasant households' capital investment behavior. As we said before, the first group of mechanical-type capital goods is characteristically indivisible. We first have to have money to afford them. But more important is that only the larger farms are equipped to use them. Because of the indivisible nature in the purchase and utilization of this kind of capital good, in general, the larger the farm and the larger the scale of production, the more likely that this kind of capital good can be put to ample and effective use in terms of time and space and thus the lower the per unit output cost. For the small farms, not only will they find the capital goods too expensive but they will not be able to put them to full use, and this will raise the per unit production cost. Thus, even if the other exogenous operating conditions are the same, for example, if capital is available to all at the same price, because the farm sizes are different, the peasant households will face very

different internal capital costs. When the peasant households try to maximize their income, at the microeconomic level, we will find that the large-scale farmers will absorb more capital while the small-scale farmers will not.

Let us now analyze the labor input behavior of peasant households of different scales of farm operation. In general, the biggest difference in labor utilization of peasant households with different size farms is that family members contribute most of the labor in peasant households operating small farms; peasant households operating large farms primarily use hired hands. It is this difference in labor utilization that makes the labor input behavior significantly different for peasant households operating different size farms. Those who employ hired workers pay a price in the form of wages (money wages or in-kind wages). Assume that the wage level as determined by the market and the production technologies remain constant, as the scale of production expands, total cost will increase at a constant rate as the amount of labor input increases, but the labor cost per unit of output will remain the same. If we take into consideration the effect on wages of the distinct seasonal nature of farm labor input, we will find that the cost of hired labor will make up an increasing percentage of the labor cost as well as the total cost. That is to say that if production technologies remain unchanged, increasing the scale of production will cause the labor cost to increase even faster, and the higher marginal cost of labor will drive up the cost of the marginal product and lower the profit. For the small-scale peasant households that rely basically on family labor, there is an entirely different principle of cost accounting. Families are individual cells that make up society as well as individual economic operating units; the family members are consumers as well as producers, and so in cost accounting, family labor is almost a fixed cost, that is, in the accounting of a peasant household's family operation in general, there is no clear relationship between the amount of labor input and the expenditure needed to maintain the family. In other words, the expenses needed to support the members of a family is basically fixed; whether a family member pitches in at work and how much he or she pitches in will not affect significantly the expenses of that family (this situation is true especially in the less developed rural areas where the families are living near the subsistence level). On the other hand, in

the short-run, family members pitching in more labor will not increase this kind of expenditure significantly (of course, in the long run, the expenditure will change as the income level changes). Thus, there is no clear relationship between labor cost and the scale of production. If we increase production, labor input will increase, but labor cost will not increase significantly, and so the greater the total output, the lower the labor cost per unit of output.

Thus, given different farm sizes, the peasant household's labor input and investment behavior will be completely different. Because large-scale peasant households employ hired labor, their labor cost per unit of output not only will not decrease but may even increase as labor input increases. This will limit the amount of labor input. Since the peasant households are not willing to take a loss, the input of labor will increase until the marginal product exceeds or equals to the wage cost. At this point, from the standpoint of society's resource allocation, the marginal product is still very high, but to the peasant households, the loss will outweigh the gain if they add more labor input. To the small-scale peasant households which use family labor, however, the situation is just the opposite. Since "labor cost is more or less fixed" within the family, the factor to consider in deciding the amount of labor input is not the relationship between marginal productivity of labor and wages but the relationship between the incremental labor input and total output. In some sense, as long as the marginal labor input can increase the total output, no matter by how little, the peasant household will continue to add more labor.

According to the above analysis, the different sizes of the farms in essence make up a tentative pattern of agricultural resource allocation so that when the peasant households gather the other resources to engage in production, they will make deliberate choices of the key factors of production, and this in turn gives rise to different cost patterns. On the whole, the larger farm households will tend to absorb more capital goods and reject labor, while the smaller-scale peasant households will absorb more labor and less capital goods. The result of a 1986 survey of a large sample of peasant households in this country and materials gathered on Japan's farm households in 1961 support our conclusion. Please refer to the following tables:

Table 1. Labor Input and Possession of Fixed Assets of Farm Operations of Different Scales in China in 1986

Cultivated Area Per Household (mu)	5-10	10-15	15-20	20-25	25-30	30-35
Labor input per mu (unit)	71.5	45.6	30.16	23.52	19.39	13.87
Original value of fixed assets possessed by each labor unit (Yuan)	382.47	425.53	539.41	581	584.29	706.94

Source: Based on information gathered in 1986 in the fixed observation points by the State Council's Agricultural Research Center of 27,568 peasant households throughout the nation.

Table 2. Labor Input and Possession of Fixed Assets of Farm Operations of Different Scales in Japan in 1961
(National Averages)

Cultivated Area Per Household (hectare)	under 0.3	0.3-0.5	0.5-1	1-1.5	1.5-2	over 2
Labor input per unit of land (labor hour/one-tenth of a hectare)	537.5	520.5	494.4	441.5	365.6	281.9
Fixed assets possessed by per unit of labor (thousand yen)	132.1	126.2	147.0	175.1	265.5	220.2

Source: Based on Agency For International Development, "Land Reform In JAPAN," Spring Review Country Paper June 1970 [source supplied title], Appendix 40.

If we dissect the microeconomic mechanism of how farm sizes act on and affect agricultural production cost, we can further analyze its macroeconomic implications. On the whole, at the early stage of economic development, because capital goods are scarce and expensive and labor is abundant and cheap, the resource allocation behavior at the microeconomic level of small-scale peasant households described above will tend to minimize agricultural production cost and maximize output. With respect to production cost, first, the small-scale farm structure tends to substitute as much labor for capital as possible to optimize the cost structure; second, because the small-scale farms minimize labor cost, the total cost of the input of effective labor for society at the macroeconomic level is also minimized. With respect to output, because the small-farm structure minimizes labor cost and in turn maximizes society's total effective labor, total output is also maximized. At this stage, the index of labor productivity, especially if based on per hour labor input, no doubt is very low, but if we are willing to pay this price, what we get back in return is the maximized productivity of land and capital. This clearly satisfies the requirement of resource allocation optimization at the early stage of economic development.

III. Farm Size and the Effective Supply of Products of the Land

To a country where arable land resource is extremely scarce and the level of economic development is very low, the productivity of land and the cost of agricultural production are of course very important. But even more sensitive perhaps is how much surplus products we get out of the land can be diverted to the non-agricultural sector. The relationship between the scale of farm operation and the supply of surplus products from the land naturally is a question of great concern. Before we go into the details, we should define the term "effective supply of surplus agricultural products" which is a fairly general concept. We can separate the supply of surplus products of the land into three aspects: 1) surplus (here we shorten the term surplus supply of land products as surplus) supply capacity; 2) surplus supply price; 3) surplus supply stability. We can then analyze qualitatively these three areas and evaluate the effect of different farm sizes on the effective supply.

One, the scale of farm operation and surplus supply capacity

There is a popular belief that the small-scale farm economy is by nature more self-sufficient, and therefore small farms have less surplus supply capacity than large farms. I do not agree with this viewpoint. It is easy for people to measure self-sufficiency and surplus supply capacity of different scales of farm operation by the amount of commercial products produced, and so the conclusion seems obvious: Large-scale peasant households clearly produce much more commercial products than small farms, and so large-scale peasant households have greater surplus supply capacity, and vice versa. This kind of argument and conclusion obviously is flawed. There is an important theoretical issue that must be clarified. We can say that from the point of society's total output, the rate of commercialization of the products of the land is an approximation of the surplus supply rate of the products of the land, but it is wrong to assume simply that the rate of commercialization of the output of the peasant household units of different scales of operation reflects their surplus supply rate and go on to draw a conclusion about the peasant households' surplus supply capacity on that basis. Earlier, we pointed out in our analysis that the existence of different scales of farm operations is the tentative but stable pattern of society's resource allocation. This pattern contains the preliminary traits of society's two essential economic factors: Land—the most basic factor of production; population—the basic consumers of the products of the land. The tentative allocation of these two key factors of production has more or less set the limit to how much surplus different peasant households will have. The difference in the scales of farm operation basically is the difference in the amount of means of production and the amount of land possessed and the difference in the size of the agricultural population which does the bulk of consumption. These in turn make the surplus supply bases of the peasant households different. If we want to analyze and determine the peasant household's surplus supply capacity or supply tendency, we must refer to their respective bases of surplus supply (land and population). The rate of commercialization of the peasant household's output from the land is just a simple indicator of the amount of products sold by the peasant households; how can it be the basis of evaluation of the surplus supply capacity?

In my opinion, the general formula that determines the amount of surplus is as follows: peasant household surplus = total output - consumption = area of cultivated

land x productivity of land - the agricultural population x consumption rate. As we said earlier, when we analyze the effect of operating scale on surplus supply, we should discount the differences in the tentative allocation of land and population. Thus, we can delete the factors of land and population from the above formula, concentrate on the remaining two factors, and examine their relationship to farm sizes. We have already analyzed the productivity of land in previous sections and concluded that the small farms are not less productive, and may even be more productive, than the large farms. Then let us look at the consumption rate. Consumption rate has two meanings: one, it refers to the peasant households' production-oriented consumptions; two, it refers to the peasant households' everyday-type consumptions. From the way both the large and small farms operate, production-oriented consumption mainly consists of consumption of seeds for the sake of reproduction and consumption of livestock feed in the conversion of a direct product of the land into indirect agricultural and sideline products (such as buying grain to feed pigs). Obviously, the seed consumption rates will not vary significantly with different farm sizes, nor will the feed consumption rate if raising livestock is a part-time occupation. Then there is the everyday-type consumption. The answer to whether the small farms tend to consume more of their own products than large farms depends on whether we think that small farms are by nature more self-sufficient. Of course, we will need to conduct an empirical study of a large sample before we can make any kind of judgement, but based on preliminary information gathered, small farms have less of a tendency to consume their own products than large farms. Based on data collected in a survey of 27,568 households in the fixed observation points nationwide by the State Council's Agricultural Development Research Center in 1986, the per capita consumption of grain by members of the sample peasant households with farm size of 5-20 mu is 269 kgs; per capita consumption of pork (peasants' own hogs) is 10.2 kgs. For sample peasant households with farm size of 20-50 mu, the per capita grain consumption is 278.43 kgs and pork (peasants' own hogs) consumption is 10.22 kgs.

Two, the scale of farm operation and the price of surplus products

The purpose of exploring the theory behind the internal relationship between the scale of operation and the price of the surplus supply is to clarify one question often asked in real life: Should small-scale farm operations be held responsible for the higher prices of agricultural products (primarily, products of the land)? With respect to supply, the factors that affect agricultural product prices are: cost, total output, total supply, and profit. Then what is the relationship between the scale of operation and these factors? We have already discussed the first three factors. On the whole, under the conditions of scarcity of land and low level of economic development, the small farms are more efficient than the large farms at the macroeconomic level; that is, the

former has lower cost and more surplus product from the land. This obviously should help lower the agricultural product prices, not raise them. So is it the small farms' pursuit of high operating profit that is raising agricultural product prices? Logically, this is impossible. Everybody knows that in a modern society, the small-scale farmers are the weakest interest group. They are scattered and small, and because of the peculiar nature of farm production, the small-scale farmers are at a disadvantage, politically and economically, as they seek profit. It is impossible for them to reap a monopolistic profit in society. In this respect, it is the large-scale farmers who are more qualified to monopolize the market and raise prices. It does not make sense to blame the rampant and continuous rise in agricultural product prices on the small-scale farmers' pursuit of abnormal profit.

Three, scale of farm operation and stability of the surplus supply

In recent years, the market for agricultural products has been turbulent; it has led to friction and instability in life. One popular view is that small-scale production is inappropriate in a large market. This viewpoint seems to be doubting the ability of family farms to keep supply steady. I feel that we should not make this assertion based on the relationship between the small-scale farm structure and unstable supply. On the whole, the small-scale peasant households operate with greater flexibility. The reasons are: 1) the absolute amount of output is small, and so the peasant households can weigh the choices according to market and non-market price and quality signals when making decisions about direct consumption, switching to another business (raise livestock or join the processing industry), stocking up, and sales. 2) The smaller scale operation of the peasant households lowers the cost of adjusting the resource allocation and shortens the cycle. This makes it easier for the small farms to adjust the product-mix and change the supply-mix in the next period of in the future as they get new information from the outside. Here we must emphasize that this kind of flexibility in the adjustments of production and the quantity and mix of supply by the family farmers nevertheless is but a possibility. From the point of the small-scale farmers as profit-oriented market entities, this kind of adjustment itself is not the goal but the means to obtain higher income or at least maintain the present income level. They must pay a price to make these adjustments. From the point of the absolute cost of making adjustments, it may be less costly for the small farms than the large farms, but if we consider the economic fact that these small operations have little capital and small profits, in the relative sense, the price the small farms pay and the pains they suffer in making production changes are no less than the large farms. Thus economic mechanisms do not support the view that it is inherent in the economic operations of small farms to cause frequent supply fluctuations. The instability and frequent changes in supply are due to a large extent to the peasant households' attempts to meet and adjust to external demands and structural changes and are not

initiated by the peasant households themselves. The small-scale farmers probably are more sensitive and react to outside information faster than the large-scale farmers. But if the latter turn out to be economic entities whose basic goal is also to pursue higher income, then we feel that except for the difference in timing and magnitude, the large-scale farmers will also react to outside changes and make adjustments in the same way as the small-scale farmers. Here, in the deep sense, the roots of contradiction in today's market fluctuations are found not in the small producers or the big producers but in the so called "big market." In other words, it is a question of whether today's demand for agricultural products, and the change in demand, is reasonable. This obviously is one of the themes of the thorough reform and is not something we can resolve by changing the scale of operation.

IV. The Scale of Farm Operation and Economic Development

So far we have analyzed the basic internal relationship between the scale of farm operation and economic development. We can see that during a country's economic development, the size of operation the peasant households choose is not an accident, not a random matter. It is determined primarily by the endowment of resources, the level of economic development, and the stage of economic development and so on, and the size may change as conditions change. These conditions are reflected in concrete form by the balanced mix of land, capital, and labor, the three major factors of economic growth. Their respective state, their relative positions, and their interaction with one another in turn set a reasonable limit to the scale of farm operation, and the change in the interrelationship among these factors is the internal cause for changing the scale of farm operation. The experience of the successful, well-developed countries in general proved that the limit and change in farm size is determined by market mechanism and is spontaneous. For a developing country without a well-developed market, during the early period of economic development, whether the government and society can set the proper standard and structure the scale of farm operation rationally and make farmland the core factor of production often are the founding steps that determine whether the agricultural sector will develop successfully and whether the entire economic system can get become industrialized quickly.

We have discovered that in the last several decades, in theory and practice, the developing countries have gone down a torturous and winding road in this area. In the 1950's, theories on economic development as represented by W.A. Lewis' "dual economy" were widely accepted by politicians of many a backward nations who were eager to vitalize their national economies, and they gradually evolved into a popular economic development concept: With respect to industrial structure, extreme emphasis is put on industrialization; with respect to capital and labor composition, the emphasis is on the

full-scale transfer of the labor force from the countryside to the cities; with respect to the scale of structure, economies of scale are emphasized. This kind of economic development concept became very popular among the developing nations. An important part of the strategy was to push through large-scale farm operations by force. Several decades of practice proved that on the whole this developmental strategy was not successful. In particular, large-scale collective farm operations have failed without exception, including in some Latin American countries where land is abundant. Meanwhile, Japan, Taiwan, and South Korea had adopted a unique developmental strategy. Specifically, they turned to the small farm operation structure and, despite their serious lack of resources, they became quite successful, and so the other countries began to rethink their economic development strategy. Subsequently, economic development theories which pay more attention to balance and harmony, as represented by Schultz's work, have become more popular. In particular, Schultz's innovative exposition on the important role of small-scale farmers in modern agricultural development has been given wide recognition. Backed by these theories, we begin to understand more about the scale of operation during agricultural development. Two economists who specialize in agricultural development analyzed the agricultural production functions using materials gathered in 43 nations over a 20 year period, 1960-1980, and show that there are clear economies of scale in the 21 well-developed nations with per capita income over \$4,000, but in the other 22 less developed countries with per capita income of less than \$4,000, economies of scale are absent.¹

China is vast in territory but has scarce land resources—the per capita cultivated area is only 1.5 mu. Economically, China is still very backward—the per capita income in 1987 was 853 yuan. Besides these two conditions which are harsh by international standard and which have seriously constrained China's growth, China's economic development is also facing some new conditions: One, China got a late start in industrialization. Modern technological advancement and changes in the international market structure mandate that if the economy is to take off, China must concentrate large doses of capital investment in certain crucial industries. Two, as a socialist country trying to achieve economic development, at the early stage of industrialization, China cannot possibly copy the successful industrialization experience of the resource-scarce East Asian nations and adopt the strategy of substituting efficiency for equality and suppress social equality in order to optimize the allocation of society's economic resources. The combination of the above basic socio-economic constraints no doubt will cause China's three major factors of economic growth—land, capital, and labor—to have an extremely poor relationship with one another. With this background, the wisest development strategy will be to maximize the use of our rich labor resources and minimize spending on society's essential capital goods (here we refer primarily to the first kind of capital goods discussed earlier) and combine labor and the land we

have the best way we can to create as much capital as possible in order to nurture and support the rapid development of the modern industrial sector. Today, China's popular small-scale agricultural structure where families are the basic operating units is the form of resource allocation that best suits the country's conditions. It minimizes the labor cost and maximizes the effective input of labor to the existing amount of land to maximize the total output of the land.

As we try to understand the proper scale of agricultural operation and the strategy for overall economic development, we, like many other developing countries, have gone down the same winding road. We neglected the basic problem of excess labor population and put our hopes for agricultural development in mechanization. We failed to realize the all-encompassing and unique function of small-scale farm economy in the country's agricultural economic development and emphasized large-scale collective operations one-sidedly, and we paid a very high price in the process. We can say that, to date, we still have not learned much in terms of theory, and we have even begun to doubt whether we should continue the rural family contract system which we promoted and which has worked for more than a decade. We must pay close attention to this matter. Our pressing situation forces us to have confidence in ourselves. For the country as a whole, families as basic operating units is not a stopgap measure; it is a fairly permanent, fundamental policy of the state.

I am certain that the structure of family-based small-scale operation will play an important role in promoting today's agricultural development and overall economic growth, but this in no ways implies that small-scale farmers can solve our vexing problems better than the large-scale farmers. I want to further emphasize that historically small-scale farming has been a traditional form of organization. Worldwide, small-scale farming is a more popular form of agricultural operation. Why has this popular and durable system not been more successful? The reason is that in order to succeed, the small farm structure must meet certain strict requirements. If we dissect the economic development process in Japan, Taiwan, and South Korea and other nations and regions, we will discover that after making the deliberate decision to preserve the traditional small-scale farming structure, they also undertook many arduous and detail construction and transformation projects. In these countries and regions, as a result of society and the government's hard work, a new background has emerged and new mechanisms have been installed in the small-farm economy, giving the traditional small-scale farm economy a new meaning. This is the essence behind "the mystery of the success of East Asia's small-scale farm economy" which has long puzzled the economists of the West, and it is the key to understanding the many problems China has encountered during its agricultural development. To give full play to the advantages of small-scale farm operations, based on our earlier theoretic analysis and learning from the experience of East Asia, we suggest the following measures:

One, we should adopt a system and a policy to give play to the advantages of small-scale farm economy. If we have to depend on the small farm structure to support our modern economic growth under the constrain of the serious lack of land resources, to a large extent, we must rely on the system and policy to overcome the resource constraints. The experiences of Japan, South Korea, and Taiwan and other East Asian countries and regions demonstrate that upon delineating the rights of the people (their basic rights as workers) and the property rights (the right to own and govern the use of land and other basic factors of production) and other essential socio-economic obligations and responsibilities, we must unite the peasants and the land to form a stable structure that integrates the workers and the land. This is the key to sustaining overall economic growth. Only with this interest structure will the main participants in the agricultural economy be willing to work hard on the land, expend their energy, and use their brains, and only in this way will they not devote themselves to exploiting the land to make a profit but will concern themselves with protecting the land and making improvements and long-term investments. In turn, agriculture which is the foundation of the national economy will look not only to immediate and near-term growth but will focus on long-term, steady development.

Two, we have to lighten the peasants' burdens. Our earlier analysis demonstrates that small-scale farm operations can use low production cost to generate high yield from the land and supply society with low-cost agricultural products. To an underdeveloped country with very little land, this is indeed an "inexpensive" economic structure which can boost the economy. But we should also realize that there is a limit to what this weak small-scale farm economy can withstand. Especially at the early stage of industrialization, if overburdened, the peasant households' normal reproduction process will be ruined. This may force the small-scale farm economy to fall into the "self-sufficiency" trap. Many developing countries have run into this problem. Under the situation, some have tried to use non-economic means to tip the balance of small farm self-sufficiency, but the results generally have been unsatisfactory. Other countries simply changed the structure of agricultural operation and set up collective farms. This will not increase productivity and lower the cost and help the underdeveloped countries with little land to find positive solutions to their problems. They are mostly extra-economic measures to fiddle with the allocation of output. The result in most cases is that the relative share of net agricultural products may be maximized but meanwhile the output of the land has decreased in absolute terms. Eventually, the agricultural sector shrinks and overall economic development is jeopardized. Indeed, China has had a sad experience in this respect. Today, after 10 years of reform, the agricultural sector has taken the first steps back to the normal growth track, but our non-agricultural sector to a large extent has not abandoned the practice of using existing non-economic measures to communicate and deal with the agricultural sector. We

must pay more attention to this issue. If we cannot limit this practice, achieving balance by force will only drive the peasants back into the "self-sufficiency trap" and drive production backwards. If we do not wish to take this route, we must comply with the internal law and meet the demands of agriculture which is the foundation of our national economy and rectify and reform the method of exchange between the non-agricultural sector and the agricultural sector.

Three, we should set up an effective service sector. As we all know, the small-scale farm structure has many inherent, serious flaws, the most serious being that the farms are small and scattered. As a result, in the areas of storage and processing, transportation and sales, information availability, fund transactions, technological development, farmland capital construction and other economic links and activities where economies of scale count, the small farms are often at a serious disadvantage. But from the agricultural development experiences of the East Asian countries, the above problem can be solved by creating a service sector to enlist cooperation and mutual help.

Four, the government's active participation is indispensable. The most important things the government can do to support the small-scale farm economy include the following: (1) Beginning with improving the soil and seed varieties, the government should attach importance to the studies of soil chemistry and bio-genetics and spare no money and invest in and manage effectively the continuous process from the application and development of basic theories to the organization and promotion of production. (2) The government should set up a special system to circulate new factors of production and strive to guarantee the timely supply of low cost, production-oriented agricultural capital goods which are the direct determinants of the productivity of land. (3) The government must gather the manpower and funds to solve all farmland, conservancy, and river problems, guarantee sufficient water supply, and perfect the irrigation system.

Footnote

1. Yujiro Hayami and Vernon W. Ruttan, *Agricultural Development*, 1985 edition, p 139 [source-supplied translation].

Central Party School Remembers Hu Yaobang
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[Article by Chen Weiren 7115 4850 0088: "Training People Up to the End of One's Life—Cherishing the Memory of Comrade Hu Yaobang at the Central Party School"; first paragraph is author's note]

[Text] *The title of this article is the last verse of a poem that Comrade Hu Yaobang sent me on 1 September last year from Yantai. The verse carried within it a meaning of acclaim and encouragement. It is very appropriate to use it to praise Comrade Yaobang himself. Therefore, it is used as the title of this article. The poem expressed the following sentiments: "Across the blue seas we have met again; astonished to hear of your impending retirement; the years of teaching were tedious ones but were well spent; they won for you the praise of training people up to the end of one's life."*

Comrade Yaobang's sudden death brought great sorrow to the thousands of upright Communist Party members who are the millions of common people. People cherish his memory and praise his glorious deeds and lofty character. They have deep sympathy for the various reverses he experienced and feel sorry for him. All this is quite natural.

Before I came to know Comrade Yaobang well, I already had a deep respect for him. After working for him for some time, I respected him all the more. Although he occupied a high position and was a big chief who carried the heavy leadership responsibilities of the party for a long time, he never displayed the least bit of a bureaucratic character but treated all people equally. I and all those who worked closely with him share the same feeling that he was a good teacher and a benevolent friend. He was readily approachable, brave and intelligent, unselfish and fearless, and friendly to the comrades. Nobody felt in any way restrained with him. He was highly sentimental, loved the party deeply, and loved all the people. When anything unpleasant happened, he was easily moved, but toward people and in business affairs he was never directed by mere sentiment. When he met with any setback, he never grumbled behind people's backs but let the general situation take command. He loved the youth fervently, being heart-in-heart with them. He treasured people of talent and was a true and close friend of the vast masses of the intelligentsia. He was broadminded and, even when making an error in speech, he still showed great sincerity, worthy of the heart of a Communist Party member.

It was on 15 May 1977 that I began to work under him. At the time he had been vice chancellor of the Central Party School for 2 months. In early 1978, he was transferred to the post of head of the Organization Department under the Central Committee and concurrently took charge of the important functions of the

general secretary of the Central Committee and head of the Propaganda Department. Up to May 1982, when a new chancellor assumed the post at the Central Party School, I acted as his liaison with the Central Party School, maintaining constant touch with him and frequently contacting him about work. Subsequently, when he no longer looked after the affairs of the Central Party School directly, we had fewer chances to meet. As for our work relations, they lasted exactly 5 years, but our friendship continued intact until he passed away. We last met at his home last October. This year, after his return from a trip to Guangxi, I had planned to visit him, but he suddenly became ill, and I postponed my visit, thinking that I would see him again after he left the hospital. It didn't occur to me that our meeting last October would be the final one. I will always regret this.

Comrade Yaobang has now left us. But during the 5 years that he was in charge of the Central Party School, he had the whole situation in hand and worked day and night to rectify the errors of the Great Cultural Revolution and to remove chaos and restore order. I remember scenes from the past vividly. The great achievement he made for the party and the people shines brighter than the sun and moon and will be forever remembered by the people.

In these days of national mourning, I do not, and cannot, compose for him a biography or give details of his accomplishments. Rather, I wish to look back a little at the interlude when I had a direct relationship with him in the Central Party School and thus express my mournful feelings.

During the 10 years of the Cultural Revolution, the Central Party School, under Kang Seng's direct control, became a center for great disaster. The school suffered great damage overall. In early 1977, the Central Committee dispatched Comrade Yaobang to the school and entrusted him with the heavy burden of restoring the school to normal order. Forced to be suspended for over 10 years, the school was in great need of complete restoration in every respect, but it took only half a year's time for the first class of students to solemnly stage the school opening ceremony. This should be seen as a miracle.

When he came to work at the school to work, the only person Comrade Yaobang brought with him was a private secretary, and therefore, it may be said that he went to the front "single-handedly." Comrades in the school were all aware of the fact that during the Cultural Revolution he had been cruelly persecuted by Kang Seng and Jiang Qing and that he had stood definite and unyielding. This, plus the knowledge of his accomplishments from the time he had headed the Institute of Science, from the very beginning won for him the respect and support of all the comrades in the school. After he took office, he worked hard day and night and organized a temporary leadership team. With one hand, he grasped the work of "revealing, examining, and rectifying" past

misdeeds, and with the other hand, he grasped the school restoration preparatory work. At the time, the main building of the school and a great portion of the students' dormitories were occupied by units of the armed forces, and when they were subsequently evacuated by these armed units, they were found to be in great disrepair. Moreover, because of the Tongshan earthquake, some of the buildings could no longer be used and had to be repaired. This work was truly hard, but as a result of effective assistance from all sides and efficient and effective leadership work by the units, the repair work proceeded and progressed very rapidly.

In the school, there were problems of ideology, line, policy, and even organization that needed to be cleared up and improved, all of which added to the difficulty of the tasks. Comrade Yaobang had ample experience and was very resourceful. He relied heavily on the masses and on utilizing the calling of both large and small meetings. Based on the principle of "not only stabilizing the situation but also clarifying the problems," he gave the masses a free hand in first clarifying the 10 years of problems of the Cultural Revolution, and he soon had the masses mobilized. For comrades who had committed errors, he still insisted on the guideline of punishing the guilty ones as a warning to others and curing the disease so as to save lives, and the principle of making stern criticism in matters of ideology, but of being generally lenient in handling and judging. (This was referred to as "cold handling"). This caused those comrades who had committed errors to become satisfied both in words and in their hearts, transformed passive factors into active and positive factors, and reaped excellent results.

In the campaign of "revealing, examining, and rectifying," Comrade Yaobang's greatest accomplishment was in guiding all of the comrades in the school to take the lead in removing the lid that covered Kang Sheng. This exposed the real countenance of this political imposter in bright sunshine, and played an important role in intensifying the development of the national campaign of "revealing, examining, and rectifying." The root of the problems of the Cultural Revolution for the Central Party School was Kang Sheng, and exposing this "enormous creature" clarified and solved all the problems. The problems of all the units and departments in the country directly and indirectly under Kang Sheng's control and influence were also thus solved.

On the basis of doing a good job in "revealing, examining, and rectifying," and under Comrade Yaobang's leadership, efforts were immediately made to redress the cases of those in the school who had been wrongfully, falsely, and erroneously accused. First, the wrongs done by Kang Sheng and Chen Poda to a group organization of several hundred people were redressed. Next, some 90 students and staff members who had been marked as "rightist elements" in the 1950's were also cleared. These two steps played an important promotional role in the country as a whole.

Comrade Yaobang was always concerned about, and interested in, redressing cases of injustice, falsehood, and erroneous deeds, and was also enthusiastic about carrying out the cadre policy. Before he became head of the Organization Department, he was principally busy with the restoration work of the Central Party School. At that time he had already received many letters of complaint about injustices from various people (some of whom he was acquainted with and some not), seeking his help. He would personally go over such letters and, based on the circumstances, refer the matters to the departments concerned. During the period of his incumbency in the Central Party School, the school gates were not always closely watched and people could freely come in and seek direct help from Comrade Yaobang. I still remember the case of a female citizen who had come all the way from Heilongjiang Province. She was then a member of the Youth League for Reclaiming Wasteland. Because certain problems could not be solved, she had come to see him. Comrade Yaobang gave her a warm reception and, after personally acquainting himself with the facts, wrote a letter and asked her to take it back to the departments concerned. When she was on the point of leaving, he asked her if she had enough money to pay the fare for the return trip and gave her some money from his own purse. This lady comrade was impressed to the point of tears and departed gratefully. Cases of this kind were not uncommon. He always said to us: When people come to me to enforce a policy or to redress a wrong, it is my duty to attend to it, but in cases when people come to me and bring up certain excessive demands such as finding a good job for their children or complaining about their rank being too low and so forth, then not only will the cases not be settled, but these people may be subjected to criticism if the demands are too irrational. Also, some people who worked for many years in outlying provinces came to see Comrade Yaobang to seek a transfer to work in the Central Party School. Regarding this, he frequently said the following to us: It is certainly good that comrades come of their own accord to this school to seek work, but if their purpose is to seek a place in officialdom, then they have come to the wrong place. Actually quite a number of people did come to the school to seek the job of an official. He did not accept any of these applications but, instead, patiently advised the applicants to stick faithfully to their jobs in their own localities, and said that if they found their present jobs in the provinces not exactly to their taste, they should try to get transferred to other jobs in the provinces instead of coming to Beijing. He said that Beijing already had too many people.

In Comrade Yaobang's opinion, enforcement of the policy of cadres since the smashing of the "gang of four" was a big problem that urgently needed to be solved by the whole Party.

He sought out three comrades of the party school, telling them in detail what he had in mind and asking them to draft an article detailing his thoughts. When the article was completed, he carefully read it over and made the

necessary corrections and revisions. Its publication elicited an overwhelming response from the entire country. Old comrades who benefited from this article should remember the important role of this article. At the very least, we can say that the article broke through the shackles of the "two fanshi's," that is, the bondage of the "two any's," and played a promotional role in the Central Committee's determination of a policy for the large number of liberated cadres.

In the 5 years of Comrade Yaobang's leadership and concern with the work of the Central Party School, his most influential historical feat was perhaps the founding and running of the small publication THEORETICAL TENDENCIES. It was not the HUOXING BAO [TORCH magazine], but it truly ignited a brushfire that spread to every corner of the thinking and ideological front line of removing chaos and restoring order. Comrade Yaobang created the idea of running such a magazine. He determined the guideline, named the magazine, and proceeded even to the extent of ruling that there should be only one article per issue, that the topic would be a different one in each issue, and that the magazine would come out every 5 days.

The first issue of this magazine appeared on 15 July 1977. At that time there was no formal "editorial board," and including Comrade Yaobang himself, there were only 3 to 5 workers on its staff. On the completion of the first stage of the "revealing, examining, and rectifying" work in the school, he always pointed out that the "gang of four" disrupted people's ideas; that Marxism had been rendered by some people into something in which it was difficult to distinguish between truth and falseness and between right and wrong; that some so-called theorists would rather "recite from memory citations from books," or be mere "commentators," spreading falsity with falsity and denoting ossified ideas; and that lively and vivacious theories had been "converted into doctrinairism." He said that many theoretical journals were not linked with reality, dealt little with the point at issue, and could scarcely solve any problem. He also said frequently that under the influence of the extremely "leftist" elements, many people had never clarified the problems of what theory is, what a theorist is, where a theory comes from, and what a theory does. Theory comes from the summarization of actual practices; if theory is not in liaison with reality or does not solve actual problems, how can it be called a theory? In the final analysis, Comrade Yaobang's idea of publishing and running the THEORETICAL TENDENCIES was to liaise with current realities, affect a thorough overhaul, remove chaos and restore order, and thus solve the problems. First of all, he meant to reverse the wrongs in thinking, ideology, line, and policies of the gang of Kang Sheng and Jiang Qing. Comrade Yaobang declared: Do not overlook our little magazine. Making a good job of it is equivalent to establishing another party school on a much wider scale.

In the beginning very few copies of the magazine were printed; the first issue consisted of only 300 copies. They

were first given to some older comrades to read in order to solicit their views. The first response seemed to be very good, and the magazine seemed to be well received. Accordingly, more copies were printed with each issue. Since it was for domestic consumption, its circulation was somewhat limited, but the limit was always broken. Subsequently, because many of the articles in the magazine were reprinted for public circulation by such large papers as the RENMIN RIBAO, GUANGMING RIBAO, JIEFANGJUN BAO, and others under the guise of "article by this paper's special commentator," its influence was increasingly extended. The basic number of copies of each issue was then fixed at about 10,000.

In the first 2 years of the magazine, the title and content of each article was selected by Comrade Yaobang himself. He read over the manuscript of each and every article, and all of the more important articles were screened and revised by him.

Of the many influential articles in the magazine, the one entitled "Actual Practice Is the Only Criterion in the Examination of Truth," which appeared in the very first issue in May 1978, was probably the most influential one. Although this article was contributed from the outside, it was published after having been greatly revised by certain relevant cadres of the party school, in accordance with Comrade Yaobang's ideas and wishes. After this article was first reprinted for public circulation by GUANGMING RIBAO, it attracted the widespread attention of the theoretical circles. In particular, the leadership comrades of the Central Committee gave it extraordinary attention, believing that it had brought up a very vital problem. Subsequently, discussions on the problem of the criterion for truth gradually spread throughout the Party, and this article prepared the ground for the 3d Plenary Session of the 11th CPC Central Committee's proposal of the ideas and theories on removing chaos and restoring order. In the great and farsighted discussions on the criterion for the examination of truth, many comrades have offered their contributions, but the contributions of Comrade Yaobang cannot be underestimated.

Comrade Yaobang was a great proletarian revolutionist and statesman. There is no doubt about this, and his claim to this status is beyond question. Some people have questioned Comrade Yaobang's being an outstanding theorist of Marxism, but this is a misconception and, at the very least, it represents a confused concept of "what a theorist" and is still bound by a traditional mistaken concept. When we worked with Comrade Yaobang on the affairs of the party school, we were fully aware of the exceptional attention he paid to explaining many problems from the theoretical standpoint. When we told him that we had run short of manuscripts for the THEORETICAL TENDENCIES magazine, that we had no topic to write on and that it was like waiting for rice for the cooking pan, he would forthwith criticize us by remonstrating that there were indeed many problems. He would then open up and talk, and in the end, we were

convinced that "hearing his views was more valuable than going to school for 10 years." From one of these talks we could frequently derive many "shining" views on possible topics for writing. As everybody knows, Comrade Yaobang was fond of reading books, such as the *Collected Works of Marx and Engels*, and the *Collected Works of Lu Hsun*. He read these books when he was with the "7th May" Cadres School. After resuming work, he still continued to read in his spare time. He had an extremely good memory and was very efficient about reading documents and articles. Compared with him, so-called "scholars" like ourselves, who are presumed to be "cultured" and "well-educated," are very far behind. If Comrade Yaobang were not a theorist of Marxism, how could he have been such a sharp and quick thinker, so adept in continuously unearthing new problems from the realities of life, and so able to offer views far superior to those of others in solving these new problems? If he had not been a far-sighted superior person who had extensive knowledge and at the same time a deep and superior knowledge of the theories of Marxism, he could hardly have become the bosom friend of the intelligentsia and the good teacher and benevolent friend of the young people, with whom he was heart in heart.

The 5 years of Comrade Yaobang's administration of the affairs of the Central Party School are recognized by the great majority of the comrades as the school's best years in history. On the most fundamental problem of the liaison of theory with actual practices, he offered a shining example for us. He advocated that the party school be a strong citadel for firmly insisting on and defending Marxism and be the model for inheriting and developing the party's superior traditions. He also called for eliminating superstition and liberating thinking in the course of learning and carried out the principle of the "four don't's" (don't grasp others' misdeeds, don't use the cane or stick, don't wear any unsightly caps, and don't act as a mere keeper of files), and so on and so forth. These are all basic guiding thoughts that should be insisted on for a long time to come and be truly enforced in running a party school.

Comrade Yaobang has departed from us, but all of his accomplishments have survived and remain among the people. His passing was like a bolt of lightning, gone suddenly and forever, but his love for the party and the people will remain forever for mankind. His too-early demise has filled people with enormous remorse. "Too sudden indeed for the spring flowers to wither"; "his passing is people's life-long loss like the river water forever flowing eastward." But people's love for him will be endless, like the flow of water of the Chang Jiang and the Huang He.

To express my condolences in the afternoon of the day of his passing, I wrote four verses in his honor at the funeral services. In conclusion, allow me to cite them below:

He worked hard in wartime and in peace for the sake of the people;

His 10 years of development work attest to his brave deeds;

Sad that his passing was overly early,

But at the 3d Plenary Session he fully demonstrated his able leadership.

Speculation, Profiteering Remains Serious Despite Crackdown

40050466 Beijing JINGJI RIBAO in Chinese
30 Mar 89 p 3

[Article by Ma Lique 7456 4539 5942 and Huang Xiaoying 7806 2556 5391: "Number of Cases Down, But Criminals Getting More Sophisticated"]

[Excerpt] Amid the drive to rectify the economic environment and restore economic order, what is the current situation in illegal speculation in the sphere of circulation? The answer to this question can be found in the statistics released recently by the State Administration for Industry and Commerce. In 1988, in the wake of rectification and restoration and a severe crackdown by the departments concerned, speculation and profiteering in the sphere of circulation, which at one time were raging out of hand, began to subside a little, and the number of cases has been leveling off. The economic inspection system of the State Administration for Industry and Commerce investigated and closed 945,580 cases, a drop of 21.6 percent from 1987.

According to statistics on 30 provinces, autonomous regions, and municipalities directly under the central government, although there were 200,000 fewer cases of speculation and profiteering investigated last year compared to 1987, circulation chaos remain a glaring problem. Economic crimes, such as the stampede to jack up prices, hoarding and speculation, and reselling at a profit, were legion everywhere, seriously disrupting reform, economic vitalization, and implementation of the open policy.

A salient feature of illegal speculative activities at present is the increase in serious crimes involving bigger and bigger sums of money. In the past, speculation usually revolved around sought-after daily consumer goods in short supply, such as color television sets, refrigerators, and bicycles. The sums of money involved were quite small. As the commodity economy developed, speculators and profiteers started eyeing capital goods, like steel, automobiles, cement, and chemical fertilizers, from which they could reap staggering profits. Illegal profits have been shooting up. Reportedly, the number of cases investigated last year that netted more than 10,000 yuan each increased 58.2 percent over 1987. In Heilongjiang Province and Chengdu, Sichuan Province, a number of major cases have come to light involving millions of yuan in illegal profits. In 1988, industry and commerce administration agencies across the country

collected 600 million yuan in fines and confiscated funds, a historical high. This gives you some idea of the extent to which speculative crimes have "appreciated."

Of all the cases investigated, a majority involved speculation in primary capital goods and the manufacturing and marketing of bogus, shoddy products. Statistically, these two categories made up 70-80 percent of all cases investigated. In some provinces, they accounted for a high 90 percent. The reason is that, with the overheated national economy, the demand for capital goods has far outstripped supply. Moreover, because of weaknesses in the economic system, some capital goods are under a "dual-pricing system" that has made for steady increases in market prices, giving speculators an opportunity they can exploit. There has been a marked increase in reselling at a profit. Because the steel market was rectified last year, speculation in steel dropped 32.6 percent compared to 1987. In the same period, however, speculation in automobiles, nonferrous metals, diesel oil, and coal doubled over 1987 levels. Despite repeated crackdowns, crimes nationwide involving the marketing of counterfeit or substandard products have not been stamped out and are actually worsening in some places. In September 1987, the State Council promulgated the "Provisional Regulations on Administrative Sanctions Against Speculation and Profiteering," which stipulate that the "manufacturing and marketing of bogus, counterfeit, forged, and shoddy merchandise" shall be regarded as speculation, and people convicted of such crimes shall be punished severely. Nevertheless, because these activities require little capital and yield huge profits, speculators continue to engage in them brazenly. In some localities, there are more than 200 kinds of counterfeit products, primarily chemical fertilizers, pesticides, seeds, tobacco, brand-name liquors, and domestic electrical appliances. Then there are some distributing enterprises with misguided business thinking. To make a profit or earn a sale commission, they do not hesitate to damage the interests of the state, the collective, and the consumer and sell what they know to be forged or shoddy goods, effectively providing a "hotbed" for the proliferation of counterfeit-ing and marketing of substandard goods.

State and collective enterprises and institutions are the offenders in most of these cases. In fact, the number of such cases has been increasing, which results in a situation that merits our attention. Statistics show that of the 60,000 major cases investigated last year, more than 30,000, or 51.3 percent, were committed by units, up 1.1 percent over 1987. Institutional criminals accounted for 60 to 80 percent of cases investigated in such provinces as Heilongjiang, Hubei, Anhui, Henan, and Shaanxi. Based on an analysis of relevant data, among the institutional criminals, agencies that handle material and supply, tobacco, timber, and coal are the most frequent offenders. These are some of the ways in which such agencies break the law: First, material and supply agencies resell a piece of merchandise among themselves, with each unit charging more at every turn. Second, some commercial agencies jack up prices layer after layer

from top to bottom. Third, specialized units speculate in specialized merchandise or take bribes in return for supplying goods to speculators. Fourth, companies where government and business functions are not separated engage in speculation by exploiting their distribution and allocation power. More and more state and collective enterprises have been found guilty of speculation and profiteering for the following reasons: One, some enterprises have been led astray by a misguided business philosophy. Taking advantage of the opportunity afforded by reform, the opening policy, contracting, and economic vitalization, they engage in illegal activities for the simple purpose of making a profit. Two, they exploit the loopholes provided by the serious shortage of capital goods and the wide disparity between the supply and demand of articles for daily use. Three, some enterprise managers and leaders have a weak understanding of policy matters and a fragile sense of legality. They break the law because they know little about the law.

How speculators ply their trade has also changed. As the crackdown on economic crime intensifies and the socialist legal system steadily approaches perfection with more and more laws, regulations, and rules, speculators and profiteers too have gotten more subtle and cunning in their operations, looking for loopholes in the law which they can exploit. Judging from information on the situation in Shanghai, Fujian, and Jiangsi, some criminals engage in speculation and profiteering under the guise of "joint operations" and "cooperation;" some take advantage of the differences in local regulations and shift their operations from place to place; and some collude with and cover for one another, working together to line their pockets. Then there are those individuals who ostensibly go into contracting and use their enterprises as a front while engaging in speculation on the sly. A number of enterprises even operate as units in the name of a certain individual and engage in speculative activities.

In investigating and handling speculation cases, the departments concerned have found that state employees, cadres, and retired personnel have come to account for a rising percentage of offenders. In 1988, 11,700 state employees, cadres, and retired personnel were involved in speculation and profiteering cases, an increase of 63.7 percent over 1987. The increase has been even sharper in some provinces. In Shandong, for instance, the increase was 180 percent, and in Henan, over 200 percent. According to some local industry and commerce administration agencies, more and more intellectuals are getting into speculation and profiteering. Of the people investigated for black-market dealings in treasury bonds by the industry and commerce bureau in Jingan District in Shanghai last year, teachers and engineers made up 14.3 percent, up about 10 percent over 1987.

The sharp jump in the number of cases investigated in the fourth quarter of 1988 is a major feature of the drive against speculation and profiteering last year. To realize the spirit of the 3d Plenary Session of the 13th CPC Central Committee, rectify the economic environment,

and restore economic order, industry and commerce administration agencies at all levels have been shifting their resources since October 1988 to the investigation of major cases uncovered in the process of company rectification and restoration of market order. According to incomplete data, the industry and commerce administration agencies in some places investigated more major cases and confiscated more money in the fourth quarter than in all three preceding quarters combined. The Industry and Commerce Bureau of Hunan Province, for example, investigated 15 major cases and turned over to the treasury 32 million yuan in fines and confiscated funds in the fourth quarter, compared to 5 cases and 13 million yuan in the first three quarters. The Economic Inspection Office of the State Administration for Industry and Commerce examined, reconsidered, and directly investigated 12 major cases involving 6.7 million yuan in fines and confiscated funds in the first three quarters, compared to 17 major cases involving as much as 15 million yuan in fines and confiscated funds in the fourth quarter.

In 1988 the state revised certain policies and adjusted the prices of some commodities. These changes have resulted in a new twist to speculation and profiteering activities, which should be taken note of by the departments concerned:

1. An increase in speculation in gold. In 1988, industry and commerce administration agencies across the country uncovered 529,000 grams of gold in speculation cases, almost a twofold increase over 1987. Zhejiang Province investigated more than 70 speculation cases involving more than 10,000 grams of gold in just 4 months. One inspection station in Zhangzhou, Fujian Province, uncovered almost 1,000 grams of gold in just one case.

2. An increase in speculation in tobacco and grain. As part of the shakeup of the tobacco industry last year, Zhejiang Province investigated over 2,800 cigarette cases and uncovered more than 6 million cigarettes that had been the object of speculation. As the gap between the supply and demand of grain widens, grain and grain coupons have become "hot" items for speculators and profiteers. A grain and oil company in a certain city in Anhui Province sold 900,000 kilograms of grain last year in violation of regulations. Three county-level municipalities in Zhejiang Province illegally purchased grain coupons involving 3.48 million kilograms of grain in 1 year alone in hopes of reselling them later at a profit. [Passage omitted]