

JPRS-CAR-89-062  
14 JUNE 1989



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# ***JPRS Report***

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# **China**

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# China

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## GENERAL

### Approaches to Political Pluralism in USSR, Yugoslavia, Eastern Europe

40050425 Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 4, 23 Feb 89

[Article by Tong Chuan 0681 1557: "Political Pluralism in the USSR, Eastern Europe, and Yugoslavia"]

[Text] Several years ago, to talk of pluralism in the socialist countries would have been completely unimaginable. However, following the present step-by-step deepening of political structural reforms in the East European countries, "socialist pluralism" has become a topic of intense popular interest in the social and political life of these countries, and an important form of expanding democracy and improving the leading position of the ruling parties in these countries.

Looking at the general situation today, we see that the discussion of socialist pluralism in the USSR, in the East European countries, and in Yugoslavia is mainly centered within academic circles interested in the theoretical aspects of the issue. Since recently, scholar-specialists of these countries have one after the other published articles in newspapers and periodicals of their countries, in which they explore the theory of socialist pluralism and elaborate on the topic. Due to the national differences in actual conditions and in their perceptions of socialist pluralism, their theories and proposals differ widely, but when it comes to the basis of their theories, it is more or less the same. It is that following the deepening reform of the economic system, the diversification of economic components, the invigorating effect of the market economy, and the delegation of powers to lower levels, new interest groups were bound to arise in society. The economic interests and the status of these groups will of course naturally intrude into political life and into ideology. Acknowledgment and affirmation of these different economic interests and positions in socialist society constitutes the substance and foundation of socialist political pluralism. In an article published in the Bulgarian WORKER'S CAUSE, the Bulgarian doctor of philosophy Dunvoliev Yanov expressed the opinion that pluralism is a manifestation of the diversification of various opinions and ideas, while various viewpoints and thoughts can only be the specific expressions of various social interests and value concepts. The pluralism of concepts and thoughts can, therefore, only be subjective expression of objective social pluralism. He also stated that pluralism affects every aspect of the economic foundation and the superstructure. It can possibly achieve a certain equilibrium between the immense variety of elements in economy, politics, culture, and social affairs. In his article in the Soviet Russian weekly NOVI MIR, the Soviet doctor of philosophy Geliyan pointed out that a diversification of ideas and views, and the possibility to openly express these different ideas and views, are essential and special characteristics of a free and democratic society. The Soviet

Union did not allow any dissenting view to exist in the world, and this has greatly destroyed the psychological equilibrium in that society. He believed that "openness" and "pluralism" are "weapons in the socialist arsenal matched by no other weapon," which enable balancing the great variety of social interests, and which can, with incomparable effectiveness, guarantee social justice, sense of responsibility, and stability in society.

Since socialist political pluralism is inevitable and has its great advantages, in what form should it be materialized and safeguarded? On this point, several scholars have put forward different views and proposals. A Bulgarian scholar expressed the opinion that socialist pluralism is not tantamount to irresponsibility, laissez-faire, and anarchism, but must rather be a democratic way of achieving unity of thought and action. "According to its substance, nature, and function, socialist pluralism must be developed to become a type of pluralism that eventually becomes a monolithic structure." The Soviet doctor of law B. Kulashvili said in an article published in IZVESTIA that a socialist multiparty system will be an important element in the future socialist system, that socialism must institute a multiparty system, and that therefore socialism will have to have an opposition party in the national congresses, so that by a structure of restraints and balances one can prevent one individual gathering all powers in his hands and misusing them. The Hungarian social scientist Gombar Csaba said: "Government must become an alliance of various interests represented by various parties." Another social scientist Mihaly Bihari expressed the belief that "the multiparty system is unavoidable" and that "the Communist Party will be able to truly realize socialist democracy and elimination of bureaucratism only under the pressures of a multiparty system." Janusz Kuczynski, a Polish professor at the University of Warsaw, said the Polish constitution must recognize the existence of socialist opposition parties. He believed that "in Poland, the question of opposition parties has now become a consequence of recognizing pluralism and is the political concretization of pluralism." From all these expressions it is very evident that although the various scholars in the USSR and in Eastern Europe differ in their perception of and proposals for socialist political pluralism, the special radical, advanced, and theoretical character of their statements is very obvious and also very much identical.

As to the official stand taken in the USSR, East European countries, and Yugoslavia, interpretations and perceptions of political pluralism show very evident differences and different points of emphasis, in the same manner as the differences in theoretical academic circles. Yugoslavia recognizes pluralism of social self-governing interests, agrees to setting up a pluralistic political structure, but opposes a pluralism of political interests and opposes a multiparty system. Poland believes that the pluralism of social interests demands that Poland adopt a system of political pluralism. Poland now energetically endeavors to achieve a new form of alliance which would hold power and include various political parties and also

parties of constructive opposition, such as "Solidarity." Its purpose is to rally all forces that can be rallied and to undertake the reform of the economic and political structure. However, as Poland's leading personality, Jaruzelski, said, political pluralism must under no circumstances "exceed the borderline of state security and the people's security," the mechanism of plurality must conform with the principle of preventing deviation from the socialist system, and Poland obviously opposes any multiparty system. The Soviet Union recognizes the existence of a plurality of interests in socialist society, but the socialist pluralism now being proposed by the Soviet Union is a plurality of public opinions and views, or, as Gorbachev said, a plurality of thoughts. He considers it wrong if some criticize pluralism as seemingly lacking a particular stand, because it is only in a confrontation of ideas and a comparison of views that truth can be discovered and an accurate conclusion arrived at. The Soviet purpose in practicing pluralism is to strengthen democracy and supervision, to "afford protection and strengthening of the political line of reform and of the cause of socialism." The Soviet Union firmly adheres to the one-party system and does not propose a multiparty system. In Hungary, which stands at the forefront of the socialist political restructuring, there is a difference of opinion in official quarters as to how to realize political pluralism. Some suggest establishing a pluralistic political system within the sphere of a one-party system. Grosz, the leader of the Hungarian party, said on one occasion that the Hungarian Socialist Workers Party [MSZMP] will "consider a future under the condition of a one-party system," and that "the fate of socialism does not depend on whether a one-party or a multiparty system is being practiced," and also that "while it is possible that good can come from a one-party system, it is also possible that bad can come from a multiparty system." He recently emphasized that "one must not give freedom of action to antisocialist parties." Another group of people, however, believe that although the multiparty system is to be the ultimate result of the political structural reform, one must not rush it overhastily; the most one can now do is realize political pluralism. Nemeth, who recently assumed the post of president, once said: "The multiparty system is absolutely compatible with socialism," and that the trend toward a democratic political structure cannot be reversed, but that Hungary will for the present carry on within the one-party system. "If we were attempting to change too hastily, the consequences could be catastrophic." Still another group within the MSZMP believes that political pluralism is tantamount to instituting a multiparty system, and they demand instituting a multiparty system as soon as possible. This is the opinion of Pozsgay and Nyers, who are members of the Politburo of the MSZMP. Not long ago, Pozsgay called for Hungary to "institute a multiparty system within the next two years."

In the practice of political restructuring and socialist pluralism, the Soviet Union, the East European countries, and Yugoslavia have carried out different procedures, depending on their national conditions. Yugoslavia does not permit the existence of opposition parties or

democratic parties, and does not allow legitimization of illegal organizations. A system of political pluralism is being realized through widespread political consultations through the League of Communists, with societal supervision, within the trade unions and through other such social organizations, but the League of Communists is the core of it all and plays the decisive role. Poland practices a system of political rule by an alliance of several parties. The substance of it is mainly that the Polish United Workers Party, on the premise of maintaining its leading position in the state and playing the leading role in the guidance of society, will form an alliance with the Polish United Peasants Party and the Democratic Party, and with the participation of a religious organization and nonparty personages will jointly exercise the state's political power. In 1983, Poland also established a new united front organization, the Patriotic Movement for National Revival. Membership of this organization was composed of members of various parties, religious organizations, and workers' and youth organizations. They regularly submitted proposals on state affairs and became an important organ for social consultations and joint government. Last year, when the Polish government was reorganized, the four cabinet positions that were vacated, including that of vice president, were reserved for "constructive opposition parties." In Hungary, the trade unions, the democratic front, and social organizations are playing an increasingly important role, and positions—even that of president of the republic—were opened to nonparty candidates, except for positions in the party. The authorities encouraged and supported establishment of social organizations and clubs if they recognized socialism and observed the constitution. When the national congress of the MSZMP decided at its meeting in May last year to deepen the reform of the political system, there was a rapid increase of political organizations set up spontaneously by the masses. By now there are more than 20 of them, and some of the more influential organizations have been joined by highly placed party members. Nyers, member of the Politburo of the MSZMP, joined the "New March Front" and assumed a leading position in this group. These mass organizations play an increasingly important role in the internal political life of Hungary. Recently, Hungary acknowledged in law the legitimacy of other parties. In the Soviet Union too, quite a few social organizations and groups have emerged recently. The Soviet authorities do not adopt stronghanded measures of restrictions, suppression, and banning of these organizations, but have them as far as possible conform to the needs of the reform. Of course, the authorities will prohibit organizations that are obviously nationalistic, anti-Soviet, and antisocialist.

In summary, socialist pluralism in the USSR, the East European countries, and Yugoslavia is still at the stage of theoretical exploration, and in practice only initial steps have been taken. Even though the development of socialist democratization urgently calls for socialist pluralism, such questions as how to proceed in political restructuring, whether socialist democracy really

means political pluralism, and whether pluralism must definitely lead to a multiparty system, are questions that cannot be resolved overnight. Because of differences in national histories and national conditions, differences exist as to the stage to which the political and economic structural reform has advanced in the different countries; and because there are bound to exist great disparities as to the form and content of political pluralism so far realized, one must not and ought not give a uniform answer. Judging by the

present situation, the political restructuring in the USSR, the East European countries, and Yugoslavia consists mainly in structural adjustments, the separation of party and government, and promotion of democratization. As to the prospects for political reforms in these countries, it will perhaps be as one Yugoslav scholar expressed it: "On the public stage of all these countries, filled with problems, divergences, and conflicts, a more realistic social presence will in the end attain legitimization."

**Article Says Mao Initiated Criticism of Zhou Enlai**

40050318b Hong Kong CHING PAO in Chinese  
No 139, Feb 89 pp 58-59

[Article by Wu Gang 0702 6921]

[Text]Summary: Mao Zedong had told Wang Hairong [3769 3189 1369]: "The criticism this time of Lin Biao and Confucius should also have its darts directed to some actual problems. The criticism of Confucius is directed toward the 'golden mean,' which is the central point of Confucian thought. [Zhou] Enlai has some 'golden mean' thinking in him, for at any time, he is neither left, nor right. The time to start criticizing Duke Zhou has arrived."

**A Lonely Man Facing Three Women**

The date 8 January 1989 marks the 13th anniversary of the death of Premier Zhou Enlai. In the hearts and minds of the Chinese people, Zhou Enlai was an incomparably great personality in the leadership ranks of the Chinese Communist Party, an example of their highest ideals. His loyalty to Mao Zedong was unquestionable. But the "premier" who had devoted his whole life to supporting Mao was, in the end, abandoned by Mao Zedong, and died with regrets unexpressed. In these circumstances, Mao's conduct as a person was unduly thoughtless.

Recently, in a factual narrative by Lin Qingshan [2651 7230 1472] ("Destruction of the Gang of Four Clique"), he exposed the secret of Mao Zedong's persecution of Zhou, the reading of which fills one with much sorrow and anger.

The article describes the loneliness Mao Zedong experienced in his final years, for "people who could really talk openly with him had become fewer and fewer. Usually he was by himself in his office, a lonely figure. He was even becoming impatient with his band of cultural revolutionaries, and exchanged little conversation with Jiang Qing. After Zhou Enlai became ill, his few old comrades became even fewer. That large office was usually very empty." In his boredom, Mao Zedong was only able to learn about conditions not carried in reports and documents from several "little devils." These "little devils" were three women he strongly favored.

Wang Hairong had been incorrectly rumored to be Mao's niece. Actually Wang Hairong's grandfather Wang Jifan [3769 1323 4636] and Mao Zedong were first cousins, and Wang Hairong was a slightly more distant cousin on the grandchild level, and not a niece. Taking advantage of this blood relationship, Wang Hairong jumped quickly into a vice minister position at the Foreign Ministry right after leaving school. People gave her a nickname "King [homonym of Wang] of the Foreign Ministry" reckoning her domineering attitude.

Tang Wensheng, who was like a shadow to Wang Hairong in their comings and goings, originally was a "senior translator" specializing in translation work for high-ranking officials. After the "gang of four" was overthrown, she was assigned to the English-language ZHONGGUO RIBAO as a deputy editor in chief. Even now, Wang Hairong and Tang Wensheng are still single and unmarried. Zhang Hanzhi [4545 0698 0037], the third woman in this group, came from a well-known family. Her father, Zhang Shihzhao [4545 0099 6856], was a former minister of education under the old Nationalist regime. A few months ago, Zhang Hanzhi wrote an article in remembrance of her father that was published in the monthly WENHUI YUEHAN [WENHUI MONTHLY]. In it, she had some veiled criticism of Lu Xun lashing out in his writing at her father some years back. After some forty odd years, she is the first person to dare criticize Lu Xun. Zhang Hanzhi was also a "senior translator" originally, who later married Qiao Guanhua [0829 0385 5478].

**The Background for Criticizing Lin [Biao], Confucius, and Zhou [Enlai]**

Lin Cingshan's historical record describes how these three women have "no inhibitions" in front of Mao Zedong, and "tell him anything that is in their minds." Once Wang Hairong sat beside him and asked very solicitously: "Uncle, how is your health lately?"

Mao Zedong replied: "The sunset is fine, only twilight is nigh. The time is getting closer by the day for me to report to the place where Marx is now."

In discussing the problem of "criticizing Lin Biao and Confucius," Wang Hairong had said: "Uncle, I have an idea, but do not know if it is right." Following this, she told false tales slandering Zhou Enlai. She continued, "I always felt that Premier Zhou, in spite of his great talent and his performance of many good deeds for the party and the Chinese people, has an attitude of remote detachment toward the Cultural Revolution. Wherever the rebels light a fuse, he would go there to put it out. Whenever the rebels wish to overthrow someone, he would always be there to defend them. He says he supports the Cultural Revolution, but his actions always show his independence and defiance of the movement."

After listening to Wang Hairong, Mao Zedong always agreed, and took action. He said: "This time, the great movement to 'criticize Lin Biao and Confucius' cannot be an empty cannon! Some darts should be directed at some actual problems. Directed at what though? Lin Biao is no longer around, and there is not much left to criticize. Now, who is left who will dare come forward and say something good about Lin Biao? Even if there are some people, there are not that many. But when we criticize Confucius, remember that the central point of

Confucian thought is the 'golden mean.' Now, Enlai has some 'golden mean' thinking in him, for at any time, he is neither left, nor right. The time to criticize Zhou Gong has arrived."

Mao Zedong had brought on the downfall of Liu Shaoqi with his article "One of My Wall Posters." Though he did not mention Liu Shaoqi's name directly in his writing, he used obscure and acid language directed at his opponent. This time, he directly interjected "criticizing Duke Zhou" into a local directive with thunderous force, and Zhou Enlai's unlucky fate was sealed.

Wang Hairong brought this precious sword of a directive from above back to the Foreign Ministry where she initiated a movement to overthrow Zhou right away. Within minutes, wall posters attacking Zhou Enlai were plastered all over the ministry's large courtyard. Articles "criticizing Duke Zhou" also began to appear in newspapers. In this storm of "criticizing Duke Zhou," the sick Zhou Enlai was unaware, and continued in past fashion of "unswerving loyalty to Chairman Mao" by writing to him, reporting on his illness, and thanking Mao Zedong for his concern. While all this time, in the other corner, Wang Hairong was flaunting her authority from the "holy writ" and took over the Foreign Ministry, which became the command headquarters in the movement to overthrow Zhou Enlai.

#### Holy Writ Tape Stored in Vault

The plot to overthrow Zhou Enlai was a scheme long nurtured by Jiang Qing and her gang, except the time was never ripe. On the other hand, Jiang Qing also considered Wang Hairong as a thorn in the side, and would like to get rid of her, except it was difficult to do with Mao still alive. But Jiang Qing never thought that she and Wang Hairong would have a common interest, albeit unplanned, in the problem of overthrowing Zhou Enlai. Therefore, to serve a common purpose, these two battle lines merged to become "comrades-in-arms in one trench."

Fortunately, Zhou Enlai's standing with the Chinese people was quite high, and in the midst of all this furor of criticizing "Duke Zhou," Zhou Enlai was never toppled. Unfortunately, from this point on, Zhou's health deteriorated as his condition worsened, and he died two years later with unexpressed regrets. Before he passed on, he still left a message "wishing the Chairman well."

Even though Mao Zedong passed down a "holy writ" to criticize "Duke Zhou," objective facts proved that this Great Helmsman who was able to whip one billion people into a mad frenzy, was not able to topple "Duke Zhou" at all. Conversely, in the hearts and minds of the Chinese people, "Duke Zhou," who was being criticized, became even more saintly and great. This was the reason for the great wave of national sorrow that appeared, a historically unprecedented event, when the news of Zhou Enlai's death became known. Even a year later, during

the "Tiananmen Incident," people were expressing their anger in poems and essays directed against "Emperor Qin" (referring to Mao Zedong) in posters plastered on the walls of Tiananmen Square.

On 6 October 1976, Hua Guofeng, Ye Jianying, and others, planned a palace coup that overthrew the "gang of four" and brought Deng Xiaoping back. After the "gang of four" was overthrown, Wang Hairong was investigated because of her role in the plot to overthrow Zhou Enlai, and the masses wanted to know who was the instigator behind it all. She swore and denied that anyone was directing it. Moreover, she slyly said that Zhou Enlai had great confidence in her, but the "gang of four" hated her. How could she have wanted to overthrow Zhou?

This ineffective sidestepping was unable to save her. In the end, Wang Hairong was forced to turn over a tape recording, in which was found Mao Zedong's highest directive clearly and unmistakably recorded: "The time to start criticizing Duke Zhou has arrived!"

After the facts came out, the "revolutionary masses" at the Foreign Ministry reported them to the Central Committee of the Chinese Communist Party, but a certain high-ranking leader said: "There is no need to pursue this matter further. Just let things be." After this order came down, all the information collected in the investigation of Wang Hairong, including the recording, was sealed and placed in a vault. The inside machinations behind the move to criticize Duke Zhou are no longer available to anyone.

#### Further Reform of Political, Economic Systems Outlined

##### Necessity for Reform

40050464 Beijing LILUN XINXIBAO  
[THEORETICAL INFORMATION] in Chinese  
27 Feb 89 p 1

[Article by Wang Yizhou 3769 6654 5297 in column edited by Zhang Guoan [1728 0948 1344]: "Necessity for Reform of the System—Thoughts on the 10th Anniversary of Reform."]

[Text] Today, many people ask, what is wrong with the reform? How come the growth momentum of several years ago has simply disappeared and more conflicts have emerged and less choices are being offered? Was there something wrong with the policies? Is there a problem with the reform ideology?

Questions mark the beginning of progress. I feel that the people's complaints and arguments exactly prove that China's decade-old reform, after having achieved tremendous success, can no longer rely on the earlier style and method to deal with the new problems and predicaments. This forces our reformers to find new solutions, to implement more drastic, more effective reform to



propel this glorious historic process to an even loftier level. From the point of the methodology, this is the unification of continuity and discontinuity: on the one hand, the new reform is the continuation of the spirit of seeking truth from facts and the emancipation of thoughts advocated by the 3d Plenary Session of the 11th Party Central Committee. On the other hand, the new round of reform demands that upon reviewing the old reform, we amplify what is useful and discard what is not.

**In the political domain, the new round of reform should mean the replacement of the rule of man with the rule of law.**

In the last 10 years, reform of the political system has focused primarily on rectifying the Communist Party's omnipotent and idolized image created during the Cultural Revolution by gradually democratizing the Communist Party (the ruling party) itself and especially by relying on a kind of modernization and "liberalization" of the party leadership as the way to mobilize the enthusiasm of other quarters and other organs and to spur on the entire party and the people of the nation to take part in the reform and construction. Yet, today, more and more people are conscious of the inadequacy of the political reform. With regard to the essence, the institutional form has not changed. Power remains highly centralized; party and government are one and the same; the perpendicular line of government and the pyramidal political structure are unchanged despite constant efforts to break them down. Society's mass organizations, economic units, family and individuals are still fettered by the management system and standards that undermine the development of productivity forces. More important perhaps is that China should avoid as much as possible the kind of politics which changes with the individual and varies with the leadership.

If we believe that 10 years ago, the rescue of China's one billion people by the "wise leader" from persecution by the "gang of four" was inevitable, then in another 10 years, through reform, it may not be too extravagant for the Chinese citizens to want a government of law and have the right to vote. At this stage of reform of the political system (here the emphasis is on its being a reform of the "system"), it is not just a question of "developing democracy within the party," but more important, it is a reform of the power structure, the use of a new kind of power to restrain the old, the substitution of public opinion and social supervision for "self-examination" and "internal bulletins," the replacement of the centralized power structure with the mechanisms of balanced distribution of power and supremacy of law. One theoretical issue (or we can call it an "ideological" issue) is that in the new age, the Communist Party needs new leadership and new ways to influence society. It should no longer assume supremacy and try to rule the world. It should not hold on to the traditional kind of absolute unrestrained power—we should realize that

what comes with absolute power is absolute responsibility, and absolute power easily leads to absolute corruption, and neither one of these is what the Communist Party wants. When everyone understands this point, and when further reform allows the law to clearly state this and give us protection, then there is hope for a modern Chinese society which is ruled by law.

**The main direction of attack in the second round of the restructuring of the economic system should be to turn the ownership system into a non state-owned, nonmonopolistic, pluralistic system in whatever form (state-run, privatized, or shareholding systems, for example.)**

From the time of the 3d Plenary Session of the 11th Party Central Committee until today, economic reform has emphasized adjustment and renovation of the management style and method. At first, reform released much of the long-suppressed energy, changed some of the obviously irrational economic behavior, and increased greatly the enthusiasm of the workers and the economic units, and it made possible the rapid economic growth. But at that time, "system reform" in the strict sense was missing; we retained the basic substance of the old era. From the point of China's present situation, the major flaws of the state-owned system are, one, it does not give impetus to economic development, and two, it provides the economic basis for centralism in our political system. Thus, if the monopolistic status of the state-ownership system is not changed, economic modernization and true political reform will be impossible.

Changing the monopolistic status of the state-ownership system in the economy does not imply the elimination of all state-owned enterprises; they can and should remain, but their existence and growth are subject to market conditions and competition. In other words, only through survival of the fittest and through natural selection can we determine which sector still needs public utility departments and state-owned enterprises. There are many ways to change the monopolistic status of the state-ownership system. For example, we can replace it with the civilian-run, private, jointly operated, shareholding or other systems. But there is one important prerequisite to this change, and that is, we must cut the "bloodline" (budget and state investment) that connects enterprises to the treasury; we must force enterprises to gather funds and other resources in the market and in society. Correspondingly, this requires "major actions" in the banking and financial systems, the capital, stock and bond markets, the labor and technology markets, and the state's financial and taxation systems. These areas were untouched in the first round of reform, and the second round must target them. This leads us to the truth: reform of the ownership structure and establishment of the market economy are "twin brothers."

**Abolishing the system of "great unification" of ideologies is an important part of the second phase of the "reform of the system."**

China's greatest progress in the past 10 years is the newly acquired ability of the intellectuals and the ordinary people to criticize. They have learned to complain, to examine, and make reasonable demands. No party, organization, nor individual can force his own will and objective on other people. Society, especially public opinion, is displaying increasingly liberal traits. But, this movement of liberation of thought (or in a even broader sense, the movement of liberation of the people) is still far from being a success. Today's "seek truth from facts and liberation of thought" movement to a certain extent still dwells on mobilizing the party and changing policies and does not change completely the citizens' conscious pursuit and behavior. This is because our ideology still clings to those pedantic, outmoded concepts of "control" and "unanimity." We still use rules and regulations which are narrow and proven by practical reform to be obsolete to repress the pluralistic tendencies which are inherent in our thoughts, culture, arts, and science. We are accustomed to using the state's policies to forcibly protect the system of "great unification" of ideologies, protecting even those old or erroneous things which we do not want to protect. As the old idols totter amid economic and social turbulence and transformation, and the new value system is far from being complete and may even collapse, the moment we realize fully and clearly what is happening to us, the intention and method of this kind of ideological control and manipulation will only arouse the sense of repugnance, callousness, and distrust among the people (especially the young people and the intellectuals.)

To succeed in enlightening and liberating the people, they must be allowed to think freely. A modern society naturally is a liberated society. A system of thought control, like the system of economic control, has no future and must be changed. If at the early stage of reform we neither had the time nor the ability to think like this and draw this kind of conclusion, then today, as China turns to the market economy and political plurality, her ideology and culture must turn to freedom of thought and "let a hundred flowers blossom and a hundred schools of thought contend." This is not something that changes with one person's will.

#### Problems, Solutions Suggested

40050464 Beijing LILUN XINXIBAO  
[THEORETICAL INFORMATION] in Chinese  
20 Feb 89 p 2

[Article by Xiang Jiquan 7309 4949 2938: "Predicaments and Possibilities of Today's Reform of the Political System"]

[Text] On 24 December of last year, the Hubei Youth Political Institute sponsored the "Symposium Commemorating the 10th Anniversary of the Third Plenary Session of the 11th Party Central Committee—Review and Prospects of the Reform of the Political System." The meeting was held at the Central China Teachers College. Scholars who attended the meeting expressed

their personal opinions on the success and failure of the decade-old reform of the political system and on its present conditions and future prospects. The discussions were serious and energetic.

1. Basic assessments of the 10 years of reform of the political system generally fall into two groups. First, the decade-old reform of the political system basically has failed. All along, reform of the political system has lagged behind. Reform measures have been mere formalities. The traditional highly centralized political structure is still intact, and there is serious decay in the political system such as bloated organization, low efficiency, official corruption, rampant "official profiteering," and so on. Another viewpoint suggests that despite the many errors and problems that have emerged during the 10 years of reform, it nevertheless was the first heavy and difficult step. The permanent tenure system has been abolished; there is more freedom; the measures to separate politics from society, government from enterprises, and party from government are working and achieving spectacular results.

2. Some scholars feel that today, China's reform of the political system is in trouble primarily because the main driving force behind reform is lacking and dwindling. They have divided the main driving force behind reform into three levels. The top level is the leaders and the elites who have power; the mid-level is the intellectuals; at the bottom is the people. Reality in China has incarcerated these forces behind reform. The elite leaders are hamstrung by the exogenous concentration of power and arbitrariness of individuals, and internally, they are constrained by their own lack of quality. The intellectuals do not really have freedom of speech nor the chance to participate in government and political affairs. The fine aspirations of the people at the bottom are often suppressed and ridiculed; they hardly share in the fruits of reform, and their zeal for reform is stifled. Moreover, those at the top fear "losing power," and those at the bottom fear "losing stability," and everybody is full of doubts and suspicion about reform, and as a result momentum is lost and reform stalls.

Some scholars feel that China's reform of the political system has stalled mainly because we lack a clear goal and an overall scientific program. Some scholars even suggest that worldwide, political development often begins with changes in the countryside which spread to the cities, and in the wake of industrialization, changes return to the countryside to give impetus to rural reform. China's rural reform, whether we are looking at the starting point or the final results, only liberated the peasants from the traditional collectively planned economy but failed to change or shake the traditional political system nor erase the traditional political concept. In fact, the promotion of the responsibility system has moved China's villages even closer to the traditional small-scale peasant economy, taking it in the opposite direction to modernization. This is not only the root cause of the failure of the rural economy but the blind

optimism about the rural situation and the adaptation of the rural methods to the cities cause urban reform to falter, leading to today's reform stalemate.

3. As for the future of the reform of the political system, scholars who attended the meeting on the whole are worried. They feel that at this very difficult moment, if we fail to adopt some practical and effective measures quickly, total chaos and a crisis situation is possible in the 1990's. The accomplishments of a decade's reform can be wiped out in a day; the hope of the country taking off in the 21st century will be but a fantasy. There are three ideas on how to break out of our present predicament:

First, the present reform problems can only be solved by the few elites at the top. Realistically, China's power is centralized; those at the top are intelligent but those at the bottom are ignorant. The success or failure of reform in fact hinges on how enlightened are those who have power and how determined they are to implement reform.

A second view suggests that the future of reform depends basically on adopting the right policies to establish a democratic system.

The third viewpoint suggests that whether it is the theory of elitist politics or the theory of democratic politics, all are in fact a kind of "stateism"—all of the responsibilities of individuals and society are shifted onto the state. A government which has full responsibility is necessarily a government with full power, and consequently the state gets more and more power but becomes increasingly inefficient and incompetent as its responsibilities mount, and individuals just give up their responsibilities. In logic and in practice, freedom rules supreme; all habits and systems which stand in the way of personal freedom are rejected, and every aspect of reform is considered a shackle to freedom.

### Logic Behind Reform, Development Analyzed

#### 'Vicious Cycle'

40050465 Beijing LILUN XINXIBAO  
[THEORETICAL INFORMATION] in Chinese  
6 Mar 89 p 3

[Article in A Hundred Schools of Thoughts column by Yang Fan 2799 1581 et al: "The Vicious Cycles in China's Reform and Development"]

[Text] A decade's reform has allowed China to make historic progress but has also brought her economy to the brink of disaster. If this is a necessary step for achieving structural reforms in socialist countries, then China has accomplished in 10 years what the Eastern European nations took 20 years to achieve. At the heart of the complicated theory behind the economic and social issues is the series of "vicious cycles" in the logic of China's circle of theorists and thinkers.

With respect to economic reform, which should have priority: price reform or reform of the ownership system? Price theorists give priority to macroeconomics; they want to first establish a market environment of fair competition and then let enterprises compete. This obviously is a utopian kind of thinking. The ownership system faction gives priority to microeconomics. They suggest that we must first have market participants before we can have market prices. But in a macroeconomic environment of unfair competition, decontrolling enterprises immediately gives rise to "official profiteering" and all kinds of monopolies, and public opinion cannot tolerate them. The kind of competition people advocated for years is suppose to be the idealistic kind of "fair competition," not the realistic kind of "unfair competition" in China. The phrase "let a few people get rich first" is qualified by the phrase "by proper means." What is "proper means"? Is it proper in the legal sense, meaning lawful? Or is it proper in the ethical sense, meaning honest? I am afraid there is no unanimous opinion.

With respect to economic development, do we address employment or inflation? Certain people figured that "according to what the people can tolerate psychologically," the annual inflation rate cannot be in the double digits, but employment and financial pressures force the rate of economic growth to be above 10 percent. This is clearly impossible in China because of the low efficiency rate. The so called "people's psychological tolerance level" in fact means sacrificing nothing but wanting everything. No reform can succeed under these conditions. In the face of rampant panic buying, people quickly put away their price reform and pin their hopes on reform of the ownership system instead. But can the problem of millions who have jobs but are "unemployed" and millions who are still looking for work be solved so easily? Is unemployment not a greater hardship than higher prices? As reform faces a setback, people suggest "prioritizing development." But was it not because our economy had been held back by the lack of reform that we began to restructure the economic system in the first place? As for the issue of "smashing the iron rice bowl," even college students who are most ardent about democracy and freedom dare not touch it. The "freedom of employment" they want turns out to be the kind of ideal and freedom without other people pulling backdoor connections and forming networks of personal relationships, but when those in charge of work units also have the freedom to choose whom they employ, everybody retreats to the "planned allocation" system.

Economists finally realize that they have an impossible task. Many problems have nothing to do with economics have been interpreted as economic problems. Even political scientists have brought up the "economists' Waterloo" and suggested giving priority to political reform. Economists are trapped in a vicious cycle and political scientists have taken over.

But there are even more "vicious cycles" in political reform than economic reform. Should there be elections

first or should the voters be educated first? Democracy implies decision by the majority, but if the majority does not want democracy, what then? On the one hand, we urge the people to speak their mind; on the other hand, we express disappointment in their democratic ideology, or the lack of it. At the end, political scientists are forced to become educators, advocating "education as the nation's salvation." But education circles too are full of "vicious cycles." In the face of a commodity economy, those who argue "education as the nation's salvation" are forced to "go into business to save themselves." Moreover, more and more people feel that what is obstructing China's development is not traditional culture but the existing system, and therefore to change the people's way of thinking, we must rely primarily on reform of the political economy and not education. Thus the educators are using the most basic principle of historical materialism—social existence determines social consciousness—to put the ball back in the political and economic courts.

With respect to enlivening the economy, corruption to a certain extent has become a lubricant, and theorists and thinkers launch their ethical assault on "corruption," but try to analyze the history. Let down by the economic situation and social tendencies, they turn to political and cultural reforms, but does political democracy not require the support of entrepreneurs? Is economic reform not the necessary condition for the birth of entrepreneurs? A decade of reform and opening up has just begun to produce some entrepreneurs, but now they are branded "mandarins" and "compradors" and are denounced. The people have no sense of democracy and the entrepreneurs are mostly bureaucrats, and so some people advocate "elitist politics" in the interim before we turn to democratic politics; others conjure up the image of a "wise ruler," and obviously there is no hope for real democracy. But democracy happens to be the theorists' and thinkers' loudest slogan. The intellectuals curse the bureaucrats, the mandarins, the compradors, the loss of decency, the masses, and finally they curse themselves—people are writing about the "ugly intellectuals," are they not? Are many noble-minded reformists not regretting the decade's reform, a reform which has only benefitted others? The thinkers and theorists are trapped by this kind of "vicious cycle."

#### **Political Reform 'Only Way Out'**

40050465 Beijing LILUN XINXIBAO  
[THEORETICAL INFORMATION] in Chinese  
6 Mar 89 p 2

[Article by Fang Wenbin 2455 2429 1755: "Political Structural Reform Is China's Only Way Out"]

[Text] The Political Science Department of Nanjing Teachers College and the Marxist-Leninist Department cosponsored a major academic salon recently; the theme was "Reflection on a Decade's Reform." Scholars from more than a dozen of Nanjing's institutes of higher education, scientific research, and news reporting units,

and over a hundred professors were invited to attend. There were lively discussions about problems facing the decade-old reform, their causes and solutions and so on.

At the meeting, everybody lauded the accomplishments of the 10-year-old reform. They also agreed that the difficulties and problems brought along by the decade's reform are the most numerous and the toughest China has seen in the last 50 years.

Someone suggested that inflation is the basic problem China's reform is facing today. It is the culprit that has prevented China from implementing further and thorough reform, and it is the gathering point of all the conflicts China's decade-old reform has ever encountered.

Some comrades feel that the basic problem we are facing is the short-term behavior of society as a whole. The reason is that we have failed to coordinate properly the two variables in economic reform, that is, the instant variables (price reform and abolition of mandatory-type planning, for example), and the slow variables (market development and structural adjustments, for example), and we have failed to handle properly the two goals of reform and development, and the reform measures are out of line with the reform objectives.

A third viewpoint suggests that the fundamental problem is our social structure is out of balance. This is manifested in the unbalanced economic structure, the unbalanced political power structure, and the unbalanced psychology of the public in society as a whole.

The fourth kind of viewpoint suggests that the problem we are facing is a kind of "syndrome." As for the causes of this "syndrome," opinions are divided: (1) the "reform syndrome" has emerged because our reform is concerned only with extricating ourselves from the "Incantation of the Golden Hoop"—the stranglehold of crises, and has not touched the fundamental system; most changes deal only with phenomena. This is also the root cause of the problems facing reforms in socialist countries all over the world. (2) Some feel that this "syndrome" is the result of error in our reform policies. Some reform measures are inherently short-term. (3) Some suggest that "reform syndrome" is the result of sluggish reform of the political system.

At the meeting, most comrades agree that the best way to get China's reform out of the fiasco is to implement reform of the political structure immediately in order to protect and and make things easier for the further, thorough restructuring of the economic system. Some comrades advocate destroying the three idols—power, money, and connections; smashing the three shackles—"leftist" ideologies (that is, the system of democratic centralization), the theory of unrestrained freedom, and the doctrine of the relationship between individuals and the state; eradicating the three major pestilents—graft,

bribery, and corruption. Only after we have accomplished the above can we implement real, bona fide reform of the political system. Some comrades envision whittling down the "unlimited power" of the party through the "system of constitutional leading party group" as the way to keep the activities and the scope of authority of the leading party groups within bounds by legal means. Some comrades suggest that the key to implementing reform of the political system lies in separating the government's economic functions from its political functions and setting standards for the government's actions.

Some people feel that the only way out for China's reform is to rebuild the microeconomic foundation—the enterprise ownership system.

Some comrades believe that further reform in China necessarily will entail drastic and painful social transformation.

At the meeting, some comrades suggested that the driving force behind China's reform is the people; others believe that so far no social force is strong enough to be the main driving force behind the reform, because the new productive forces do not have clear representatives yet, and so we cannot make sweeping statements about other people. And yet others believe that those who push for reform must consider China's situation. China has a highly centralized state power system; relatively centralized measures are necessary in China. The true advocates are those who implement the reform measures.

## NATIONAL AFFAIRS, POLICY

### Proposals To Improve Shareholding System

HK1905120189 Beijing JINGJI GUANLI in Chinese No 2, Feb 89 pp 31-34, 37

[Article by Zhang Dali 1728 1129 0500, Zhang Qin 1728 1987 and Liu Junwen 0491 0193 2424, edited by Shen Zhiyu 3088 1807 7675: "Problems Encountered in the Implementation of the Shareholding System"]

[Text] Recently, we have conducted surveys on the trial points in Beijing Municipality that have adopted the shareholding system on an experimental basis, and we have found some problems that we have to study and solve.

#### I. The Major Problems

First, the proportion of shares held by the state is too large.

At present and in general, a large proportion of the shares of whole-people enterprises which have adopted the shareholding system is held by the state. Take five of the whole-people enterprises in Beijing which have adopted the shareholding system as an example. These five enterprises have audited their assets, have divided the shares into state shares and enterprise shares accordingly, and have also issued shares to society and staff and workers. The result is that in four of these five enterprises, the largest proportion of their shares is in the hand of the state (on an average the state holds 70 percent of the shares). The following problems have thus come about.

The first problem is that it is difficult to achieve the target of separating the functions of the government from those of the enterprises through the implementation of the shareholding system. Being the largest shareholder of an enterprise, the state will have the largest scope of power in interfering with the management of the enterprise. Moreover, since the representatives of state assets have not been clearly defined, the original administrative departments responsible for managing the assets will thus become the representatives. Under this situation, enterprises will still be under the control of the departments which were originally in charge of them, and it will be difficult for them to get rid of these departments' administrative interference. For instance, with the exception of the Tianqiao Shareholding Company (in which the state holds only 35 percent of its shares, is no longer under the control of the Chongwen Department Store, and has made significant changes in its decisionmaking power), other enterprises, which have also adopted the shareholding system, have not changed significantly.

The second problem is that when the state is still holding a majority of shares in an enterprise, the management risks for the enterprise are still mainly borne by the state.

If an enterprise cannot run its business well, it can still ask for support from the state. The problem that enterprises are "eating from the big communal pot of the state" still cannot be thoroughly solved.

The third problem is that most of the assets of an enterprise still belong to the state, and these assets have not been extensively sold to society. In this way, only a small amount of funds have been raised from individuals and society, and the role of the shareholding system in transferring the consumption fund of society to the realm of production has not been brought into play.

Second, the profit retained by enterprises under the shareholding system is comparatively smaller than that retained by enterprises under the contract system.

Many whole-people enterprises are not willing to adopt the shareholding system. One important reason for this is that the actual amount of profit retained by them under the shareholding system is comparatively smaller.

1. When a whole-people enterprise has adopted the shareholding system, part of the aftertax profit of the enterprise will be taken away by the state in the form of dividends. At present, the state has not stipulated clearly the taxes to be collected from enterprises which have adopted the shareholding system. The taxation method adopted by Beijing municipality is that the profit made by enterprises which have adopted the shareholding system will be taxed in the same way as collective enterprises' profit is taxed (an eight-grade progressive tax rate of 55 percent will be levied on the income in excess of the specific amount). When compared with the original rate, the tax rate has been reduced. However, the state will get additional share dividends in accordance with its number of shares. Since the state has held a large proportion of the shares of enterprises, it will take away a large portion of the aftertax profit of enterprises. Under these circumstances, the actual amount of profit retained by enterprises is apparently smaller than before, and the development of enterprises has thus been adversely affected.

2. The material benefit obtained by whole-people enterprises under the shareholding system is smaller than that obtained by them under the contract system. When an enterprise has adopted the contract system, the contract base figure will be fixed, and it can retain the amount of profit, which has exceeded the contract base figure. In this way, it will get more if it can make more profit. With the increase in returns, the magnitude of increase in the amount of retained profit will also be increased. The shareholding system, however, does not have these strong points. Therefore, some enterprises, which have adopted the shareholding system, have begun to establish responsibility contracts with the administrative departments that are responsible for managing them. To a certain extent, this is the way significance of the implementation of the shareholding system has been lost.

Third, the distribution of the aftertax profit of enterprises is not reasonable.

1. The distribution preferences are not reasonable. The correct distribution preferences should be: The production development fund, the reserve insurance fund, the welfare and rewarding fund, the board of directors' fund, and the bonus fund. However, in actual distribution, enterprises usually will first consider the bonus fund, and will then consider other funds. The result is that the distribution of dividends to shares held by individuals and society has been ensured, while the risk of shares has been reduced.

2. In distributing dividends to shares held by individuals and society, there is a tendency that a higher percentage of dividends will be distributed to them. Most enterprises will distribute dividends and calculate share interest in accordance with the percentage of 20 percent or 16 percent stipulated by the "Interim Procedures for the Management of Shares and Bonds Issued by Enterprises in the Beijing Municipality," and the profit made by enterprises will not be taken into account in calculating the dividends and share interest. Moreover, the interest rate of shares is not a floating rate, and the principle of linking returns to risks has been violated.

3. Every share will not receive an equal amount of dividends, and the equal right of shareholders to receive dividends has not been realized. In distributing share dividends under the shareholding system, the dividends should be distributed in accordance with the principle of distributing an equal amount of dividends to an equal number of shares. However, under the present situation where the tax rate is high, the state is holding a large portion of the total number of shares of enterprises, and the maximum amount of dividends to be received by shares held by staff and workers and society has to be ensured, if the state is to get its dividends in accordance with the number of shares it is holding, a large portion of the aftertax profit of enterprises will be taken away by the state. Under such circumstances, the production fund, the welfare fund, and the rewarding fund of enterprises, and the production of enterprises will be affected. However, if the rate of dividends is reduced, adverse effects on raising funds from individuals and society through the implementation of the shareholding system will be brought about. Therefore, in order to maintain enterprise development, flexible methods have to be adopted. That means in enterprises where the state is holding a large proportion of shares, dividends will not be distributed to the shares held by the state; or shares held by the state will receive dividends, but the state will give 50 percent of the dividends back to the enterprises. However, under such a situation, it is not clear who is the owner of these funds, thus violating the principle of distributing an equal amount of dividends to an equal amount of shares.

Fourth, the work on assessing the amount of enterprise assets has not been standardized.

Under the shareholding system, the assets of a whole-people or a collective enterprise, which is going to adopt the shareholding system, will be assessed, and the total amount of assets will be divided into a certain number of shares. Then the shares will be sold to society and individuals, and a shareholding enterprise is thus formed. Since there are no standardized procedures and methods for checking and verifying the amount of the assets of an enterprise and for determining the price of the shares of an enterprise, many practical problems still exist.

1. The scope of assessment is narrow. In assessing the assets of an enterprise, its fixed assets, working capital, funds allocated for special purposes, and others will be assessed generally, and the total amount will be divided into shares. In general, the industrial property right, including the ownership of trademark, technology, and others has often been neglected. In reality, only part of the assets of an enterprise will be really assessed, and will be divided into a number of shares.

2. There are defects in the assessment method. Most enterprises will adopt the method of calculating the amount of their assets in accordance with the net asset value, and the calculation of the price of a share will be based on the book value of the fixed assets, working capital, and the funds allocated for special uses by an enterprise. Under this method, there will be no market assessment, and the market value of the assets of an enterprises will not be shown in a reasonable and accurate way. In particular, in calculating the asset value of enterprises which are running well and have development prospects, the future returns on their assets will not be taken into account, and will not be included as part of the price of a share. Therefore, under such an assessment method, the estimated value of the assets of an enterprise will be lower than the real value of the assets.

3. The formation of the people responsible for assessing the asset value is not at all reasonable. When we assess and calculate the assets of an enterprise, we are in fact checking up on the assets of the shareholders of one side. Objectively, we need to have neutral and authoritative organizations and people, who are not related to the benefits of the shareholders of an enterprise, to organize and carry out assessing activities in a fair and precise way, so as to ensure that the rights and benefits of all parties which have bought the shares of the enterprises will not be infringed on. However, at present, there is no disinterested and authoritative asset assessment organizations in Beijing. In practice, the people taking part in and in charge of assessing the assets of an enterprise are mainly from the department originally in charge of the enterprise, related finance and tax departments, industrial and commercial banks, and from the enterprise. In fact they are the representatives of state assets and the assets of collective enterprises, and it is thus difficult for them to protect the interests of other shareholders.

Fifth, the forming of enterprise shares has brought about a series of contradictions.

The meaning of enterprise shares in general refers to the funds owned by a whole-people enterprise, which are formed by the retained profit and accumulation of the enterprise over the past years. The existence of enterprise shares has brought about a series of theoretical and practical problems which have to be solved.

1. There are disputes on whether enterprise shares can be justified. One opinion says that the profit retained by an enterprise, which is part of the enterprise shares, is the funds granted to the enterprise by the state over the past years, and they are mainly to be used in accumulation and developing production. The state-owned nature of these funds have not changed, and they are still the property of the state. Therefore, they should be considered as shares owned by the state, and there should be no enterprise shares. Another opinion says that the amount of profit retained by an enterprise is the balance of the total profit made by the enterprise after it has paid taxes and has submitted returns on state assets to the state. Therefore, the retained profit of an enterprise is the enterprises' labor income, and it is natural that the retained profit should be taken as the basis of enterprise shares. In practice, in order to arouse the enthusiasm of enterprises in implementing the shareholding system, to avoid the situation where the proportion of the number of shares held by the state is too large, which will continue to bring unnecessary administrative interference, and in order to help enterprises to accumulate funds and to develop, enterprise shares in general have been issued.

2. There is no reasonable basis for determining the value of enterprise shares. Since 1979, enterprises have all changed from the practice whereby they turn over all their profit to the state to the practice whereby they pay taxes to the state and retain part of their profit. Since the concrete situation of different departments, industries, and enterprises is different, and the basic level from which they can retain profit, and the amount of profit they can retain are different, up till now there is no unified standard for determining the basic year on which the amount of retained profit should be calculated. In practice, this problem will be settled by enterprises and related departments through consultation with each other. The retained profit is thus calculated on a non-standardized basis.

3. The use of extra dividends received by enterprise shares has brought a new contradiction. The practice adopted by most enterprises is that: The amount of the extra dividends to be received by enterprise shares will not be calculated as part of the price of the shares, and this amount of money will be used as the production development fund. This practice has thus brought problems in two aspects. First, the new dividend fund brought about by the input of this amount of funds is not completely owned by enterprises, but will be divided

among all the shareholders of an enterprise. In this way, the income of an enterprise will become less. Second, since the total number of shares of an enterprise will not be changed, the increase in the amount of its real assets will increase the value of its shares, and its shareholders will thus get extra benefits. If one wants to calculate the amount of the extra dividends to be received by enterprise shares as part of the price of the shares, he has to seek consent from other shareholders. If they do not agree to do so, the above-mentioned contradictions cannot be solved. Moreover, once an enterprise goes bankrupt, it will also be difficult for it to decide who the owner of this amount of money is.

Sixth, the conditions for enterprises to implement the shareholding system should be further developed and perfected.

The emergence of the shareholding system is the product of a substantial degree of development of the commodity economy, and the emergence will objectively require a certain level of market conditions. The present market conditions are not perfect, and there is a big gap in the degree of difficulty for enterprises to implement the shareholding system.

1. The difference in profit rate is the current factor constraining enterprises from implementing the shareholding system. In order to ensure that investors will be attracted by the shares of an enterprise and to invest in it, a substantial amount of dividends should be given to investors. The size of the dividend fund is determined by the profit of an enterprise. On the basis of the real situation on which dividends of the shares of an enterprise is calculated, and under the present existing tax rate and the condition for ensuring the normal accumulative rate of an enterprise, in order to make sure that the amount of dividends to be received by each share is up to 10 to 20 percent of the share capital (according to the principle of distributing equal dividends to each share), the profit rate on the funds of an enterprise should be around 25 to 50 percent. The average profit rate on funds of industrial enterprises in Beijing is about 19 percent, that of commercial enterprises is more than 50 percent, and differences in the rate among enterprises is very large. Therefore, conditions for different industries and different enterprises to implement the shareholding system are very different, and it will be comparatively more difficult for industrial enterprises to implement the shareholding system. If the shareholding system is adopted by enterprises that have a low profit rate on funds, a series of contradictions between the enterprise production development fund and the dividend fund, and that among state shares, enterprise shares, and shares held by individuals will be brought about.

2. The markets of funds, of material supplies, of manpower, and of other means of production are not sound. When an enterprise has adopted the shareholding system, it has to separate itself from the department that was originally in charge of it. In this way, it may lose its



channels of funds and material supplies; and it is very difficult for it to rely completely on the market for the supply of funds and materials. Some enterprises want to increase or reduce the number of their staff and workers in accordance with their management needs. However, they are being constrained by the labor and wage system under which they can increase the number of staff and workers but cannot increase the aggregate wage; and it will be even more difficult for them to dismiss surplus workers.

3. The share market has not been formed, and it is thus very difficult to raise funds by issuing shares to individuals. Since shares cannot be transferred or exchanged, and shareholders, in particular individual shareholders, cannot cash their shares anytime they like, many staff and workers prefer holding shares that are in the form of debenture and that will produce interest and can be redeemed, and they are not willing to subscribe to real shares whose value cannot be preserved nor redeemed. At present, among the enterprises that have adopted the shareholding system, only 2.2 percent of their total capital is contributed by shares held by individuals.

4. The increase in the bank deposit rate is disadvantageous to the issuance of shares. The bank deposit rate has been increasing during recent years. After the value-preserving saving program was launched, people have become more willing to deposit their money in banks, and it has increased the difficulty in issuing shares.

## II. Several Suggestions

Implementation of the shareholding system is an important measure for deepening reform, and it will play a positive role in defining enterprise property right relations, in reducing the degree of administrative interference, in strengthening the force of consolidation of enterprises, in transforming part of the consumption funds in society into funds for production and accumulation, and so on. In order to further promote the work of setting up experimental points of the shareholding system, the following tasks should be grasped well:

First, we have to choose enterprises that have the right conditions to adopt the shareholding system, and we should try to set up experimental points of the shareholding system in a standardized way.

At present, the conditions of the capital market, the materials and goods market, the labor market, and other markets, the situation of income and expenditure, the financial and taxation system, the state asset management system, and so on, cannot really meet the practical needs of the development of the shareholding system; and the shareholding system is also at an exploratory stage. Therefore, positive and safe steps should be taken. A small number of enterprises with the right conditions to adopt the shareholding system should be chosen as trial points, and the running of standardized experimental points of the shareholding system should also be

continued. 1. Large and medium-sized whole-people enterprises with good management, high rate of returns, and development prospects, in particular industrial enterprises that have high profit rates and need to be developed but are short of funds, should be chosen. 2. Enterprises with clear property relations should be chosen. For instance, newly established whole-people enterprises, collective enterprises, township and town enterprises, and people-run enterprises should be chosen, so as to get experience. 3. Enterprises that want to adopt the shareholding system on a voluntary basis should be chosen.

Second, we should study and draw up as soon as possible a taxation system for the shareholding system.

The shareholding system is a form of enterprise organization that combines various economic elements, and this form is different from that of whole-people, collective, and private enterprises. Therefore, under the present situation where enterprises with different forms of ownership will adopt different taxation systems, enterprises that have adopted the shareholding system should also adopt a taxation system different from those adopted by the different kinds of enterprises mentioned above. Apart from these, the tax rate of the present taxation system is high, and the state will take away a large portion of the aftertax profit of enterprises in the form of share dividends, and these factors have become the major obstacles to implementing the shareholding system by whole-people enterprises, and to standardizing the shareholding system. Therefore, a new taxation system suitable to the shareholding system should be drawn up. According to the situation of the enterprises which have adopted the shareholding system on an experimental basis, and the experience of some provinces and cities, the income tax rate on enterprises that have adopted the shareholding system should be correspondingly lowered.

At the same time, the method for collecting personal income regulatory tax should also be revised. Under the present situation where regulatory tax is not levied on the interest income on personal saving, financial bonds, and enterprise bonds, the practice of levying a 20-percent regulatory tax on interest and dividends to be received by shares is disadvantageous to raising funds from individuals. Moreover, as the stock market gradually takes shape, resulting in the frequent transfer and exchange of state shares, enterprise shares, collective shares, and individual shares and in the emergence of unregistered shares, this method for collecting tax is in fact very difficult to implement. Therefore, we can consider lowering the regulatory tax rate or canceling collection of regulatory tax from individuals on the interest and dividend income received by the shareholders.

Third, more shares should be issued to society and individuals, and the proportion of shares held by the state should be appropriately reduced.

In order to eliminate interference from the administrative departments that are in charge of the enterprises that have adopted the shareholding system, we must adopt measures to appropriately lower the proportion of shares held by the state in these enterprises, and to correspondingly increase the proportion of shares held by society and individuals. The methods are: 1. Whole-people enterprises can divide the amount of their existing assets into state shares, and, at the same time, they can issue shares with higher issued value to society and individuals. In this way, the proportion of shares held by the state can be reduced through increasing the amount of assets. 2. An enterprise can sell its existing assets to society and individuals in the form of issuing shares. This is to achieve the target of lowering the proportion of shares held by the state through changing the structure of the owners of the assets of enterprises. It is better to maintain the proportion of shares of an enterprise held by the state at about 50 percent.

Fourth, the distribution principle that benefits should be shared equally and risks should be borne equally should be upheld.

In distributing dividends to shares, an enterprise should insist on handling correctly the relationship between accumulation and consumption, should ensure its production and management, and should also ensure reasonable income for its shareholders. In distributing the aftertax profit, an enterprise should first distribute some of the aftertax profit to various funds of the enterprise in accordance with the management situation and the economic returns of the enterprise, and then the balance of the aftertax profit should be distributed to the profit retention fund and the dividend fund. The amount of dividends and interest each share will receive should not be fixed, and the current practice that the amount of dividends and interest to be received by the shares held by staff and workers and society is calculated in accordance with the stipulated maximum rate should be put right. In distributing dividends, the principle that equal shares should receive equal amount of dividends should be upheld, so as to protect the equal right of shareholders in receiving equal benefits. In the future, enterprises that do not have the conditions to adopt the shareholding system should not adopt this system.

Fifth, the internal management of enterprises that have adopted the shareholding system should be perfected.

Enterprises that have adopted the shareholding system should seriously implement the system whereby the manager assumes full responsibility, and where the manager is under the leadership of the board of directors. At present, the boards of directors of some enterprises are not sound, and most of the directors are the responsible persons of the original party and government departments, trade unions, and groups in charge of the enterprises, and the administrative personnel originally in charge of the enterprises. Some directors, who are holding shares which were issued to society, do not care

about the management of their enterprise, and they care only about the dividends to be distributed at the end of every year. In some enterprises, the manager is still the same manager of the enterprise before they adopted the shareholding system. Therefore, the board of directors exists only in name. In this way, it is difficult to form a clear mechanism to constrain different bodies of interests, such as state shares, shares held by society, and shares held by individuals. In order to give full play to the role of the board of directors, enterprises adopting the shareholding system should have a sound constitution and board of directors. The directors should be appointed through election and in accordance with the number of shares they hold. The manager of an enterprise should be appointed and employed by the board of directors, and the board of directors should choose the best from among the applicants who have to compete with each other. The manager should be held responsible to the board of directors, and his subordinate relationship with the department originally in charge of him should be cut.

Sixth, the work on assessing the assets of an enterprise should be enhanced.

1. A specialized department to assess the assets of an enterprise should be established, and it must assess the amount of the assets of the whole-people enterprises that are to adopt the shareholding system (including the enterprises that are to transfer their property right, and enterprises that are to adopt the contracted asset management responsibility system). 2. The assets of enterprises should be assessed in a comprehensive manner, and the assets should include mainly fixed assets, working capital, money allocated for special uses, trademark, patent, exclusive technology, skills, the land-use right, differential income, and so on.

At the same time, the estimated value of the assets (the income that would be earned by the assets within a certain period in the future) of an enterprise should also be taken into consideration.

Seventh, reform should be deepened, and corresponding external conditions should be created step by step.

1. The pace of the reform of the state asset management system should be accelerated, and departments for controlling state assets, and departments for managing state assets (investment companies) should be set up. These departments should become the representatives of the shares held by the state, and they should be responsible for preserving and increasing the value of the state assets of enterprises that have adopted the shareholding system, and for transferring and selling these assets. 2. In order to facilitate the circulation and transfer of shares, a market for circulation of various types of instruments, including shares, should be established. 3. The current wage and labor system should be reformed, and enterprises that have adopted the shareholding system should be allowed to decide by themselves their employment

method, to recruit and dismiss their staff and workers, and to decide by themselves the method of distribution and the method of reward and punishment. 4. Under the present situation where the market is not yet a perfect one, important products of large and medium-sized enterprises that have adopted the shareholding system can be included in the state plan, and within a certain period, the goods and materials required can be supplied to them through original channels. 5. Corresponding local laws and regulations and interim regulations should be studied and formulated.

**Restoration of Citizen's Key Economic Role Urged**  
*40060570 Beijing JINGJI RIBAO in Chinese*  
*21 Apr 89 p 3*

[Article by Zhang Zhanxin 1728 1455 2450 and Zhang Wenzhong 1728 2429 0022: "Preliminary Exploration of the Citizen's Qualifications To Be a Major Factor in the Economy—Concurrent Discussion of the Logical Foundation for Deepening Reform"]

[Text] **Precis:** The practice of reform in socialist countries, including China, shows that overlooking the citizen's qualifications to be a major factor in the economy is the cause of overburdening the government, having feudal clans take over enterprises, and inflating individual consumption. The citizen's qualifications to be a major factor in the economy is the basis on which the operation of the market economy depends. The citizen, the enterprise, and the government have equal positions in the market economy. If we depart from the citizen's qualifications to be a major factor in the economy, "microregeneration" and "marketization" will both be hard to achieve.

Since the last half of 1988, economic fluctuations, mainly manifested in the form of inflation, have become a popular topic of conversation. However, after a description of the economic situation is made, the question of exactly what intrinsic causes are hidden in it has not been given sufficient attention. Therefore, it is necessary to rethink strategy regarding the past 10 years of the reform of China's economic system.

During the reform process we have reflected on the transition from a planned economy to a market economy and even private ownership, but we have neglected the study of the citizen's position and role in the socialist planned commodity economy. In fact, the citizen's position in an economic system is the chief factor in determining that system. In all market economy countries (from the developed countries of the West to the "four small dragons" of Asia), the citizen is a major part in, and the basis of legislation on, economic operations. But the socialist countries' choice for the major part is highly improper; they neglect the citizen's position as a "major part," thereby restricting his freedom in economic activities. At the same time, a heavy burden is born—it is impossible for a country's financial resources to provide

the various subsidies. Therefore, it is extremely necessary to fully recognize the citizen's role in the market economy and to restore his position as a major factor in this economy.

**Restore Citizen's Position as a Major Factor in the Market Economy**

In China's traditional economic system, the property rights of the individual and the labor rights of the citizen are denied on the one hand, giving the citizen no freedom to engage in economic activities. The only things that the citizen has the freedom to choose from—consumer goods—are also tightly restricted in variety and quantity. On the other hand, no attention has been paid to the citizen—a major factor in the market—and only the enterprise has been regarded as the sole factor in the market. For individual investment there is a lack of corresponding rights and channels, and deposits in a bank of a non-enterprise nature are practically the only method a city resident may use to save money. City staff and workers lack the freedom to choose their occupation and the right to work in their spare time. The depth and breadth of the citizen's participation in market activities are seriously deficient. This is a direct cause of the market's fragmentation and delays in development, and is also a main cause of the market's partial loss of balance. An obvious fact now is because the space for the citizen to control his individual assets is narrow, a large amount of currency buying power is directed at high-grade consumer goods, thereby forcing up the prices of these goods. This problem definitely does not stem from the prices themselves, and one cannot count on solving it by "smoothing out the prices." Without the citizen having full freedom of activity in all kinds of markets, there will not be balanced market prices, and even less can one talk about perfecting the market system. Not working in concert to make the citizen qualified to be a major factor in the economy and to make progress in marketization is a defect in the theory of reform and a directly perceived inadequacy in it.

A direct consequence of the citizen's lack of qualifications to become a major factor in the economy is that the state has increasing obligations to its citizens, which in turn becomes a heavier burden on the state. In successive years, subsidies of all kinds have greatly increased. From 1978 to 1986, financial subsidies for buying and selling price inversions increased an average of 20.3 percent a year, while in the same period of time the state's financial revenue only increased an average of 8.7 percent a year. These kinds of subsidies are now about 55.3 percent of the total amount for capital construction in the state budget. This figure does not include expenditures on housing and medical treatment.

Actually, a market comprises a large number of free and equal exchange activities. The process of marketization is a process in which the market's economic relations (relations of exchange at equal value) replace patriarchal administrative relations and become the only relations

guiding the society's economy. The premise for the formation and development of a market is that the party concerned (legal and natural person) becomes a major factor in the economy with a specific status and mode of behavior who possesses certain rights and obligations and who makes policy decisions on his own (at the same time being a legal subject). As a natural person the citizen, like the corporation, has a basic role in market activities. The high degree of development of the market economy, particularly the appearance of the modern stock system, make more and more individuals become investors, who have obtained the qualifications to be a major factor in capital market supply. The citizen's status as a major factor in the activities of various types of markets embodies the basic principles of property rights and labor rights, with individual ownership of property and labor power as the foundation, as well as freedom of contract and other market economy systems.

#### **Qualifications To Be a Major Factor in the Economy and the Free Enterprise System**

From a look at the outward appearance of a market, we see that the citizen and the enterprise are the two major parts of the economy that constitute market activity. Analyzing the indepth structure of the market, we discover that the precondition for the enterprise to become a major factor in the economy is the citizen's qualifications to be a major factor in the economy. In other words, the citizen's qualifications to be a major factor in the economy is the foundation of the free enterprise system.

Under market economy conditions, the citizen possesses the economic freedom to conduct business, to consume, to work, and to invest; and the motive force and binding force of the enterprise's economic activities stem from the citizen. Every person can, under certain legal and social norms and based on his individual will, engage in production and business activities. These activities are also, through market mechanisms, restricted by other citizens. In the initial stage of a market economy, the enterprise is mainly owned and operated by an individual, the relationships between the enterprise and the citizen are limited to business relationships or labor relationships, and the enterprise is mainly conditioned by the consumer and the laborer. Following the development of this market economy, the modern form of free enterprise—the joint stock company—begins to appear. A joint stock company accomodates all market economy relationships, opens up widely to society, and provides a broader stage for the citizen's investment activities and the entrepreneur's activities. The stockholders of a joint stock company, like its staff and workers, are members of the company are also a major socioeconomic part (legal major part) that provides important factors for the company's production and that has a relationship with the company of exchange at equal value, and they are the ones who demand the company's rights and who undertake its obligations. The company's manager is hired by the company, and he is not the traditional private

enterprise proprietor who is both owner and businessman. Because all types of members of a company have the backing of the modern market, they fully exercise their economic rights, so that inside the company there is gradually formed a relationship of mutual conditioning between stockholders, staff and workers, and manager, and a company system with a high degree of coordination that has economic democracy and individual responsibility is established. From a look at history we see that the emergence and maturation of the joint stock company accompanies the growth and perfection of the stock market and the entrepreneurial talent market, and that the enhancement and expansion of the citizen's qualifications to be a major factor in the economy are a deeply exciting cause and background.

To achieve a planned commodity economy, we must make the enterprise a commodity producer and a business operation that takes the initiative in doing business and is responsible for its own profits and losses. We must build up a large number of modern enterprises that can, with high efficiency, concentrate and apply society's capital and support the developed market system; and we must replace the traditional enterprise system with the free enterprise system. Under China's traditional system, the supply of the key elements of an enterprise under the ownership of all the people is planned and regulated; the employment, wages, and welfare of the members of the enterprise are uniformly arranged by the state; and there is no economic right for the enterprise to act on its own initiative. Therefore, reforming the enterprise not only means restoring the enterprise's right to act on its own initiative and transforming the enterprise system; there must also be a restoration of the enterprise members' status as citizens of the society, so that more citizens of society become producers of many key elements in production and so that modern enterprises that are open to markets are cultivated.

However, for a long time, in thinking about enterprise reform we have stuck to the unitary, closed system model, namely, "the enterprise is an indivisible community of interests" and "the enterprise is a microeconomic cell." We have regarded the enterprise as the most basic major factor in the economy and have neglected as a major factor the status of society's citizens as enterprise members, thereby lowering the status of the members of society to "enterprise feudal subjects." We have regarded the equal market economic relationships—labor relationships—as purely interest relationships between people in the enterprise, or as an unequal relationship between the enterprise's collective and individuals. With regard to the specific practices in enterprise reform, we do our utmost to seek a perfected enterprise leadership system and administrative system, hoping to form an enterprise nucleus that can correctly handle the relationship between the state, the enterprise, and the staff and workers and that can respond to market signals, and to establish a closed-type "self-restraining" mechanism for enterprises. With regard to the legislative aspect of reform, over the past several years a series of

laws and regulations on enterprises have been formulated, but the individual laborer has not been made a major legal part, and there is no general labor law providing for the citizen's rights and obligations in working on his own initiative. The staff and workers can only, from laws and regulations on different forms of ownership and different administrative patterns, find their individual rights and obligations. That is to say, the enterprise is the "standard" for defining their status and position, and they do not have an independent legal nature. Although this type of thinking and practice plays certain positive roles in the relationship between the state and the enterprise, it also has a serious consequence: because, at the same time that the state releases power to the enterprise, there is no formation for the enterprise's staff and workers of an independent character as laborers in society, and to a certain degree the dependence of the staff and workers on the state is changed into a dependence on the enterprise, and the state's ties to the staff and workers become the enterprise's ties to them. Thus, under the traditional system, in which there is no tendency toward a clear nature, the welfare requirements of the staff and workers distort the enterprise's actions. The existence of this state of affairs has adversely affected the enterprise's vigor and the entire economic order, and has also created serious obstacles to the true growth of free enterprise.

Cutting open the majority nature of the citizen and in isolation carrying out "enterprise regeneration" or "microfoundation regeneration" also cuts apart the intrinsic relationship between enterprise reform and market growth. The regular mechanisms of free enterprise, including motive power mechanisms and restricting mechanisms, fundamentally speaking, can only be extensions of the market mechanisms. They are the citizen's support in a modern market, and they have the comprehensive effect on the citizen for acting on his own initiative in making many choices and in performing actions. Therefore, the citizen becomes the basic major factor in the economy, and he is the foundation for the market economy system and for the free enterprise system. The main line—restoring the citizen's nature as a major part—should be followed so as to unify and coordinate enterprise regeneration and market growth.

It is necessary to point out that there is an essential difference between stressing the citizen's nature as a major part and advocating the "theory of staff and workers being a major part," in which representatives of the staff and workers have the right to supervise the enterprise. The "theory of staff and workers being a major part" does not endow the individual staff member or worker with the qualifications to be an independent major part. It is an attempt to have the enterprise's "all-round authority," with its ranks and people's rule configuration, represent all the rights and interests of the staff and workers and safeguard the interests of the state and society. Under the conditions of a market economy, the "theory of the staff and workers playing a major part" is a fantasy that is useless in reality.

### The Citizen's Nature as a Major Part and the Government's Functions

In the modern commodity economy society, the government's activity inevitably touches widely upon every citizen. The government's (legislative and administrative organizations') relevant functions are:

- 1) Manage, through legal means, the relevant economic activities of the citizen. The purpose of the rules and regulations formulated and put into effect by the government is to establish the economic relationships and legal standards between citizen and enterprise, between citizen and government, and between citizen and citizen; and to safeguard the principle of equal competition. In this kind of law or regulation, prominence is given to the natural person's status as a major part. For example, in America, as federal laws, there are the Labor Relations Law and the Social Security Law, which relate to the laborer; and there are also the Corporation Law and the Stock Exchange Law, which relate to stockholders, stockbrokers, and other interested parties.
- 2) Regulate, through macroeconomic policies, the citizen's economic activities. The government does not directly intervene administratively in the citizen's economic activities, but rather uses tax and credit policies to regulate the citizen's consumption and the supply of important elements for production.
- 3) Provide the public goods and facilities basically needed by the citizen for organizing production.

In China, before the reform of the economic system, on the one hand the state put into effect a centralized, unified enterprise system, labor system, as well as consumer goods supply system, all of which restricted the citizen's freedom in business, labor, and consumption; on the other hand, in the form of the large-scale system of making payments partly in cash and partly in kind, it provided welfare treatment to urban residents—including low-price subsidies, guaranteed employment, and medical insurance. Thus the government in reality monopolized the economic life of urban residents and became the all-round authoritative organization that "acted as the citizen's master." The citizen let the government arrange things, "devoted himself to the state," depended on the state, and completely lost his independent economic nature, becoming in fact a "feudal subject" of the government organizations. After the promotion of the reform of the economic system and the restoration of the enterprise's position as a major factor in the economy, the bias of overlooking the citizen's nature as a major part and overlooking his basic rights and interests has still not been corrected.

The government must release power to the enterprise, and it must even more return power to the citizen, so that every citizen takes on an independent economic nature and becomes the master of society in the true sense. If the citizen becomes a major factor in the

economy with certain powers and obligations, not only will he get the right to act on his own initiative in economic activities; at the same time he will truly take on those responsibilities that he should take on, and his economic destiny will be in his own hands. Thus the major factor in responsibility, the major factor in interests, and the major factor in power can be organically combined with the citizen's status.

#### **From Theory to Practice—New Choices in Deepening Reform**

We think that to perfect the market system, enhance enterprise's vigor, and change the government's functions, we must thoroughly restore and enhance the citizen's nature as a major part—this main line—and make this the logical starting point for deepening reform. To attain this goal, we should first make the expression of the individual's economic functions an important part of deepening reform, and have higher respect for private ownership, property rights and labor rights. Second, we should promote changes in the enterprise system and reform the enterprise by making the laborer's qualifications a major core factor in the economy. In this, private ownership is not the only way to effect enterprise reform, and marketization and private ownership are not terms with the same meaning. Third, we should accelerate the changes in government functions, lay down burdens, and "march with light packs."

### **PROVINCIAL**

#### **Anhui Expands Export Production**

*HK2604114589 Beijing CEI Database in English  
26 Apr 89*

[Text] Hefei (CEI)—The 106 export commodity bases in Anhui Province are providing one-fourth of the province's goods for export. The bases are divided into agricultural and industrial sectors. The agricultural and its byproducts bases will be engaged in the production of cotton, tea, goat skin, rabbit hair, peppermint, frozen rabbit meat, mushroom, river crab, rice, and straw woven articles. In 1990, exports are expected to reach 20,000 tons for cotton, 20,000 tons for tea, 80,000 tons for rice, and 125,000 quintals for silk cocoons. The province has invested 87.13 million yuan to establish 62 export bases for machinery, textile, and light industries. Last year, it widened its export species for machinery from 188 to 212, earning 70.42 million U.S. dollars of foreign exchanges, a rise of 72.9 percent over the previous year. In 1990, Anhui plans to export 70,000 pieces of cotton yarn, 45 million meters of cotton cloth, 25,000 pieces of polyester cotton yarn, 10 million meters of polyester cotton cloth, 40,000 dao (one dao = 100 sheets) of xuan paper, and 800 sets of machine tools. To combine industrial production with trade is another way to promote export. So far, 77.03 million yuan has been funded to set up 153 such enterprises. They earned 145 million dollars of foreign exchanges last year, accounting for 26.2 percent of the province's total export value.

#### **Guangdong Continues To Attract Foreign Investment**

*HK1804114589 Beijing CEI Database in English  
18 Apr 89*

[Text] Guangzhou (CEI)—Guangdong Province signed 43 contracts with solely foreign-funded ventures in the first quarter of this year, doubling the figure of the first quarter of last year. The province made use of 11.09 million U.S. dollars of foreign capital, up 8.8 times that of same period of last year.

The trend of running solely funded ventures by foreign businesses starting from last year is continuing, according to sources.

Last year, the province pooled efforts to improve its "hard" and "soft" investment environment according to the world common practices. The number of contracts for solely foreign-funded enterprises signed last year reached 102, about the total number from 1979 to 1987, and the paid-in foreign capital 105.5 million dollars, up 55 percent over that period.

#### **Guangzhou Enjoys Mixed Economic Situation**

*HK2504034389 Beijing ZHONGGUO XINWEN SHE  
in Chinese 1409 GMT 19 Apr 89*

[Report by reporter Zhu Huiyi 2612 0583 8381: "Economic Situation in Guangzhou Is as Gratifying as Worrisome During the First Quarter of 1989"—ZHONGGUO XINWEN SHE headline]

[Text] Guangzhou 19 Apr (ZHONGGUO XINWEN SHE)—Information from departments concerned indicates that Guangzhou's economy is developing strongly in the wake of several months' improvement and rectification. But the improvement measures' "side effects" on the economy, which have brought many projects to a sudden halt, must not be ignored.

Guangzhou's agricultural production, which has been declining for several consecutive years, has turned for the better this year: Areas sown to early grain crops increased by 30,000 mu over the corresponding period last year and spring plowing proceeds at a greater pace. The urban government has succeeded in preventing the production of animal husbandry from "sliding down" further by investing a large sum of money. Vegetable markets have ample supplies and prices are stable, with some lower than before.

Industrial production has grown steadily, with total output value for the first quarter of this year swelling by about 20 percent over the corresponding period last year. Both productivity and the quality of products have improved.

Since the beginning of this year foreign businessmen have come in turn to invest in Guangzhou. The foreign funds Guangzhou has actually made use of during the

first quarter of this year are four times as much as in the corresponding period last year, with 90 percent being invested in production. Guangzhou is trying to develop and manage land for industry and to engage in business in factory buildings in cooperation with foreign businessmen. The city is also actively making use of loans provided by foreign governments.

However, the economic situation in Guangzhou is getting increasingly grim because of a desperate shortage of funds resulting from the measures to tighten the money in circulation. The case is unprecedentedly serious regarding funds for purchase of export commodities, with the result that the city's first-quarter export value decreased by 20 percent compared with the corresponding period last year, "sliding down" to a large extent. Some industrial enterprises are on the verge of suspending operations, because of a lack of funds to purchase raw and semifinished materials. The city is also running short of support funds in its effort to utilize foreign funds.

According to an analysis by relevant public figures, the primary reasons for a serious shortage of funds are: 1) failure to exercise strict control over fixed assets investment, rapid industrial growth, and excessive price raises; 2) irrational investment and credit structures; and 3) enterprises' bank savings decreased for several months in a row. Industrial and commercial enterprises have owed each other money for a long time, as do enterprises within and outside the city.

In addition, the contradiction between supply and demand in electric power is sharpening. Some enterprises find it difficult even "to operate for 3 days and suspend operations for 4 days a week," and the excessive increase in prices has yet to be basically improved.

#### **Yunnan Economic Situation Reviewed**

*HK2504075389 Kunming Yunnan Provincial Service in Mandarin 1200 GMT 24 Apr 89*

[Text] From the overall economic situation in our province during the first quarter of the year we could see that improving the economic environment and rectifying the economic order achieved initial results, spring plowing was better than last year, the people's panic over price hikes was subsiding, and markets in town and country were stable in the main. Nevertheless, structural contradictions have become acute, commodity prices remain higher, and the readjustments are still very arduous.

This was disclosed at a press briefing jointly given recently by the Provincial Press and Publishing Bureau and the Provincial Statistics Bureau.

Thanks to the efforts made by governments at different levels, the area under spring-harvested crops reached 14.52 million mu and the total of spring-sown crops is expected to come to 37.5 million mu. Both figures are higher than for the previous year. This has laid a good

foundation for a new increase in this year's agricultural output. However, apart from natural disasters hitting spring-harvested crops, the difficulties facing our agricultural production are: a sharp drop in rapeseed output due to frost damage and reduction in the area sown to rape; the fever of producing flue-cured tobacco cannot be reduced; and the shortage of chemical fertilizer, pesticide, and agricultural plastic film still cannot be made good.

This year our province's overheated industry has been brought under control and the growth rate is normal. The problems are that the growth rate of heavy industry is higher than that of light industry and the processing industry is developing too fast and cannot be kept in line with the growth rate of such basic industries as energy and raw materials. Meanwhile, the fast development of high energy-consuming industry has increased the strain on energy supply.

Another problem worthy of our attention is that markets in town and country are stable in the main, but the retail price index of commodities rose more than 30 percent during the first 3 months of the year against the same period in the previous year. After allowing for price increases, wages for workers and staff in enterprises owned by the whole people fell by 2.1 percent compared to the same period last year.

The overall situation shows that improving the economic environment and rectifying the economic order has just begun. To make readjustments while cutting back the scale of investment and achieve progress in a steady economic development remains a long-term and difficult task.

### **FINANCE, BANKING**

#### **National Savings Increase by 31 Billion During First Quarter**

*40060527b Beijing JINRONG SHIBAO in Chinese 15 Apr 89 p 1*

[Article by Li Qian 2621 0241: "China Increases Savings by 30 Billion During the First Quarter of the Year, the Present Situation of Savings Making a Favorable Turn Is Not on a Steady Base, We Must Not Be Blindly Optimistic"]

[Text] According to the latest news from the People's Bank of China, national savings increased by 31.767 billion yuan during the first quarter of this year, which represents an increase of more than 3.7 billion yuan compared to the same period of last year. The situation of savings deposits is picking back up but according to analysis by concerned experts, the favorable turning of the financial situation is not yet on a steady base.

During January of this year savings deposits increased 4.7 billion yuan less than January of last year. After the state raised interest rates and employed a series of other



measures at the appropriate time, the February savings deposits started picking up and in March deposits increased by 10 billion yuan, which represents an increase of 2.61 billion yuan in comparison to the same period of last year. However, the increase of deposits in urban and rural areas was not balanced, with most of the increase being concentrated in the cities. In addition, although the savings deposit situation took a favorable turn during the last two months of the first quarter, the level of the accumulated increase was not as high as it should have been. At the end of March the national savings had increased by only 8.5 percent compared to last year; this is the lowest rate for this period since 1985. An authoritative source from the People's Bank of China believes that because of the large amount of circulating currency last year and a big increase in cash held by people along with cash outlays for wages during the first quarter of this year, the rate of increase in first quarter savings this year should have been higher, especially when looking at the accumulated growth of 26.5 percent last year, which maintained a 27.7 percent growth rate and the normal situation of former years. Since the actual situation did not turn out this way, we should not take a blindly optimistic view towards the savings situation.

This authoritative person feels that the further stabilization of prices during the first quarter had a very good effect on the growth of savings but this current price stabilization was mainly realized through administrative measures in management. Excess currency that has been accumulated over years and that can't be digested, and new currency that exceeds the needs of the economy not being restrained, will make it increasingly difficult to control prices using administrative means. These administrative controls began last September and have been in effect for over 6 months with many areas of economic life already feeling great pressure from these controls. These areas, such as in low coal prices and railway transportation prices, must be resolved.

In looking at the present situation, the outlook for rural savings this year is not very optimistic. Farmers income from nonagriculture trades has been reduced due to a reduction in capital construction projects and restricted loans for town and township enterprises. Another aspect is that active rural fund-raising activities have diverted a portion of rural household income and this "externally circulating" state of rural cash will be difficult to change in a short period. The above problems will all contribute to creating an unsteady base for rapidly increasing savings.

#### **Special Allocations Provide 3 Billion Yuan to 180 Enterprises**

40060527a Beijing JINRONG RIBAO in Chinese  
8 Apr 89 p 1

[Article by Ma Chunshan 7456 2504 1472, Zheng Chao 6774 6389, Sun Peilin 1327 1014 2651, Li Tifeng 2621 7555 1496, Liu Rong 0491 2837, Wei Zhaogui 7614 0340 6311, Zhao Fuli 6392 4395 0448, and Pan Fangsheng 3382 2455 5110: "Timely Rains of Spring Fall in March, Report on the Issuance of 3 Billion in Earmarked Loans"]

[Text] "The good rain knows the season and occurs right at the beginning of Spring." Throughout the ages these are the sentiments expressed by people regarding timely spring rains. At present, the state is supporting key enterprises and readjusting the industrial structure by dispersing 3 billion yuan in earmarked loans to 180 enterprises. What are the feelings of the comrades, staff, and workers of these enterprises? How will they use this money, employ this "east wind" to tap latent internal potentials, pass through this difficult period, and make even greater contributions to the nation and its people? For the last few days reporters visited a few enterprises that received these earmarked funds in Heilongjiang, Jilin, Liaoning, Tianjin, Beijing, and Zhejiang.

#### **Earmarked Funds Have Fulfilled an Urgent Need**

After a 150 million yuan earmarked loan from the Industrial and Commercial Bank of China arrived at the Anshan Iron and Steel Company on March 21st the entire company rejoiced. Bao Yushi [7637 7183 2514], a high-ranking accountant at the company, excitedly told us, "This loan truly fulfills an urgent need of the company!"

The well-known steel capital of China is the Anshan Iron and Steel Company. Last year this company fully completed its planned goals in production and economic results. However, in January and February of this year the total industrial output value dropped by 8.45 percent and 6.94 percent respectively in comparison with the same period of last year. The production volume of iron, steel, and steel products dropped by 11.13 percent, 7.55 percent, and 11.04 percent respectively in comparison with the same period last year. At the end of February, the Anshan Iron and Steel Company's accumulated earnings from product sales was 788 million yuan; this is a reduction of 80.77 million yuan compared to last year and a drop of 9.2 percent. Li Yaoxi [2621 5069 3886], director of the Industrial and Commercial Bank of China's Anshan Iron and Steel Company Credit Department, briefed us that the main factors creating the above-mentioned passive state of production are insufficient amounts of coal and electric power and the short supply of raw materials, in the final analysis this equates to the lack of funds.

With production in such a difficult position the influx of a 150 million yuan earmarked loan acted as a stimulant for the company. The Industrial and Commercial Bank of China's Anshan Iron and Steel Company Credit Department in accordance with the 4 requirements of earmarked loans conducted special account management, instituted overall planning with accounting departments reviewing and verifying each request. The entire loan was dispersed by March 27th. This "emergency" loan along with the tapping of internal potential enabled this company by the end of March to turn around its situation of declining production volume experienced in the previous 2 months and to expect to match its overall output value of the same period last



year. By the 26 March the amount of stockpiled coal had reached 110,000 tons and its coal debt decreased from 290 million yuan at the end of February to 190 million yuan.

While this was happening, a 42-million-yuan-earmarked loan was allotted to the Harbin Boiler Plant, the Harbin Electric Machinery Plant, and the Harbin Steam Turbine Plant which were all "crying piteously for funds." Old Ding [0002], the head of the steam turbine plant's financial affairs office told reporters. "This money has solved a large problem." Because this plant had no money to repay loans, several material contracts were cancelled. This 11-million-yuan loan it received has allowed its enterprise funds to be more flexible and some material contracts to be renewed. If the problem was put off and not solved for another 1 to 2 months the trouble would be much greater.

Earmarked funds of 97 million yuan have been dispersed to the No 1 and No 2 Beijing Cotton Mills. During their visit reporters learned that in order to ensure these loans are "carried down to the grassroots level" of enterprises, the Beijing Municipality Industrial and Commercial Bank and the Municipal Textile Bureau's Supply Office and other departments must actively study measures and put in a lot of work. The responsible person of the Municipal Textile Bureau Supply Office remarked that the loans given to cotton textile mills are to be used to purchase cotton. The Beijing No 1 Cotton Mill has turned over to the Textile Bureau's Supply Office 3.4 million yuan in funds it has received; the supply office is now using this money to purchase cotton through various connections in many areas for convenient and timely supply to the cotton mill.

The responsible person for financial affairs of the Beijing No 1 Cotton Mill informed reporters that there is still 6.6 million yuan being held by the bank until the time we need it for materials, at which time they will release it. The Beijing No 2 Cotton Mill received 7.2 million yuan in loan funds, turned over 2 million yuan to the supply office to purchase materials, paid 3 million yuan to Shandong for cotton purchased, and the remaining 2.3 million yuan is being used in various areas for the purchase of raw materials.

#### **Justify One's Own Dreams**

The Jilin Changchun No 1 Automobile Manufacturing Plant received 10 million yuan in state issued earmarked enterprise loans. In regards to the feelings that the state is giving "special treatment" to the plant, Yin Shijun [1438 1102 0689], the deputy factory manager and chief accountant, told reporters, "Although this money cannot solve the fundamental problems of shortages, it does show that the state has an understanding of the difficulties facing enterprises and has given us a lot of inspiration. We must also be aware of difficulties the state has, and we must overcome any difficulties that we can on our own and justify our own dreams."

Deputy Plant Manager Yin told reporters that at present the No 1 Automobile Manufacturing Plant is being devoted to "the 3d undertaking" in compact, light cars. At the start of this year due to several factors including increased output, higher prices for raw materials, and suppliers waiting for payments, the amount of funds required were increased by 400 million yuan over last year. The Industrial and Commercial Bank of China is now transferring 30 million yuan to add to the state's 10-million-yuan-earmarked funds but we don't know where the other 300 million yuan of funds will come from. What can be done? Deputy Plant Manager Yin stated, "We must solve this by using the driving force of resolution, rousing our enthusiasm, keeping our vision focused on the inside, and concentrate on tapping latent potentials." He also told reporters that not long ago, the No 1 Automobile Manufacturing Plant at the plant-wide meeting enlivened the funding goals by use of the contract method that gave these tasks to individual plants and concerned departments. This called for the entire plant to reduce its amount of reserves and funds and strive to tap 100 million yuan in hidden funds. In addition to this the plant's marketing center organized a 100 member "credit collection team" that was sent out to all areas to collect delinquent payments of goods. They also generated 10 million yuan through the process of foreign contracting, adjusted the product structure, and manufactured more farmer preferred diesel vehicles. Last year the No 1 Automobile Manufacturing Plant produced 9,000 diesel vehicles and still did not keep up with demand. This year they plan on producing 20,000 of these vehicles in order to satisfy the requirements of farmers.

On March 31st, Deputy Factory Manager Zhao of the Tianjin Bicycle Factory told visiting reporters, "If these daimao funds were not dispersed we would not have had any funds to organize the factory's technical office, hold several preparatory meetings, or for special research. We must use these valuable funds where they are most needed." Reporters learned that on 27 March the Tianjin People's Bank through the Municipal Industrial and Commercial Bank had dispersed 19 million yuan in earmarked funds to this factory and that the factory had already completed a plan for using this money.

The funds will be used to purchase 2.06 million yuan of inner tubes and outer coverings for tires, 1.5 million yuan of nickel, and 1 million yuan worth of wooden crates for packing bicycles; the remaining money will all be used to purchase steel products. Deputy Factory Manager Zhou explained that with these 4 major areas of raw materials being taken care of, the Tianjin Bicycle Factory can proceed as usual with its production.

#### **We Must Try Our Best To Help Each Other for the Overall Good**

Since the state under such a strained situation in funding has taken so much money to support essential enterprises, we must try our best to help each other for the

overall good. A responsible person from the credit department of the Industrial Bank in Ningbo Municipality, Zhejiang Province, shook hands with reporters and spoke to their hearts. He told the reporters that the Ningbo Wanxin Cotton Mill and the Ningbo Hefeng Textile Mill are two of four enterprises in Zhejiang that received earmarked loans from the state totalling 8 million yuan for the two mills. Based on the needs of these two mills, there is still a 6 million yuan shortage. In regard to this insufficient amount of funds, the Ningbo Municipal Government after conducting coordination is preparing to entrust the approval and issuance of funding to the bank. At present, 3 million yuan has been dispersed with the municipal government agreeing that the other 3 million will be paid out over an extended period. These reporters have further learned that the Ningbo Hefeng Textile Mill has also used the means of internal factory accumulated funds to solve a portion of its funding problems.

## INDUSTRY

### Minister Terms Energy Resource Situation 'Critical'

40060456a Beijing JINGJI XIAOXI in Chinese  
14 Mar 89 p 1

[Article by Wang Yuwen 3769 6276 2429: "Development, Conservation Equally Important; Strive To Improve Production, Consumption Mix"]

[Text] Ministry of Energy Resources Minister Huang Yicheng [7806 3015 6134] recently said in a related meeting that China's present energy resource situation is critical, and there is no reason to be optimistic from the long-term view either. Whether the state can achieve its strategic economic development goals by the end of this century depends to a great extent on how the energy resource issue is resolved.

The basic policy for China's energy industry in the next 12 years is: We must continue to give equal regard to the policy of thorough development and conservation, and strive to improve the energy resource production and consumption mix. Energy resource development must center around electric power, based on coal, while actively developing petroleum and natural gas. We must energetically develop hydroelectric and nuclear energy. At the same time, we must accelerate work on rural energy resources and electrification. We must make energy conservation a basic state policy in China, and vigorously conserve electricity, oil, and coal, while promoting thermoelectricity, utilization of surplus heat, continued substitution of coal for oil, improved energy resource utilization rates, and reduced environmental pollution.

Based on the aforementioned policy, our initial goal in developing energy resource production goal is: By the year 2000, when aggregate primary energy resources are 1.4 billion tons of standard coal, and raw coal output is

1.4 billion tons, convertible to 20 million kw of secondary energy resource electricity output, there will be definite improvement in China's energy resource production mix.

### Industrial Growth Rate Drops in First Quarter

OW3004181589 Beijing XINHUA Domestic Service in Chinese 1254 GMT 24 Apr 89

[Text] Beijing, 24 Apr (XINHUA)—According to statistics issued jointly by the State Statistics Bureau, the State Planning Commission, the Ministry of Finance, and the People's Construction Bank of China, the growth in China's industrial output in the first quarter slowed somewhat. The economic results of China's industry continue to drop—which is a phenomenon worthy of our attention.

According to the statistics, the first-quarter output per worker in state-owned enterprises registered a low increase of 2.2 percent, a drop of 7 percent compared with the figure for the same period last year. A total of 14 provinces, cities, and autonomous regions are below the national average. Among them, Hunan, Hubei, and Jiangsu have shown larger decreases in the growth rate. Profits earned and taxes paid by state-owned industrial enterprises continue to decrease. This decrease affects a relatively large area. Because of rapid price increases for raw materials, the total cost of comparable products rose 15.8 percent for the state-owned industrial enterprises during the first quarter.

### New Markets Opening for Shipbuilding Industry

HK2804123389 Beijing CEI Database in English 28 Apr 89

[Text] Beijing (CEI)—The United States, Federal Germany and Singapore imported four ships from China in the first quarter of this year, totalling more than 140,000 tons of loading capacity.

Of these ships, two are 65,000-ton Panamanian-type bulk vessels, the other two are advanced container ships.

According to sources, China is actively opening up new markets in the Soviet Union, East Europe and South America. The country will expand the export of natural gas transport ships and luxury yachts aside from ordinary tankers and bulk vessels.

### Guangzhou To 'Readjust' Electronics Industry

40060456b Guangzhou GUANGZHOU RIBAO in Chinese 7 Mar 89 p 1

[Article by Zeng Deming 2582 1795 2494, Zheng Dongcai 6774 2767 2624, Luo Jinheng 5012 6930 5683: "Facing a Crisis; Improve Product Mix; Participate in International Competition:"]

[Text] While production of some products this year will definitely be affected by the crisis it faces, in order for Guangzhou's electronics industry to set a firm basis in

attaining economies of scale, it must resolve to continue to strive to readjust its enterprise structure with the market as the goal of improving the product mix.

Guangzhou's electronics industry originally had a weak base. Growth was slow. It did not leave its slump until 1987. In 1988, it developed a lot. According to statistics, compared to 1987, in 1988 sales income grew 97.39 percent, tax profits rose more than 1.3 times, and the product stability improvement rate was up 8.5 percent (to 93.6 percent in 1988). Just as the city's electronics industry was growing, production controls and a monopoly were put on some electronics products, such as special management over and imposition of a special consumption tax on color TV's, due to the overly fast growth of the state's strict control of social group purchasing power and restraint on the consumption funds, so the sales volume of color TV's in Guangzhou immediately and clearly dropped. This had a big affect upon color TV production. It is expected that production of air conditioners will also be affected by the strict controls on group purchasing power. Faced with crises and difficulties, workers in the Guangzhou electronics industry are determined to turn the pressure into a motive force. They will work to readjust the product mix and find a way out by developing an externally oriented economy.

First of all, while continuing to deepen reform of enterprises, the industry will continue to readjust the enterprise structure and improve the product mix. Last year, the electronics industry took a new step in this regard. Three enterprises were united to form the Lehua Electronics Collective Co, centered around the Guangzhou Broadcasting Equipment Plant. This year, in line with the six principles of "be externally oriented, get benefits, use technology, have low consumption, have a basis, and radiate," the electronics industry set a development sequence for itself. It will continue to unite and merge enterprises, and will seek to improve market competitiveness in acoustical products using group strength.

Second, it will firmly weed out slow-selling products, accelerate development of new products, and actively readjust the superior product mix. Last year, in improving the technical transformation of enterprises, the electronics industry improved product quality, did a lot of work in regard to development of new products, and achieved success. In regard to new product development, 14 items achieved international standards of the 1980s; four items filled in domestic gaps; and eight items won Guangzhou advanced technology awards. In regard to creation of superior products, 17 items were (labeled best in the ministry) and 18 won provincial top quality product awards. This year, Guangzhou's electronics industry will support the domestic market, firmly weed out slow-selling products, and strive to develop key products while also severely restricting production of or switching over to other products in the case of poor quality products and those that consume too much energy and materials. The industry is starting a program

in which "every factory must develop at least two new products." It also demands that productivity be upgraded in order to enhance product competitiveness.

Third, the industry will get moving on developing an externally oriented economy. It will energetically develop large-scale imports and exports, foster exports by imports, have "both ends abroad" and develop wholly foreign-owned enterprises and Sino-foreign front ventures. Last year, 13 enterprises in the Guangzhou electronics industry exported products and processed imported materials, and 17 exported products, earning \$5.86 million. Seven enterprises utilized foreign funds (of which, four were joint ventures that went into production), and there were seven cases of imported production lines and equipment. Last year, export volume and technical grades were both greatly improved at the Shuguang Radio Factory (foreign exchange earnings were up 36.85 percent over the previous year, and its PR5304 (combined acoustics) entered foreign markets for the first time). It will open more international markets by serializing export products with high grade models this year. The Guoguang Electric Sound Factory will also expend full effort to develop the international market. Last year the factory not only had record export earnings, doubled from the previous year, but it also established the Guoguang Electrical Appliance Co Ltd, a Sino-foreign joint venture, and took part in completion on the international market.

## CONSTRUCTION

### State To Tighten Control on Apartment Construction, Sale

HK2504082389 Beijing CHINA DAILY in English  
25 Apr 89 p 1

[By staff reporter Gu Chengwen]

[Text] China's central government has tightened its management over the construction and sale of apartment buildings in order to establish a sound market in real estate, according to government sources.

Starting this year, the construction of such buildings will be included in the overall State plan for fixed assets investment, said Sun Jian, who is in charge of the work under the State Planning Commission. Previously, they were in the State plan only after they were sold.

It was hard, therefore, for the State to control investment by collectives and individuals. For State-owned units, it was once stipulated that any transaction below the price of 50,000 yuan was not covered by the compulsory State construction programme.

Sun told CHINA DAILY that many local governments and business firms made the best of loopholes in these rules. They got away with investing in expensive offices, auditoriums, hotels, exhibition halls and structures for production purposes by calling them apartments.

Last year the country built apartments with a total of 120 million square metres of floor space, involving an estimated investment of 27 billion yuan, Sun said.

In 1987, the area was 78 million square metres.

What is more, about 80 percent of these houses were bought by government institutions and State-owned enterprises, which allocated them to their workers free of charge, Sun said.

Over the past four decades, government officials and workers of State-owned enterprises got their houses from their work units for a very low rent. This has become an increasingly heavy burden for the State.

These apartment buildings were usually sold at prices much higher than their production cost, since the builders added to the price most of the taxes and fees and all the costs for supporting buildings, according to Li Xifu, who is with the Municipal Administration for the Urban Construction Development.

Li said that, for example, Beijing adds 10 different taxes and fees to the price of an apartment complex. The price also includes costs of supporting facilities such as shops, hospitals, schools, recreational facilities and roads.

The real cost of the apartments is only about one-third of the price, he said.

As a result, the small quantity of houses that were actually sold to individuals were mainly bought by people who have overseas support, by individual business people and by professional writers, artists and performers.

Li said the direct income from housing sales has helped a lot in Beijing's urban construction.

But there are too many firms dealing in the construction and sales of houses. Some of them are not qualified.

This year, Sun said, the State will impose quotas on construction projects, not at the time of sale, but from the very beginning. No one will be permitted to go beyond the quotas.

The sale of these apartment houses will be controlled by the local government instead of the central government.

## FOREIGN TRADE, INVESTMENT

### Response to Current Shifts in Flow of International Capital

40060445 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 2, 28 Feb 89 pp 45-49, 44

[Article by Xia Shen 1115 3947 of the University of Foreign Economic Trade: "The New Structure of Shifts in Current International Capital and China's Response"]

[Excerpts] During the past two decades, a series of changes has taken place in the status of the flow of international capital, which has caused, or is in the

process of causing more changes in the strategic use by world nations of foreign trade, foreign investment, or a combination of these. There is special and important significance for China's strategic position in the flow of international capital through studying and mastering the actual and potential sequence of changes and developmental trends in that flow. [passage omitted]

### The Countermeasures China Should Adopt

It should be noted that the changes in the international capital flow related above present China with a rare opportunity, as well as a serious challenge. The three major strategies used by China, that is, foreign capital, overseas investment, and a mixture of these, should all again be selected and adjusted. Without a doubt, this requires rich, imaginative, new thought, and demands original, new countermeasures.

The following several points summarize our train of thought:

#### 1. Strategy for using direct investment by foreign businesses.

Looked at from the structure of China's overseas investment, from 1979 to 1987 our actual use of foreign capital totalled \$37.498 billion, of which \$26.348 billion was borrowed from abroad, or 70.2 percent of the total. Funds directly invested by foreign firms amounted to \$8.904 billion, only 23.7 percent of the total. What was left over was used for compensating foreign trade, machining equipment, international rentals, etc. But the overall use of foreign capital now is in bad need of raising direct investments by foreign firms to a more proportional and strategic position.

(1) Be bold and adept at using direct investments from Western multinational corporations. At present, there are too few large- and medium-sized investors, but very few of the world's well-known large-scale or huge multinational corporations have come to China to invest. We propose that the various industries choose some key large- and medium-sized enterprises which will decide on their own to join with famous multinational corporations in corresponding industries in international cooperative projects, taking the initiative in channeling capital into their international cycles and cooperative project systems. In the division of labor within industries, companies, and at even higher levels, it is standard to use direct investments from foreign firms; take for example, the Shanghai Aircraft Manufacturing Plant entering into international co-production with the McDonnell Douglas Corporation of the United States. We can first study the multinationals' labor-intensive model, or their mixed labor-technology model work processes, borrow their manufacturing of spare parts and components, while waiting for the time when conditions

are ripe to again gradually permeate their nucleus workshops, their research and development departments. This method is not only suitable for coastal enterprises, it is also suitable for large enterprises in the west central region.

(2) Pluralize the sources of foreign commercial investment. Currently, 50.4 percent of the investment in China comes from Hong Kong and Macao, 22.2 percent from the United States, 16.4 percent from Japan, 6.7 percent from Europe, and 4.3 percent from other places. The United States, Japan, and Europe have investment capability, but the amount invested has been small; for this reason, we recommend that from first to last there be an emphasis on attracting investment from the United States and Europe. The newly emerging industrialized nations of Asia (e.g., Singapore, South Korea and our province of Taiwan) still have quite a few potential investors who are awaiting their opportunity to make a move. China should in its foreign political and economic relations affect a corresponding attitude, adopt practical measures, and strive for future investments.

(3) Understand clearly that China's main competition in attracting foreign investment comes from Asia's "four little dragons," plus Malaysia and Thailand. In the present adjustment of the world enterprise system, the less developed nations absorb the developed nations's "product life cycle mode of investment" the two form more pluralized mutually beneficial joint cooperative relationships, while forming direct relationships replacing competition with other developing nations and regions which are newly industrialized or just pulling themselves up to the ranks of the newly industrialized. Understand clearly that this competitive situation is very important.

(4) The emphasis in attracting foreign capital has shifted from providing favorable conditions to improving the flexibility of the investment environment. In the international fervor for absorbing foreign capital, the results of mutual competition among developing nations has led to a great many benefits from acceptance of international capital, while producing an excessive amount of self-created benefits. Counter to this, it seems that on the one hand we could try seeking among the developing nations of the Asia-Pacific region a group agreement of tacit understanding that collectively stipulate the favorable scope and time limits foreign capital policy, and cut down on competing with one another. On the other hand, make the improved investment environment (centering on a flexible environment) the central means of absorbing foreign capital. This approach urgently requires doing the following: Further reform the foreign capital policy and system, strengthen the market for commodities and essentials, perfect the laws on foreign investment, improve the cultural atmosphere, raise the efficiency level of relevant organizations and the quality of personnel, increase consulting services, and conscientiously let foreign firms manage enterprises according to international practice.

(5) Press for Japanese direct investment in China. In the 1980s, Japan's long-term capital investment has increased at an astonishing rate, but it has taken a passive and conservative stance when it comes to direct investment in, and transfer of technology to China. In 1986, the financial volume of Japan's investment agreements in China fell off 55.3 percent from 1985, a rate of decline greater than that for the nations of Europe and America. Moreover, the average stipulated project investment in the agreements also declined from the 1985 figure of \$3.706 million, to \$2.2385 million in 1986. At the end of 1987, Japan's direct investment in China amounted to \$1.4 billion, not quite 1 percent of Japan's total direct investment abroad, and 16.4 percent of all foreign investment in China. This is extremely unbalanced compared to the huge quantities China imports from Japan (for example, in 1986 we imported from Japan approximately \$700 million in electronic equipment alone). In view of Japan's continually persisting in a conservative China investment strategy (its recent posture has changed slightly), we believe that not too much hope should be placed in this. We could consider levying a customs duty on Japanese firms, or adopting administrative measures to stop imports; or, keep our market open only to firms which invest in China, in order to compel their investment here. In this way, Brazil has used protectionist trade policies to induce foreign automobile manufacturers to invest in Brazilian plants, thereby importing by substitute the successful experience which is worth emulating.

(6) Attract long-term investment from Hong Kong. In the transformation of the world industrial structure, Hong Kong has used its peculiar geographic location to gain a dominant position over others, making our Pearl River delta channel into its great international circle. However, it should be borne in mind that, the Pearl River delta's "three forms of import processing and compensation trade model" has not attained widespread significance due to geographic limitations. At the same time, it should also be noted that Hong Kong has made use of cheap labor in the Pearl River delta for expediency; it is possible that Hong Kong can, due to structural adjustment pressures, slow down, and lose the golden opportunity for improving their industrial and export structure. If they give this serious thought, it should lead to their investing in our high technology industries and research and development industries. Combining Hong Kong's abundant capital with the mainland's high technology would be a turning point in our taking a giant leap forward towards superiority.

(7) Use foreign firms direct investment to shift from policies slanted to regions to policies slanted to enterprises. Stress the development of enterprises which will replace imports, and enterprises which gain foreign exchange through exports.

## 2. Strategies for direct investment abroad.

Statistical data indicates that up to the end of September 1988, China had started up 499 manufacturing enterprises abroad which were not engaged in foreign trade. These were distributed over 79 nations and regions, with investment concentrated in three areas: manufacturing industries, exploitation of natural resources, and new technologies. More than 80 percent of the overseas firms were operating very well. Present direct investment abroad totals \$1.884 billion; of this, the Chinese side had invested \$650 million, or 29.2 percent.

(1) Raise direct overseas investment to a strategic position. The type of overseas investment people are most familiar with is that of foreign firms investing in China, while direct investment overseas is actually another important aspect of the use of foreign capital, but is absolutely different in the way that capital is used. Looking at the proportion of current overseas investment, the Chinese side has a very small share of jointly funded and operated enterprises overseas; this is equivalent to China using \$1.234 billion (1.884 billion minus 650 million). This figure is roughly the same as drawing within our borders a total of 13.86 percent in direct foreign commercial investment (12.34 divided by 89.04). The rate of Chinese direct investment overseas is growing very rapidly: a comparison of 1987 to 1986 shows that the increase multiplied, and the buying momentum has not declined up to now. At present China ranks among the most successful of the developing nations when it comes to direct overseas investment. We believe that direct investment overseas should be brought into the overall strategy for use of foreign capital, making it an indispensable, important part of that strategy. Taking this a step further, make it a part of the strategy of opening to the outside, linking it organically with our strategies for foreign investment and technology.

(2) Push large and super-large industrial enterprises, foreign trade enterprises and financial enterprises to the first line of multinational operations. Currently, China's corporations specializing in foreign trade and certain large-scale industrial groups tentatively have the economic strength to undertake overseas involvement, and can consider taking the lead in internationalization, and making this the main part of China's multinational investment and operations. We hold out a great deal of hope for China's developing corporations which are characteristically multinational. There should be a maximum effort to have three to five world-famous Chinese multinational corporations by the second or third decade of the next century. When that time comes, the foreign trade within these corporations should be 40 to 50 percent of China's entire foreign trade.

(3) In the future, it may be possible to make investments which stress treating the regional economy as an organic whole. Start out initially from established trade strong-points, while continuing to create manufacturing strong-points. While other groups of nations still have not finalized the form of their internal unified markets,

make "breakout style" investments or "tariff leaping style" investments. For example, to break into the U.S. market, we could first invest in Canada, Mexico, and the Caribbean Sea region, then wait for the opportune moment to act. We should still invest more at deeper and wider levels in the nations of the Pacific basin, deepening trade and financial relations and creating the structure for a foreign-oriented economy in the 1990s, to guard against being excluded from an "Asian-Pacific Economic Sphere," should one be created.

(4) Pay special attention to developing a research and development model for direct investment. Create a sort of trade channel through which to receive high technology for which special permission to transfer was rejected; we can choose to use this kind of investment style to pursue the newest technology from its place of origin in a roundabout way. For example, make risk investments in the enterprises which are creating high technology in the Silicon Valley region of the U.S., Japan, South Korea, and Singapore have done it this way, and this new trend is worthy of close attention.

(5) Through its policies and laws, the nation totally supports development of overseas direct investment. I propose that the State Council establish a commission on overseas investment, which can carry out macroscopic coordination and unified oversight of overseas investment. The state might consider setting up overseas investment funds and insurance funds, to provide newly established enterprises with a certain amount of long-term loans on favorable terms; establishing multinational banks to provide necessary services to our multinational enterprises; drafting and perfecting a macroscopic public finance policy concerning overseas investment, for example through overseas direct investment which brings exported machinery equipment, raw materials and intermediate commodities which are exempt from export taxes. Moreover put into effect export drawbacks, and toward the import of natural resources development overseas investment project products, provide the same level or more favorable tariff treatment. Towards Chinese overseas enterprises which cannot exchange another country's currency for commodities bought back, extend appropriate import tariff reduction. Draft and perfect laws and regulations concerning overseas investment, and as early as possible promulgate a "Law Regarding Overseas Direct Investment," and implement "Regulations on Administration of Multinational Enterprises." Be vigorous in concluding mutual investment protective agreements with relevant nations, for example, agreements to avoid double-taxation.

(6) Extend to China's overseas enterprises total and complete power to control their own affairs. They should be able to set up the conditions for competing on equal terms with other countries' multinational corporations. For example, permit overseas enterprises to develop unified management, and not excessively restrict the overseas activities and scope of commodities of our

multinational enterprises. On the basis of checking and ratifying international corporations' capital, technology and management capabilities, designate the corporations' rank and funding level, while along with this empower international corporations with the right to borrow in the international financial market, to issue stock shares and to reinvest their profits. For "first-line" enterprises, gradually develop the conditions for managing personnel turnover, keeping approval at higher levels as simple as possible. (However, they should retain management and control of those personnel who follow the flow of merchandise).

(7) Establish a center for training China's multinational corporate management personnel. High-level professional manpower all need training, whether they are in management, accounting, marketing or law. Graduation certificates from the center should be given for work or offices held at overseas enterprises.

### *3. Strategy for overseas mixed funding and fund raising.*

At present, China is going through many kinds of international fund raising channels and mixed funding. Controlling and managing the scale of foreign funding and foreign debts are both more effective and sound this way. China currently has foreign debts amounting to \$26.55 billion, and the annual debt repayment's proportion of our national total output value and trade revenue still does not surpass the internationally recognized "warning line." In the years to come, China's strategy for mixed funding and fund raising should give some attention to resolving the following several questions:

(1) Draft measures for a peak period of debt repayment during the first part of the 1990s. Statistics show that when the time comes that the total volume of China's foreign debt exceeds \$40 billion, the annual payment of principal with interest and the foreign exchange paid out to foreign firms will amount to about \$8 billion. The outlay for principal, interest and exchange will take up about 20 percent of the foreign exchange earned by the nation that year from exports. To counter this, we should be fully prepared mentally, increasing our awareness of debt repayment. From 1983 to 1987, the annual rate of increase in China's debt (indicating borrowing for the purpose of buying foreign goods) reached 57.8 percent, which tends to be a bit high. We recommend that the state set up a foreign exchange and RMB debt repayment fund, to raise the repayment capabilities of foreign fund users, and to guard against falling into the debt burden trap some developing nations found themselves in during the late 1970s.

(2) Strengthen debt management. There must be a clear delineation of the separate debt responsibilities of the central government, local governments, and enterprises. The central and local governments chiefly make use of low-interest loans from foreign governments and international organizations, with a focus on developmental assistance loans. Domestic and overseas enterprises, on

the basis of designated funding at various levels and appraisal of their debt repayment abilities, can widen their rights to borrow abroad as appropriate. However, enterprises must fully and independently bear their own foreign debt risks and responsibilities.

(3) Adjust the debt structure. In China's debt structure from 1979 to 1987, loans from foreign governments and commercial banks made up 19 percent and 47 percent, respectively, of China's total foreign debt. The latter figure tends to be somewhat high. All along we should strive to obtain low interest, long term loans from foreign governments and international organizations, being adept at using developmental assistance loans, while keeping short term loans from commercial banks at about 20 to 25 percent of the total debt burden. The present ratio of China's foreign funds to foreign firms' direct investment is about 7:3. This is because foreign direct investment in itself is not a part of the restrictive debt repayment burden, so that all along it can move forward in raising their proportion of the overall foreign fund structure.

(4) Strengthen the management of foreign exchange risks. In recent years, the international financial market has undergone continual shocks. Due to foreign exchange hazards, China has lost billions of U.S. dollars. We propose that the financial community expand development of their business of financial speculation and corresponding assurance of value; as far as possible, disperse and decrease foreign exchange risks. In the currency composition of our foreign debt, regulate the rise of that debt that is in Japanese currency, and increase the proportion that is in U.S. currency; this will maintain our debts' currency structure at the same level as our present currency structure for foreign exchange income.

(5) Pay attention to making maximum use of the superior fund raising abilities of Hong Kong financial firms. When appraising corporations for borrowing at various levels, grant them corresponding powers to borrow funds and to issue stocks on the market.

(6) Be bold in attracting multinational banks, while simultaneously developing China's multinational banks.

(7) Establish and perfect a foreign exchange market. Along with developing the day-to-day maturing of our economy, there could possibly be new international financial centers at Guangzhou and Shanghai. To this end, there should be a planned, step by step creation of the requisite conditions.

### **Need To Resolve Autonomy 'Problem' Among FIEs**

40060514 Beijing GUOJI SHANGBAO in Chinese  
22 Apr 89 p 3

[Article by Jiang Qingyun 5592 7230 0061: "A Look at the Foreign-Invested Enterprises' Problem With Autonomy"]

[Text] Foreign-invested enterprises [FIEs], as legal entities, have relatively complete property rights. These



enterprises are generally guided by boards of trustees, but the chief executive officers are the ones in charge of business operations. These enterprises should not have any problem with autonomy. However, many foreign businessmen now consider operational autonomy to be the major problem that must be resolved. And their pleas to resolve this problem have become more urgent than those of nationally owned enterprises. We should first look into and discuss this problem.

### **I. Various Incidents That Demonstrate FIEs' Problem With Autonomy**

Our government has earlier issued an appropriate decree clearly stipulating that FIEs are fully granted operational autonomy. For instance, in "The Implementing Ordinance of the Law on Sino-Foreign Joint Ventures," Article 7 points out: "Within the context of Chinese laws and regulations, and within the agreement, contract, rules and regulations of the joint venture enterprise, joint venture enterprises have the right to make decisions on their operation and management. All relevant departments should give them support and help." There is a similar stipulation concerning Sino-foreign contractual joint ventures. The results, however, have not been satisfactory. During the first 6 months of 1988, according to an investigation by the Guangdong Provincial Committee, of more than 2,000 FIEs that were investigated in Guangdong, 30-40 percent were not able to exercise their autonomous rights.

To be specific, the issue of the autonomy of FIEs does not just include the power to make decision about the production and management of the enterprise; it also concerns responsibilities and profits. At present there are acute problems with authority, responsibilities, and profits of the foreign-invested ventures.

A. Their power is being usurped and withheld. The decisionmaking power of foreign-invested ventures should include all rights to conduct legal activities in production and management. Yet, in reality, many of the enterprises find their authority appropriated in different ways. The most important demonstration of the phenomenon wherein FIEs lack autonomy can be seen in the following: The board of trustees has no power to independently make major decision on production and management. The relevant departments, their superiors, have to examine their decisions, give permission, and often interfere. The enterprise has no complete authority to hire or fire officers and workers. The personnel and labor departments have to approve any such action. For instance, the Shanghai Yifu Motorcycle Company reported that they are frequently ordered around by their higher-ups; these higher-ups even ordered the company to publish their product brochures in some factory in faraway Heilongjiang Province.

B. Responsibilities cannot be carried out. In a way, FIEs cannot perform their duties if they are not ensured of having authority. It is only natural that if the board of

trustees of the FIE does not have all the power to decide on operations and production, it should not be held accountable for the consequences. Sino-foreign joint ventures are governed by boards of volunteer trustees. The administrative chief of the department-in-charge or of the main company usually becomes chairman of the board. The trustees do not regularly stay and work in the office, therefore it is not uncommon that board members acquire only a half-baked knowledge of the business. They are afraid to make independent decisions on management policy, let alone shoulder the full responsibility for the enterprise, or stand up for the interests of the business. The board has succumbed to "feebleness." A situation in which "the trustees cannot be trusted, and the managers cannot manage" should not come as a surprise to anyone.

C. Profits cannot be guaranteed. Authority, responsibility, and profits are a tightly knit entity. If there is an absence of authority and responsibility, then there will not be fully guaranteed profits for the enterprise either. Let us look at the following situation: a) There are many who would like to interfere with the enterprise's autonomy, and many who would demand unreasonable financial levies and charges—a rampant phenomenon. The foreign manager of Shanghai Baier Dentistry Material Company gave the following illustration: "A Sino-foreign joint venture is like a bull. Wherever it runs, some will ask for its blood, until the blood's all run out, and the bull collapses." Shanghai Santana Automobile Company said when they asked for some land to build roads, they were told to take in 20 peasants as workers. Otherwise, for each person rejected, the company would have to pay 15,000 yuan to relevant work units. b) Foreign businessmen report that they cannot transfer the profits they make into foreign currency to take out of the country due to obstruction by concerned government agencies. c) Employees are not paid the full amount of their wages, therefore they are not inclined to take any initiative. According to the law, employees in joint ventures can be paid 20-50 percent higher than those who work at national enterprises. Few enterprises have yet to live up to the agreement. Several joint ventures in Shanghai are not allowed to pay their workers accordingly because their mother companies say that "it will give a wrong impression if the salary gap is too wide."

### **II. Reasons Why It Is Difficult To Cede Autonomy to FIEs**

What are the reasons why FIEs are not able to assume operational autonomy? When we start analyzing, we shall easily see that the root of the disease is with the system.

A. In our country FIEs, particularly Sino-foreign joint ventures and Sino-foreign contractual joint ventures, are under the leadership of certain administrative departments or head companies. Letting an enterprise be controlled by an administrative agency of the government is in itself against the rules of a commodity



economy. An enterprise is a legal entity with operational independence. Letting an administrative department handle an enterprise is not only illogical, it also leads to usurpation of power and creates conditions conducive to administrative interference by departments-in-charge. This is, in fact, an old problem of national enterprises.

B. Under the volunteer trustee system the section chief of the relevant administrative department, or the leader of the head company-in-charge, simultaneously becomes the chairman of the board in the FIE. This is the product of the old management system. This system is prompt to promote confusion in administration and operation, authority and responsibility. Such enterprises have no full-time chairman, which means that they do not have the person with highest decisionmaking power. This also means that they do not have independent capability to operate; therefore they are not healthy enterprises. The core of the old management system is that it prefers to treat an enterprise as if it were an affiliate to the administrative department, rather than a real independent enterprise.

C. Many of the administrative chiefs and Chinese managers who work with foreign-invested ventures are accustomed to the old system and method of managing and operating enterprises. When working with the FIEs, whether consciously or unconsciously, they habitually think and act as if under the old system. They would use old ideas, methods, and measures to deal with a new situation. This style of managing an enterprise is like running a new car on a worn-out road. This also provides the foundation and opportunity for problems with autonomy to arise. Foreign businessmen, who have come from the background of a commodity economy, find it impossible to accept this style of management. For example, some departments-in-charge arbitrarily transfer Chinese executives working in the FIEs. Our government seems to take these actions in stride, but the foreign businessmen think them unreasonable. They are detrimental to the stability and continuity of an enterprise's policy. Besides, these executives have employment contracts; the departments have no right to move them arbitrarily. The many lessons learned from the management failures of Chinese and foreign enterprises prove that frequent transferring of executives is not beneficial to the operation of enterprises.

On the whole, the FIE's problem with autonomy is exactly the same problem national enterprises have—a consequence of the old management system. But when we analyze a bit further, we shall find out that because of a sharp conflict, the FIE's problem shows up more obviously: On the one hand, although we have had some success in the reform of our economic system, the relation between enterprises and government has not been clearly defined. Enterprises are still subsidiary to government administrative agencies. Besides, many of our leaders and workers have only a vague idea of what a commodity economy is about. They are used to the

merging of government and enterprises, and to interference by administrative officials. On the other hand, foreign businessmen who have come to China to invest, and their executives, have always been influenced by the concept of a commodity economy. Their basic belief is that "a real enterprise is independent of government administration; it is a legal entity which makes independent decisions."

This conflict is in fact a show-down between the concepts of a product economy and a commodity economy. It also indicates that in order to proceed smoothly with the reform of our economic system, we must completely get rid of the old concept. At the same time, to solve the problem with autonomy in FIEs, we must first instill the idea of a commodity economy and market competition. Let enterprises become legal entities that will in fact have independent management and financial responsibility.

### III. The Practical Way To Solve the Autonomy Problem of FIEs

The primary solution to their problem with autonomy is to accelerate the speed of reform of our economic system, to turn our enterprises into real enterprises. But, before we can accomplish our reform, which is a lengthy process, how do we resolve the problem practically and effectively?

A. We must acquire an accurate viewpoint, which is to say FIEs need to repossess their rights. The question now is not how to cede power to these enterprises, but how to return to them the power which was originally theirs. Our national enterprises also face the same problem. To correct this situation, I believe we should make a clean start with FIEs. This way, we can improve the management system in FIEs, and acquire the experience to reform our national enterprises.

B. Government agencies should administer FIEs by means of assistance instead of interference, rule by law instead of man. We should work at improving the investment climate as well as following customary international practices. Furthermore, we should draw up and improve laws and regulations that concern the administration of FIEs. Those relevant departments can command and oversee enterprise operation and management only by following laws and regulations, not by arbitrarily intervening in their internal affairs. It is the duty of the administration to serve the enterprises. Meanwhile, our government agencies should compensate for the defects caused by our imperfect market system by fully applying the law and policy, and by earnestly helping to solve the problems encountered by FIEs. For instance, under the circumstance of deficient labor market, our government should make full use of our policy to guarantee the enterprises' right to hire workers. The Fuzhou city government has had more success in tackling this problem. They have a deputy mayor who is responsible for direct liaison with the FIEs. He will immediately take up any

official matters, and resolve all mundane problems dealing with personnel, construction, and electricity. In order to resolve the hiring/firing problem that enterprises have, the city has specially drawn up "Several Guidelines for How the Three Kinds of Partially or Wholly Foreign-Owned Enterprises May Dismiss Tenured Employees."

C. As far as structure is concerned, the present system of having volunteer trustees must be changed into that of professionalism. There should be a full-time chairman of the board in every FIE to safeguard the right of independent decision and at the same time to take whole responsibility for operation and management. This will further strengthen the structure in which the executive officer performs his duties under the leadership of the board of trustees. This is the key link which will guarantee that FIEs can improve their operational system and resume their proper autonomy.

#### **'Experts' Discuss Export Structure Suitable for Country**

40060521a Shanghai JINGJI DAobao in Chinese  
17 Apr 89 p 4

[By correspondent Lu Wei 5684 5517: "At the Symposium on Policy Governing Foreign Trade and the Export Industry, Various Experts Reflected on the Need To Summon Up All Key Production Elements To Achieve Superiority in the Export Industry"]

[Text] China's policy governing its export industry, an important component of China's industrial policy, is now facing the problem of how to change to a more rational commodity mix and to a higher quality of goods in the export industry. Following the State Council's promulgation of its "Resolution on Salient Points in the Current Industrial Policy," experts in various quarters have renewed their investigations of China's policy governing the export industry.

At the "Symposium on China's Policy Governing Foreign Trade and the Export Industry," recently held at the China International Trade Society, experts analyzed the situation and expressed as their opinion that essentially no improvement at all is visible if we compare China's current export commodity mix and that of the early years after the founding of the PRC. Because of the backwardness of the basic industries, one-sided emphasis was for a long time placed on the development of a labor-intensive and closely natural resource-related export industry, and the recent compartmentalizing assumption of contract responsibilities has again led to regional blockades and shortsighted business tactics among enterprises, which in turn led to a tendency to not improve the export commodity mix in proportion to the growth of manufactured industrial goods.

In the view of the experts, the above is now the cause of evil consequences, namely:

First, the export industry was not only incapable of exercising a promotional function toward continued improvement of China's industrial structure, but, on the contrary, aggravated the contradiction of shortages of energy sources, agricultural products, and raw and semi-processed materials, and the critical transport situation. Second, the export industry was not only incapable of using the opportunity of adjustments in the world's industrial structure to also promote a shift in China's economy from a domestic to an external orientation, suited to the economic integration, but on the contrary aggravated the supply-demand contradiction with regard to some commodities. At the same time, there surfaced the obvious problem that China's export industry had not been able to establish a proper ratio between increased volume of export commodities and corresponding increases in foreign exchange earnings from exports and economic returns from exports. If conditions were allowed to go on like this, China would sink deeper and deeper into the morass of a serious imbalance in its industrial structure.

It is for this reason that participants at the symposium expressed the hope that an export policy would be formulated that would conform to China's national conditions. Through measures of macroeconomic regulation and control using the banks and customs revenue, this policy should encourage and support those branches of the export industry and those export commodities that require development. It should promote improvement and updating of export commodities and the development of new export items, and in this way improve and upgrade the export commodity mix.

The experts called particular attention to the fact that when China's policy on the export industry is formulated, the general rules and demands of any export policy must be observed, and that even more consideration should be given to the specific national conditions in China. It must be soberly realized that the labor element is gradually losing its significance in the world economy and the scientific and technological elements are clearly moving into a dominant position. Objectively expressed, there are now more challenges than opportunities for China in the new overall situation that is evolving in the world economy. The golden age of the "four little dragons of Asia" with their externally oriented economies that developed labor-intensive products has gone forever, never to return. Industrialization in the "four little dragons of Asia" is now reaching a higher stage and extending into new markets, without abandoning their original markets in textiles, clothes, and assembly of electronics. Trade protectionism and technological protectionism is rapidly spreading in developed countries. Developing countries are fighting in intensified competition for the few export markets that are left to them. The export mix in the international market is turning toward higher grade goods. China, on the other hand, will hardly be able to change in a short time the situation of having a large proportion of its export mix consist of the sale of primary products, sold at cheap prices.

When it comes specifically to creating an export policy, it is still necessary to adopt a comprehensive view and stress the need for development of an externally oriented economy, with creation of a unified market within the entire country. China has a vast territory and is not poor in natural resources, but its large population is not well educated, and key production elements are, furthermore, not evenly distributed. The only way to gain superiority for its export trade is, therefore, to summon those key production elements that have superiority in international production. These are also the benefits that are getting the attention of the EEC.

To sum up, consideration of the entity as a whole must govern in development of foreign trade, in an externally oriented economy, and in participation in the international division of labor. International trade is not a matter of unilateral but of bilateral choice. It is, therefore, necessary to earnestly consider and study a variety of factors, to clearly recognize, support, and encourage a restricted target, and to formulate a policy for the export industry that is capable of promoting improvement of the export commodity mix.

Participants present at the symposium included: Zhou Huamin [0719 0553 3046], president of the China International Trade Society; Sun Hongguang [1327 7703 0342], head of the Industrial Policy Department of the State Planning Commission; and experts from the Ministry of Textiles, the Ministry of Light Industry, and the Chinese Academy of Social Sciences.

#### **Official Advocates 'Bolder' Use of Foreign Investment**

HK2104103689 Beijing CHINA DAILY in English  
21 Apr 89 p 1

[By staff reporter Yuan Zhou]

[Text] The state has allocated 400 million yuan for loan to the foreign-funded enterprises as Vice-Premier Tian Jiyun has urged the provinces to use overseas investment in a more effective and bolder way.

Tian said using overseas investment on projects most needed by China in accordance with the nation's industrial structure would make up for the shortage of domestic construction funds, and improve the technological level and competitiveness of Chinese businesses.

The Vice-Premier was speaking to about 100 provincial foreign trade chiefs at a national conference on foreign investment yesterday in Beijing.

The provinces should make overall plans for introducing foreign funds and this plan must be closely associated with the nation's industrial policy and local economic development, said Tian.

He said more attention should be paid to getting advanced technology with foreign investment, particularly by the coastal cities and special economic zones.

Tian said that in order to improve the investment environment, all departments concerned should help foreign-funded enterprises to solve problems of production and management and he said the policies must be stable.

"Local policies and measures," he said, "should comply with State laws and regulations. We should always keep our word and not make unpredictable changes in policy."

China now has about 16,000 foreign-invested businesses with a pledged investment of \$28.65 billion. Investors are from more than 40 countries and regions.

Though China approved a record 5,945 foreign-invested businesses with a contractual investment of \$5.3 billion last year, too many of them were small processing projects and projects designed for the same products.

After approval of foreign-invested businesses was decentralized, some local governments were not strict in approving new joint ventures, which had affected the quality of projects with foreign investment.

Shen Jueren, Vice-Minister of Foreign Economic Relations and Trade (Mofert) said at the meeting that over the next two years, the country would stress quality instead of quantity in setting up businesses with foreign investment.

He said the People's Bank of China and the State Planning Commission had earmarked loans of 400 million yuan to fund Chinese investment in construction of some key foreign-invested projects.

Shen said the Mofert and other government departments will consult to find ways to solve material shortages for foreign-invested businesses.

He said the government would intensify supervision and management of the business activities of those enterprises with foreign investment.

Foreign trade officials were asked to help maintain good relations among government departments concerned, chairmen of boards and general managers of foreign-invested businesses.

Shen said that officials in charge of foreign investment would be educated about clean government and improving their professional expertise.

In another move to improve the Chinese investment environment, the Mofert has submitted the detailed regulations on the law of foreign-invested enterprises to the State Council for review.

**Measures To Prevent 'Silkworm Cocoon War'**  
40060579c Beijing GUOJI SHANGBAO in Chinese  
29 Apr 89 p 1

[Text] Entrusted by the State Council, the Ministry of Foreign Economic Relations and Trade [MOFERT], the Ministry of Supervision, the State Commodity Prices General Administration, and the State Administration for Industry and Commerce on 26 April jointly held a telephonic conference, in which they planned this year's silkworm cocoon purchasing work so as to better implement the "State Council's Urgent Circular Notice on Purchasing Silkworm Cocoons and Unifying Export Administration and Management" and the "Supplemental Circular Notice" of 25 April 1989 in order to prevent a repetition of the "silkworm cocoon war." Representing the State Council, He Chunlin [0149 2797 7207], deputy secretary general of the council, made a speech at the conference. He stressed that, first, the State Council's provisions must be enforced everywhere. The China National Silk Import and Export Corporation and its provincial (municipality and autonomous region) subsidiaries are to supervise and manage in a unified fashion the purchase and export of silkworm cocoons, silk, and semifinished silk. Other units, departments, or individuals that are not entrusted with this work, without exception, must not interfere. The peasants must be mobilized to sell fresh cocoons to the state, and they are not to dry the cocoons by themselves. Factories must not on their own sell raw silk and semifinished silk. In key silkworm cocoon-producing areas, the work of purchasing cocoons, silk, and silk fabrics must be led, coordinated, and supervised by the cocoon, silk, and silk fabrics coordinating groups set up by the provincial governments. Second, the state's pricing policy must be strictly enforced. The prices of silkworm cocoons and filature silk are set by the state, and in no place must they be infringed. Under no pretense may there be extra-price subsidies or extra-price addons. Third, the excessively large scale of silk production at the present time must be controlled. In no place must there be a reexpansion of production capacity and the start of new projects. Projects now being expanded or built should be immediately abandoned. Factories in which consumption is large, quality is poor, and results are low must close, stop production, merge, or transform. Fourth, governments at all levels in the provinces, municipalities, and autonomous regions must take the interests of the whole into account and make each level responsible. In particular, the leaders of the producing prefectures and counties, who are on the front line in preventing a "silkworm cocoon war," must implement the State Council's provisions one by one so that orders and prohibitions are strictly enforced.

The State Council has dispatched joint work teams, formed by the Ministry of Supervision, MOFERT, the State Commodity Prices General Administration, and the State Administration for Industry and Commerce, to go separately to various areas and make tours of inspection.

**Shanghai To Alter Investment Pattern**  
OW2004075789 Beijing XINHUA in English  
0138 GMT 20 Apr 89

[Text] Shanghai, the largest industrial metropolis in China, will accord priority to productive industries, such as energy, transport, machinery, and electronics, in using foreign capital this year, a Chinese economist announced today.

Zhang Zhongli, president of the Shanghai Academy of Social Sciences, said 60 percent of this year's foreign capital will be invested in productive industries in a bid to improve the investment pattern.

He said the strategic goal for Shanghai at the turn of this century is to have both its annual total of used foreign capital and its export volume to reach 20 billion U.S. dollars.

Zhang said five projects are the main attractions for foreign loans and investment in Shanghai at present. They include the Huangpujiang Bridge (expected to open to traffic by the end of 1991), sewage disposal into the polluted Suzhou River, expansion of the Hongqiao International Airport and the opening of an underground railway.

Zhang, who is attending the current international symposium on development strategies for Third World countries, also talked about the Santana Limousine, which is one of the major joint ventures in Shanghai.

He said 60 percent of the auto parts will be made domestically this year (last year, the number was only 30 percent), and next year Shanghai will not need to import any.

## ECONOMIC ZONES

**Hainan Governor Reviews 1988 Achievements**  
HK2604060789 Haikou Hainan Provincial Service  
in Mandarin 0300 GMT 26 Apr 89

[Excerpts] In his government work report, Governor Liang Xiang pointed out that Hainan suffered serious natural disasters last year, but the losses were reduced thanks to the effective organization efforts of the provincial government and the government at all levels, and the economy registered relatively rapid growth. [passage omitted]

The province's agricultural output value was 2.67 billion yuan, a rise of 1.2 percent over 1987. Output of grain, oil, and sugarcane showed slight declines, but production of fruit, pepper, coffee, livestock, aquatic products, etc., showed relatively big increases. The township and town enterprises also maintained the momentum of relatively fast development. [passage omitted]

Industrial output value was 2.4 billion yuan, an increase of 25 percent over 1987. Enterprise economic returns improved somewhat. Total profit was 175 million yuan, a rise of 71.3 percent. Losses by state-owned industrial enterprises dropped 8.7 percent, and the number of such enterprises running at a loss showed a marked reduction.

The urban markets were generally stable, and certain successes were achieved in employment, supporting poor areas, and so on.

There was notable progress in foreign trade. An excellent start was made in developing an export-oriented economy. Total import and export volume was \$771 million, including exports of \$280 million. [passage omitted]

### **Hong Kong Firm To Contract Hainan Petrochemical Plant**

*HK2404122589 Beijing CEI Database in English 24 Apr 89*

[Text] Beijing (CEI)—Hainan, China's largest Special Economic Zone, is planning to construct a petrochemical corporation in a bid to establish textiles as a pillar industry on the island.

The plant is expected to be able to produce 450,000 tons of ethylene annually, from which a respective 100,000 tons of nylon and polyester plastics will be made, when completed.

A plan submitted by the province reveals that Hong Kong Hainan Zhengda Investment Co Ltd of the Thailand Bufeng Group will contract the project, an official with the planning department of the Ministry of Textile Industry said.

The province, established last year, will import raw materials for the project, including some 1.36 million tons of naphtha from the Middle East and 420,000 tons of crude salt from Australia.

### **Foreign Investors Attracted to Hainan**

*OW2304013689 Beijing XINHUA in English 0930 GMT 21 Apr 89*

[Text] Beijing, April 21 (XINHUA)—Hainan Province signed over 20 economic and trade agreements and contracts with leading financial consortiums from Europe and Asia in the first quarter of this year.

Government officials and economists from FRG, Britain, France, Switzerland, Italy, Thailand, and Singapore have visited Hainan for inspection and talks on bilateral economic cooperation since the region was designated by the State Council as the largest special economic zone in China last year.

The Siemens Company of FRG has signed a contract with the Hainan Telecommunications Department on exporting telephone facilities to Hainan.

Entrusted by the French Ministry of Finance, a delegation from France has signed six agreements with the local government on construction of two airports, three power plants and a coal mine.

The Midland Bank of Britain concluded letters of intent for projects concerning energy, transportation, medicine and infrastructure, which will [word illegible] of joint ventures.

A Thai navigation company will invest in a cement plant with an annual production capacity of 600,000 tons.

The Overseas Union Bank of Singapore is to open a branch and build a number of hotels in the region.

### **Taiwan, Foreign Sources Increase Investment in Xiamen**

*OW2004003189 Beijing XINHUA in English 0742 GMT 19 Apr 89*

[Text] Xiamen, April 19 (XINHUA)—Xiamen, one of China's four special economic zones [SEZ] in Fujian Province, approved 51 projects funded by foreign and Taiwan business people in the first quarter of this year—up 17.8 over the same period of last year.

According to a local official in charge of foreign investment, the projects were worth 54 million U.S. dollars—up 12.6 percent over the same period of last year.

The official said that last year Xiamen was able to attract more money from foreign and Taiwan sources as a result of improved investment conditions.

The city approved 180 projects, of which 44 percent involved investment by Taiwan business people, and the rest of the money came from foreigners.

To meet the needs of its increase in foreign funding the Xiamen city government has accelerated construction of the Gaoqi International Airport and the second phase of the Port of Dongdu.

The zone also installed a new advanced 20,000-line telephone system and has improved investment regulations by drawing on the experience of Taiwan and Hong Kong.

These activities, the official said, have enhanced the confidence of foreign and Taiwan business people for investment in Xiamen. Of the 51 projects approved in the first 3 months of 1989, 70 percent are solely backed by money from foreign or Taiwan business people.

According to the official, Xiamen has now approved 526 projects funded by foreign and Taiwan firms and has allowed 135 foreign companies to set up permanent agencies here.

## TRANSPORTATION

### **Railway Construction Enterprises Face Pressures** 40060461b Shanghai SHIJIE JINGJI DAOBAO in Chinese 27 Mar 89 p 10

[Article by Zhang Jianji 1728 0256 1015: "Several Reflections on the Problems Facing Railway Construction Enterprises"]

[Text] The construction industry is enduring various pressures, such as a market that is not fully developed and unfair competition. In the nationwide economic structural reform it is like an isolated force penetrating deep into enemy territory. At present, it is also enduring the gigantic problems of the reduction in scope of capital construction, not enough projects to go around, and an excessively large work force. These pressures are especially great on railway construction enterprises, making it very difficult for them to operate. Ignoring the special characteristics of railway project bureaus and confusing railway construction with normal civil construction, the view that project bureaus are worthless, and throwing up one's arms and discarding them has caused great damage to railway enterprises. We need to create a suitable environment through administration and rectification so these project bureaus can exist and develop.

1. Railway investment management should be changed from the present scattered management method to a unified method of having the government entrust the issuing of contracts to a company. The construction of new railways should adopt a planning system that combines both instructional planning and guidance planning, and should stress making the overall arrangements imperative in planning. Only in this way can we guarantee that emphasis is put on the completion of railway investment planning, concentrate superior forces to wipe out problems, and acquire ability as soon as possible.

2. A major portion of the value created by railway projects construction is embodied in transportation operations. Therefore, the project bureaus should receive appropriate compensation through income from transportation operations.

3. The situation of railway budgets falling behind should be quickly altered. Especially with the situation of increasing material prices and inflation, it is difficult, because of their low budgets and low wages, plus high material prices and high interest rates, for railway projects to balance income and expenditures. For example, in one year the 4th Project Bureau of the Ministry of Railways had a price difference in internal working expenses of more than 7 million yuan and a price difference in material costs of more than 16 million yuan. The more they worked, the larger their losses became.

4. The railway project bureaus are faced with weighing the advantages and disadvantages of projects concerning society. First, changing career tracks is like climbing up a mountain. When railway construction enterprises are sent to repair roads or to build houses, they not only lose their technical superiority but also cause losses and wear and tear on their skills and equipment. Second, local protectionism in society leads to projects contracted to railway enterprises becoming a tough bone for them to chew and a difficult mouthful to swallow, which results in large losses. Some projects still acquire funds through submitted bids or collect funds through public bidding, causing a large amount of railroad funds to be drained away. Third, the difficulty in managing the ranks of workers and the tendency of workers and staff to be increasingly at odds with the community has already caused the railways to lose their attraction for some workers and staff. Fourth, the railroad project bureaus ignoring geographical limitations and submitting bids everywhere has caused large numbers of workers to be transferred and a great amount of waste.

5. Eliminate the fear of trouble back home for railway project bureaus. At present the project bureaus fear of trouble back home are: First, the construction workers do not have a base to rely on, they roam from job to job and have difficulty finding housing and food, their children have difficulty attending school, it is difficult for them to settle their families, and it is even harder to arrange for replacement workers and staff. Many older workers, after spending a lifetime on the railroads, do not have a home to return to when they retire, and must eke out an existence at the construction site. Second, their children have no way to gain employment. Society is unwilling to find them work, they cannot find it for themselves, and administrative bureaus don't recruit them. Third, the work done by workers and staff of the project bureaus is extremely arduous and the difference in their income compared to administrative bureaus is becoming greater and greater, and public sentiment is erratic. If these problems are not rectified by policies, the project bureaus will be unable to solve them using their own resources.

Naturally, railway construction bureaus have many problems that are worth researching, such as deepening internal reform, smashing the iron rice bowl, unalterable wages, egalitarianism in distribution, the perfecting of self-management mechanisms, enhancing enterprise vitality, speeding up scientific and technological progress, adapting to market competition, raising the quality of enterprise, strengthening enterprise, and so forth. Railway construction enterprises should foster a spirit of respect for the cause of railways but their most urgent needs lie in understanding and support.

### **Funding 'Biggest Problem' in Rail Expansion** 40060461a Shanghai SHIJIE JINGJI DAOBAO in Chinese 27 Mar 89 p 10

[Article by Li Xuan 2621 6513: "State-Supervised Commercial Units Speeding Up Railroad Construction—There Are Many Benefits in Adopting State-Supervised Commercial Units in Accordance With Needs of the State—They Can Construct Some Urgently Needed Railways Without Requiring State Funding, Promote

Economic Development, and Can Gather Together Scattered Funds and Use Them as Funds for the Majority of Society in State Construction—This Is Well Worth Supporting”]

[Text] The biggest problem in expanding railway transportation is that of funding. With the situation of the state not being able to invest large amounts of funds for construction, we must open all avenues to accumulate funds for expanding railroads, including attracting foreign investment and implementing relaxed management. Long ago Marx said, “Suppose we had to wait until sufficient capital was accumulated for the building of railroads, if this were the case I’m afraid that there would not be any railroads even in today’s world. However, this matter can be solved very quickly by using shareholding companies.”<sup>1</sup> Therefore, the gathering of funds for building railroads should emerge as times require and may become a new way to develop China’s railway facilities.

“State-supervised commercial units” are simply organizing and establishing railroad shareholding companies with the support of the government. Using business management methods, these companies will raise their own funds, perform their own management, and be responsible for their own profits and losses in the building and management of some urgently needed railways. They can act as a supplement to state-operated railways and promote economic development in the coastal areas.

“State supervised” means state support and protection. First, the state should provide support in accordance with policy. Second, in order to give full play to the benefits of railroads in our socialist country, the railway network must be totally integrated, with enterprise-managed railways operated under the regulations of the railway network to avoid blind operation of the railways. During the construction process, local governments need to be actively supportive to coordinate and solve problems in the railroad construction and other areas so projects can be smoothly carried out. When construction is completed, state-operated railroads are to work with the new railways and treat them equally to promote their development.

“Commercial units” carry out construction and management according to the principles of commerce. This consists mainly of putting up shares for sale (including selling shares abroad) to raise funds, selecting projects that are beneficial for both society and railway enterprises. They carry out construction according to the guiding policy of “taking the route of little investment and early returns,” adopt competitive variable prices for transportation, and strive to recover investments, acquire all necessary equipment, repay debts, and make profits as soon as possible. Of course, in comparison to light industry, these profits will be somewhat slower to achieve, and the benefits will not be very good especially during the period right after construction when transport volume isn’t very great. But looking at the long term,

railroad construction will naturally promote economic development in areas along the line and these social benefits will also bring about social benefits for the enterprises. This should become the guiding ideology for enterprise-operated railways. We must avoid being eager for quick success and instant benefit.

There are many advantages to adopting “state-supervised commercial units,” in accordance with the needs of the state. They can construct some urgently needed railways without requiring state funding and promote economic development. They can also gather together scattered funds and use them as funds for the entire society in state construction. This is well worth supporting. With the increase of railroads and economic development the intense strain on existing railroads can be lessened. Concerned communication and transportation departments should give their full cooperation to this. The Ministry of Railways and concerned railway bureaus should, from the development needs of the railway network and transportation management, take the initiative in cooperation and enthusiastically help enterprise-operated railways select track locations and help with technical standards. In transportation organization, the departments should treat the railways equally, without discrimination. We should simplify procedures for railroads passing through other territories and coordinate this transportation with highway transport, water transport, and aviation to make it convenient for owners of cargo and for transportation.

Adopting the “state-supervised commercial units” method for collecting funds and speeding up railway construction in coastal areas is a new attempt and also a reform. It is hoped that concerned departments will provide research support to spur the realization of this work.

#### Footnote

1. *Complete Works of Marx and Engels*, Vol 23, p 988.

**Foreign Loans Finance Railway Construction**  
HK2404124789 *Beijing CEI Database in English*  
24 Apr 89

[Text] Beijing (CEI)—China’s railway construction had accumulatively utilized 4.1 billion yuan of foreign loans by the end of 1988, of which 3.8 billion yuan went to construction programs, according to relevant sources.

These foreign loans, imported by the Ministry of Railways starting from 1980, were provided respectively by the Japanese Government and the World Bank.

According to the Foreign Investment Department of the Ministry, the first batch of loans, offered in 1979 by the Japanese Government, totalled 130 billion yen. It was used in the construction of Beijing-Qinhuangdao and Yanzhou-Shijiusuo railways, which were completed in 1983. The second batch, totalling 157.8 billion yen, has

been devoted to the construction of Hengyang-Guangzhou multiple track, Zhengzhou-Baoji electric railway and the eastern section of the Datong-Qinghuangdao line. The first two lines were open to traffic by the end of 1988.

World Bank started extending credit to China from 1984. The first batch, totalling 220 million U.S. dollars, was put into the construction of Taiyuan-Datong electric railway and Xinxiang-Heze-Yanzhou railway and the reconstruction of Zhuzhou Electric Locomotive Factory. The Xinxiang-Heze-Yanzhou railway was completed in 1987 and the factory rebuilding has been finished in the main. The electric line is expected to open to traffic by the end of this year.

The second and third batches of World Bank loans, totalling 465 million U.S. dollars, have been used in the construction of Zhengzhou-Wuchang, Yingta-Xiamen, Chongqing-Guiyang electric railways and an experiment base of the Chinese Academy of Railway Sciences, and the reconstruction of the Changchun Passenger Train Factory and Xian Signalling Factory. These projects, now under construction, are scheduled to go into operation next year or the year after the next.

The 1988 World Bank loans, totalling 200 million U.S. dollars, will be used in the construction of Yueshan-Xiangfan multiple track and the rebuilding of Beijing Erqi, Sifang and Qiqihar Locomotive Factories.

China is now making preparations for the construction programs of the third batch of Japanese loans, which is estimated at 103.2 billion yen.

Sources revealed that China will also use the Asian Development Bank loans for the construction of railways.

**Progress in Railway Construction in East**  
40060461c Shanghai SHIJIE JINGJI DAOBAO in  
Chinese 27 Mar 89 p 10

[Article by Zhou Congqing 0719 5155 3237: "Geared Toward Eastern China Current Railroad Construction and Future Prospects"]

[Text] Total investment for railway construction during the Seventh 5-Year Plan totals 7 billion yuan. By the end of 1988 the amount of investment amounted to 3.72 billion yuan. Of 17 large and medium-sized projects, except for the medium-sized modern line between Beijing and Shanghai that has yet to be planned out, 14 are undergoing construction and 2 projects have been completed—a new Shanghai passenger station and the Fu-Huai line. A total of 313 kilometers of new line has been constructed—161 kilometers of trunk line, and 105 kilometers of electric railway.

The first north-south thoroughfare: In the Xuzhou key Jin-Pu down train systems' Mao-Jia connecting line, the Jiulishan freight yard has been completed and has started operations, and the blockage from Xuzhou to Nanjing has basically been eliminated.

The second north-south thoroughfare: Except for a few bridges, the Shang-Fu line has been laid and traffic should be flowing by the fourth quarter of this year.

The first east-west thoroughfare: 87.3 kilometers have been laid for the Hangzhou-Shanghai trunkline, 133 kilometers in the Zhejiang-Jiangxi trunkline, construction of the second large bridge for the Qiantangjiang [6929 1048 3068] line is progressing smoothly, and the Ying-Tan railroad hub was officially completed this year.

The second east-west thoroughfare: The Da-Sha line was connected at the end of 1987 and transportation is expected to begin this year. The large bridge project on the Nanjiujiang line may be completed this year and, through technical reform, its draw limit can be raised from 1,500 tons to 2,500 tons.

The Ying [7751]-Xiamen waifu [1120 4395] passageway: The electric railway from Yongan to Zhangping was opened at the end of July last year, the electric construction from Liazhou to Yongan is planned to open this October, and the waifu line in conjunction with the Shuikou power station's technical reform project will begin operations this October.

Economic development in the eastern part of China during the Seventh 5-Year Plan has been very rapid. According to predictions, industrial and agriculture production in areas of eastern China will increase each year by 7.8 percent. However, in reality, since last year many areas have had an increase of 17 to 20 percent or more. Based on analysis, the amount of cargo in 1995 compared to 1987 will have increased by 27 percent and the number of passengers will have increased by 42 percent. Transportation capacity will become even tighter. The amount of cargo passing through the two north-south thoroughfares entering eastern China from Shangqiu will reach 25 million tons by 1995 and 65 million tons by the year 2000.

Based on these estimates, during the Seventh 5-Year Plan we must also consider linking to the Eighth 5-Year Plan. Railway construction in eastern China during the Eighth 5-Year Plan should stress the solution to having only one north-south and one east-west passage. Only one passage passage is being constructed through the Jiujiang bridge on the one north-south route, with this line being only one of many that it handles. The one east-west passage is the Hangzhou-Shanghai trunkline. Solving this problem will not only resolve the problem of interchange between eastern China and other areas, but



could also relax the situation of it being pressured from both sides. Therefore, we should take action now and do a good job in linking to the Eighth 5-Year Plan and in the early stages of its work.

**More Rail Lines Planned To Transport Coal**  
*OW2404085889 Beijing XINHUA in English*  
0649 GMT 24 Apr 89

[Text] Beijing, April 24 (XINHUA)—In an effort to move its coal from their northwestern bases, China will spend more money on the construction of railways and open an additional 400 double-tracks, electrified rails and new lines this year.

Officials of the Railways Ministry said today that the measure is aimed at easing the severe, nationwide coal shortage, which is hurting many electricity-generation plants and slowing down production of many factories and other businesses.

Seven coal-moving lines—Datong-Baotou, Datong-Qinhuangdao (second phase project), Houma-Yueshan, Jiaozuo-Zhicheng, Hengshui-Shangqiu, Xian-Ankang and Xuancheng-Hangzhou are expected to be built this year. Another seven existing railways will be updated and expanded.

The construction of two major coal transport railways, the Beitongpu (Taiyuan-Datong) electrified rail and the Nantongpu (Yuci-Fenglingdu) double-tracks, was finished recently and the lines are expected to become operational this May.

Coal consumption in China is mostly concentrated in the area east of the north-south Beijing-Guangzhou railway line, where 60 percent of the country's population lives. Yet about 80 percent of China's coal is mined north of the Qinling and Dabieshan mountains.

Proven reserves in the Shanxi, Shaanxi and Henan Provinces and the Ningxia Hui and the Inner Mongolian Autonomous Regions account for 70 percent of the total, making these areas the biggest coal bases in China. However, the abundant energy resources have not yet been fully used because of a lack of transport.

**Zhejiang Port To Build Container Berths**  
*OW1904015789 Beijing XINHUA in English*  
0054 GMT 19 Apr 89

[Text] Ningbo, April 19 (XINHUA)—A third series of international container wharves will be built in the port of Beilun at Ningbo in Zhejiang Province during the country's Seventh and Eighth 5-Year Plans, according to the Ningbo port office.

The project will see six new deepwater berths added to the three originally built at the port. The first is scheduled to be finished next year. Two hundred technicians have arrived at the site to prepare for the project, which will begin in the next few months.

Beilun is one of Ningbo's new ports. It has many advantages, including a wide, sheltered deepwater harbor and a long deepwater coastline.

The six deepwater berths to be built here are the second phase of the project. The first phase was a 100,000-ton ore transfer port which went into operation in 1982.

The second phase of the Beilun port project is one of four international deepwater transfer ports which are key national construction and development projects. The total investment amounts to 390 million yuan (over 100 million U.S. dollars) and the entire project is scheduled for completion in 1994.

The second phase of the project is being built with a loan of 30 million U.S. dollars from the World Bank.

The development of container transportation is new to China.

Until now only the port of Tianjin has built a second generation of container berths.

## AGRICULTURE

**More Money for Agricultural Bases**  
*HK2804122989 Beijing CEI Database in English*  
28 Apr 89

[Text] Beijing (CEI)—A total of 560 million yuan will be spent on setting up 229 more agricultural commodities production bases this year, according to the Vice-Minister of Agriculture Chen Yaobang.

China has invested 1.2 billion yuan to set up 585 bases over the past few years. The second batch of 229 bases will be established in the northwestern China arid area, South China rice area and most of the grain-supply provinces. The project involving 380 million yuan aims at increasing grain output by 5 to 10 percent. In addition, the state will grant 30 million yuan of loan to help set up bases producing fine agricultural products.

**Government To Purchase Contracted Tobacco**  
*OW2604025889 Beijing XINHUA in English*  
1149 GMT 25 Apr 89

[Text] Beginning this year, the Chinese Government will purchase tobacco according to contracts signed with tobacco producers.

The decision was made at a recent national meeting on tobacco production held here.

The contract system stipulates that tobacco growers must produce their tobacco in line with government contracts and sell their products at designated purchasing centers. Otherwise, the state will not provide necessary materials and funds to the producers.

Purchasing centers must guarantee to buy tobacco at state-set prices or face fines.

The contracts also stipulate that cigarette factories will not be allowed to buy tobacco directly from growers, producers, or tobacco speculators.

### **New Anhui Governor Plans To Expand Grain Acreage**

OW2804045989 Beijing XINHUA in English  
0116 GMT 28 Apr 89

[Text] Hefei, April 28 (XINHUA)—The sown grain acreage of east China's Anhui Province will reach 6 million hectares this year and its grain output will top 24 billion kilograms—3.9 percent up from 1988—newly elected Governor Fu Xishou said today.

Fu told a XINHUA reporter that Anhui's cultivated land is limited (accounting for only 30 percent of the total land space) and of this 70 percent are middle- and low-yield lands.

"If the wasteland is opened and the low-yield land reformed," the governor added, "our grain output can increase by 350,000 kilograms this year."

To achieve the goal, the provincial government adopted a series of measures including stable policies and more agricultural spending.

Compared to 1987 the grain output in Anhui, one of the main grain producers in China, dropped 4.9 percent last year because of a severe drought and a series of natural disasters.

### **Anhui Livestock Output**

40060603a Hefei ANHUI RIBAO in Chinese  
17 Apr 89 p 1

[Summary] In the first quarter of 1989, Anhui Province removed 3,259,000 hogs from inventory, a 0.9 percent increase over the same period in 1988. The number of cows and lambs sold and slaughtered were 223,000 and 1,155,000 respectively, increases of 7.2 percent and 24.2 percent over the same period in 1988. In the first quarter of 1989, pork, beef, and lamb output was 298,000 tons,

an 8.4 percent increase over the same period in 1988. At the end of the first quarter, the number of hogs in stock totaled 11,301,000, a 3.6 percent decline from the same period in 1988. The number of sows in stock totaled 759,000, a 5.5 percent decline from the beginning of 1988. Major reasons for the decline in hog output are: feed prices have increased 84 percent over the same period in 1988, and 46.50 percent of the state-run feed enterprises in Anhui have stopped production. Since hog prices have declined, profits have declined; the price of piglets has dropped from 6 to 8 yuan per kilogram to 4 yuan.

### **Gansu Aims for Grain Self-Sufficiency**

OW2804120489 Beijing XINHUA Domestic Service in Chinese 1143 GMT 23 Apr 89

[Text] Lanzhou, 23 Apr (XINHUA)—Gansu recently drew up a plan to amass financial resources to build three great "granaries" west of the Huanghe, in eastern Gansu, and in central Gansu, and to strive for basic self-sufficiency in grain within 5 years.

The short-range plan for building these three "granaries" is: expanding the Hexi "granary" to increase the total grain output in Hexi corridor in 1993 by 400 million kgs over 1988 and increase marketable grain to more than 900 million kgs from 700 million kgs; rebuilding the "granary" in eastern Gansu to increase total grain output in this area in 1993 to 1.6 billion kgs from 1988's 1.2 billion kgs; building a new "granary" in central Gansu to increase per mu yield of grain, total grain output, and marketable grain by large margins, with the help of water conservancy supporting projects and reform of the cropping system during the next 5 years. Thus, in 1993 Gansu's total grain output will be expected to reach 7.5 billion kgs from 1988's 5.9 billion kgs, with the per capita share of grain reaching 325 kgs. Gansu will then be self-sufficient in grain.

### **Xinjiang Grassland Area Decreases**

OW2604073389 Beijing XINHUA in English  
0643 GMT 25 Apr 89

[Text] The area of grassland in northwest China's Xinjiang Uygur Autonomous Region has decreased from 50 million hectares (ha) in the 1960s to the present 47 million ha.

Industrial development, and insect and rat pests are blamed for the decrease.

Xinjiang is a main animal raising base in China.

**Resident Identity Card System Explained**  
40050488c Beijing RENMIN GONGAN BAO in  
Chinese 11 Apr 89 p 1

[Article entitled "On the Eve of the 40th Anniversary of the Founding of the PRC: The Nation Will Implement a Resident Identity Card Use and Inspection System"]

[Text] This reporter has learned on 5 April at the close of the 1989 national resident identity card work conference that, on the eve of the 40th anniversary of the founding of the PRC, the nation will install the resident identity card use and inspection system. When the time comes, the State Council will issue a circular on this new system and will stipulate clearly when it will be implemented, the scope of the implementation, and explain citizens' use of their ID cards. The relevant departments and public security organs will be instructed on how to inspect resident ID cards.

Each Chinese citizen will have a resident ID card, which is a legal document. It identifies the status of the holder whenever necessary. On 6 September 1985, the 12th Conference of the National People's Congress's Standing Committee ratified and issued the "People's Republic of China's Citizen Identity Card Regulation" which was later approved by the State Council. The Ministry of Public Security, the Ministry of Finance, and the State Planning Commission and other departments studied and formulated a 5-year plan for nationwide issuance of resident ID cards for 1986-1990. To date, the state has issued 420 million resident ID cards nationwide. In other words, since 1986, on an average day, 380,000 residents across the country have been issued their ID cards. It is estimated that by National Day (1 October) of this year, more than 500 million residents will have received their resident ID cards, meaning that around 65 percent of the residents who should have ID cards will have them.

However, based on sample surveys in Shanghai, Chongqing, Jinan, and other cities, today as many as 60 percent (and in some instances, as few as 10 percent) of the residents are carrying their ID cards. This means that many residents, although they have ID cards, have no idea what they are for; and many departments that handle matters of the citizens' rights and interests are not accustomed to checking ID cards. The purpose of the implementation of the identity card use and inspection system is to give play to the resident ID cards as valid identification of a citizen's status and help guarantee the citizens' legal rights and privileges, strengthen management of the mobile population, and maintain social order and crack down on illegal, criminal activities—the whole purpose is to change the present situation where resident ID cards are "issued but not used" and are often deemed "dispensable." It also serves to enhance the citizens' consciousness about carrying and using their ID

cards. It aims to make the most of this complicated and arduous systemic project which the state has spent a huge sum of money to set up and which is suited to China's new situation.

Member of the State Council and minister of public security, Wang Fang [3769 5364], said at the conference that the State Council has obtained very satisfactory results with the issuance of resident ID cards so far. He said, "we should comply with the State Council regulation and set up a management organ to deal with the day-to-day business concerning the resident ID cards and equip that organ with the necessary personnel. In areas where the regulation is not yet being implemented, the public security organs at all levels must commit themselves to solving the problem. Population management systems in most rural areas are not perfect, and they should be established and perfected during the process of the issuance of ID cards." Yu Lei [7411 7191], vice minister of public security, also pointed out that the implementation of the resident ID card use and inspection system is an important matter which concerns all aspects of society and every family and household. All localities must be fully prepared, ideologically and organically. He also disclosed that after the implementation of the national resident ID card use and inspection system, the more than 200 million citizens who have not yet received their ID cards will be issued interim cards. To perfect the inspection system gradually, the Ministry of Public Security is also studying ways to issue, in good time, uniform ID cards to the people's police.

**Education Funding Statistics for 1978-88**  
40050488b Beijing ZHONGGUO JIAOYU BAO in  
Chinese 21 Mar 89 p 1

[Article in "Little Information" column: "The Increase in China's Educational Funding Over the Last 10 Years"]

[Text] Since the Third Plenary Session of the 11th Central Party Committee, the party Central Committee and the State Council have placed special emphasis on educational tasks, and although the state is not well-off financially, it has increased funding for education rather substantially. In 1988, the state spent 32.1 billion yuan of its revenues on expanding educational undertakings (here and below, this refers to direct funding for education, investment in educational basic constructions, and funding for special secondary schools and polytechnic schools which are departmental undertakings.) This represents a 3.2-fold increase compared to the 1978 funding, averaging 15.46 percent growth each year; it exceeds the 8.58 percent rate of increase in the state's financial revenues for the same period by 6.88 percent, and also exceeds the 9.02 percent rate of increase in the state's financial expenditures over the same period by 6.44 percent (see table below for details.)

While the financial ministry continues to increase educational funding, the people's governments at all levels are also gathering more educational funds via different channels. Based on preliminary statistics in 1988, about 10 billion yuan was gathered via different channels to fund education. Among them:

(1) Approximately 3 billion yuan was raised in the form of educational fee surcharge.

(2) Factories, mines, and other enterprises paid out about 2 billion yuan in middle and elementary school expenditures.

(3) Approximately 2.5 billion yuan was raised in society or donated by the people.

(4) Approximately 1.4 billion yuan in income from social services and work-study programs were used to improve the schools.

(5) Middle and elementary school sundry fees brought in around 1.1 billion yuan.

|      | Budgeted Educational<br>Funding<br>(100 million yuan) | State Revenue<br>(100 million yuan) | State Expenditure<br>(100 million yuan) | Budgeted Educational<br>Funding as a<br>Percentage of<br>Revenue (%) | Budgeted Educational<br>Funding as a<br>Percentage of<br>Expenditure (%) |
|------|---|-------------------------------------|---|--|--|
| 1978 | 76.23   | 1121.10                             | 1111.00                                 | 6.8  | 6.86   |
| 1980 | 113.19  | 1285.20                             | 1222.73                                 | 10.43  | 9.33   |
| 1981 | 122.50  | 1089.50                             | 1114.97                                 | 11.24  | 10.99  |
| 1982 | 136.64  | 1124.00                             | 1153.31                                 | 12.16  | 11.85  |
| 1983 | 153.88  | 1249.00                             | 1292.45                                 | 12.32  | 11.91  |
| 1984 | 190.03  | 1501.90                             | 1546.40                                 | 11.99  | 11.64  |
| 1985 | 224.35  | 1866.40                             | 1844.80                                 | 12.02  | 12.16  |
| 1986 | 264.97  | 2260.30                             | 2330.80                                 | 11.72  | 11.37  |
| 1987 | 277.00  | 2368.90                             | 2448.49                                 | 11.70  | 11.31  |
| 1988 | 321.00  | 2554.50                             | 2834.50                                 | 12.57  | 12.18  |

### First National 'Beautify Yourself' Festival To Be Held

OW1804202889 Beijing XINHUA in English  
1120 GMT 18 Apr 89

[Text] Beijing, April 18 (XINHUA)—A hairdressing and cosmetics festival will be held this year in China, where perming hair or using lipstick were considered "politically unsound" less than a decade ago.

According to the preparation committee, the festival will be held from 11-18 July in Beijing and 10 other provinces and municipalities across the country.

The "Beautify Yourself" Festival, the first of its kind in the country, is to demonstrate the recent development of China's haircare and beauty industry, initiating healthy hairstyles and cosmetics and promoting services and research in the fields, the organizers say.

The week-long activities will include exhibitions of hair care and beauty equipment, hair dressing competitions, and makeup demonstrations and will feature international hairstyles.

Hair care and beauty treatments have increasingly become an integral part of people's daily life, and the industries have become "unprecedentedly prosperous in the past few years," said Pan Yao, vice minister of commerce, at a press conference today.

Barber and beauty shops, cosmetics stores and facelift clinics have been doing a thriving business, for people are increasingly willing to spend money and time on doing their hair and making up their faces, he said. It is now quite common for a young girl to buy a 60-or-70-yuan makeup kit.

Experts said that people above middle age are joining the young in beautifying themselves, and cosmetics made for men and children are also in high demand these days.

However the available number of hair care and beauty services are still far from enough to meet demands, according the vice minister. There are now 400,000 hair styling and beauty shops in the country, employing 700,000 workers. That means about 2,750 Chinese share a single hair stylist or beauty shop.

## **SOUTHWEST REGION**

### **Guangdong's Jinan University Opens Asia-Pacific Research Center**

*OW1304183589 Beijing XINHUA in English  
1516 GMT 13 Apr 89*

[Text] Guangzhou, April 13 (XINHUA)—The first Asia-Pacific Research Center in south China's Guangdong Province is set up in Jinan University today.

The center, staffed by 120 experts, is engaged in the study of international politics, economy, culture, education, and overseas Chinese affairs.

The university, which has many overseas Chinese students, established its Southeast Asia research institute as early as 1960.

"The establishment of the Asia-Pacific Research Center will further promote the country's foreign economic cooperation and cultural exchanges," said Cheng Qiaozhi, president of the center.

## **NORTHEAST REGION**

### **Report Addresses School Dropout Problem in Heilongjiang**

*SK2904034489 Harbin Heilongjiang Provincial Service  
in Mandarin 2100 GMT 28 Apr 89*

[Text] The serious dropout rate of primary and middle school students of our province drew the attention of leading persons of the provincial party committee. After conducting investigations and study, Zhou Wenhua, deputy secretary of the provincial party committee, wrote an investigative report on ways to solve the school dropout problem. The general office of the provincial party committee recently transmitted this report to various prefectures, cities, counties, and relevant departments.

Zhou Wenhua pointed out in his investigative report that in early 1988, the province had 6.58 million primary and middle school students. By the end of that year, 360,000, or 5.5 percent, of them had dropped out of school. Most of these dropouts were junior middle school students. The dropout rate was close to 25 percent among the junior middle school students in Harbin City, and in Hegang City and Songhua Jiang Prefecture, it already exceeded 25 percent. The great number of dropouts gave rise to serious social problems. Not only did it downgrade the quality of laborers as a whole, but it also caused damage to the physical and mental health of these dropouts and increased the factors leading to social instability.

Zhou Wenhua's investigative report analyzed the reasons for the emergence of dropouts from the viewpoints of social environment, school environment, family environment, and the students themselves. He held that school dropout is the comprehensive reflection of various current social problems. To redress this problem, party committees and governments at various levels should first attach great importance to education and truly place education in a strategic position in the economic and social development. Meanwhile, they should expedite the restructuring of primary and middle school education, implement a priority policy toward vocational and technical education, and gradually expand the technical education of staff members and workers so that most students unable to attend universities will, before they are employed, learn the general and specialized knowledge and skills needed in their jobs. To intensify the ideological and political education of schools, we should conduct a provincewide examination and rectification of the situation of dropouts. Party committees and governments at various levels should exert conscientious efforts to control dropouts, urge them to return to schools, and do a good job in their settlement, and conduct remedial classes for them after they return to schools. While conducting education to spread the knowledge of laws, they should also publicize the compulsory education law so that the masses of parents, students, and education workers will truly regard it as a law for strict enforcement.

**Taiwan Real Estate Investors 'Eye' Mainland**  
*OW0904190589 Beijing in Mandarin to Taiwan*  
1500 GMT 4 Apr 89

[Text] According to a report of TUANJIE BAO, organ of the Central Committee of the Chinese Kuomintang Revolutionary Committee, due to the increasing number of Taiwanese firms buying land to build factories in special economic zones along the coast of the mainland, there have been frequent reports of Taiwan people buying houses and real estate on the mainland. Taiwan's real estate firms have begun to explore and have shown great interest in the mainland real estate market.

According to reports from Taipei's newspapers, in the past year, 10 large and small groups of Taiwan real estate firms have made survey tours on the mainland. Due to

the lower prices of labor, building materials, and land costs for real estate on the mainland compared to Taiwan, the prospects of investing in mainland real estate are quite good. Xiamen, Shenzhen, Shanghai, Guangzhou, and other special economic zones and open cities along the coast in particular are the hot spots for real estate investors.

Besides, other Taiwan businessmen have plans to invest in building tourist hotels and office buildings in Beijing, Guangzhou, Xiamen, and other places. Sales agencies of Taiwan's real estate firms have also turned their eyes to the mainland. Individual real estate brokers have been quietly promoting sales of mainland real estate on Taiwan.

**CPPCC's Liu Diqiang Discusses Hong Kong's Politics**

40050476b Shanghai *SHIJIE JINGJI DAOBAO* in Chinese 3 Apr 89 p 2

[Article by Beijing resident reporter Fei Xiaodong 6316 2556 2767 in column edited by Zhang Xiaojun 1728 2556 7486: "CPPCC Member Liu Diqiang 0491 6611 1730 of Hong Kong Tells Reporters: Political Democratization Is Not Just the Government's Choice, It is Also the Demand of the World Democratization Movement—CPC Leadership's Multiparty Cooperation Must Consider Not Just the Mainland's Situation But Also Hong Kong and Taiwan's Current Situations"]

[Excerpt] [Passage omitted] Liu Diqiang, a 42-year old "yuppie," is one of the oldest members of "Meeting Point," one of Hong Kong's fledgling political parties. Because "Meeting Point" members advocate allocating social resources equitably and emphasize social welfare, they have been dubbed the political "free lunch" faction.

"Multiparty cooperation led by the Communist Party in a socialist system cannot be based on the Mainland's situation only; Hong Kong's and Taiwan's current situations must be considered too; otherwise it will be difficult to address the status of the Communist Party and the Kuomintang." As we talked about multiparty cooperation, Liu Diqiang clearly demonstrated his dynamic way of thinking.

"Hong Kong is a pluralistic society. She embraces people with all kinds of ideas and all kinds of interests. There is no solution other than a multiparty system. Hong Kong's political parties are regional parties; they have no national political goals nor political platforms. Their only consideration is local interests. I am not interested in Hong Kong politics." Liu spoke in candor when he said he fought for a seat in the legislative assembly because he wants to promote the allocation of resources. The reallocation of power will necessarily lead to the reallocation of resources.

Liu Diqiang also spoke frankly about his views on Hong Kong's future and status. "Historically, the people of Hong Kong are anticommunist. Many anticommunists have fled to Hong Kong, and so Hong Kong people are afraid of the Communist Party; they are afraid of socialism. At the same time, they are a little megalomaniac; they think that Hong Kong is the best place in the world, especially when they compare themselves to the Mainland. They do not want to see things change. Because of the long separation from the Mainland, there is a strong sense of selfish departmentalism. Although nobody has suggested independence, many want to be separate from the Mainland, to have nothing to do with China. This is wrong. Hong Kong is the voice of conscience to China. Bombarded by the many Hong Kong reporters, news reporting in the Mainland has improved significantly and rapidly. Only if the Mainland improves can Hong Kong be even better. So I wholeheartedly support the

one country two system arrangement, and after a prolonged transition period, the Mainland and Hong Kong should be able to merge. What I can't understand is why the CPC has no courage to advance this viewpoint officially." [passage omitted]

**Issues of Importance During Macao's Transition Period**

40050438 Hong Kong *LIAOWANG OVERSEAS EDITION* in Chinese No 10, 6 Mar 89 pp 25-26

[Article in Taiwan-Hong Kong-Macao Column by Yang Daokang 2799 6670 0562, Vice Chairman of the Macao Research Office of the Hong Kong and Macao Research Center of the Guangdong Provincial Institute of Social Sciences: "How To Solve Macao's Socio-Economic Problems During the Transition Period"]

[Text] As Macao enters the transition period, how to ensure that transfer of political power to the future Special Administrative Region government will be peaceful and smooth and how to maintain its social stability and facilitate its economic development in the interim have become urgent problems facing Macao.

**Three Key Elements That Ensure the Smooth Turn Over of Political Power**

Many people feel that to accomplish the peaceful and smooth transfer of political power over Macao, it is vital to resolve the three main issues of reform of the legal system, staffing government posts with local residents, and recognizing Chinese as the official language.

Macao's legal circles point out that Macao's present laws are flawed in many ways. First, the source is complicated, ambiguous, and vague. Second, they are outmoded and are no longer practical.

At present, Macao's government relies primarily on "Macao's Organizational Charter" as its legal basis. This charter was promulgated in 1976 by the Portuguese Revolutionary Committee. Other native Portuguese laws Macao continues to follow directly are the civil law, commercial law, criminal law, and civil and criminal procedural laws. In addition, some Portuguese overseas provincial laws were also practiced in Macao at one time. Macao's local laws fall into two classes: those promulgated by the governor and those enacted by the legislative assembly. Furthermore, Macao's legislation is subject to the Portuguese constitution. Laws created or gathered through the above channels are voluminous, and because of the absence of systematic classification, they have become confusing and ambiguous; many are outmoded and obsolete, and many obviously no longer apply to Macao's situation today.

The section pertaining to laws in Annex I to the Sino-Portuguese Joint Declaration states that the legal system of the future Macao Special Administrative Region

(SAR) be made up of the "Basic Law," Macao's original laws, and laws promulgated for the Macao SAR. This leads to the question of how to link Macao's original laws to the new laws.

Thus, both from the point of perfecting the legal system to turn Macao into a region that is truly ruled by law and of linking her existing laws to the future laws of the SAR, there is a need to consolidate and renovate Macao's laws.

According to the spirit of the Sino-Portuguese Joint Declaration, the government of the future Macao SAR will make up of local residents. Although there is no explicit stipulation of the nationality of the local people, after the transition period, China will recover her sovereign right over Macao, and since more than 90 percent of Macao's residents are Chinese, it is obvious what "local residents" means. At present, many of Macao's public employees are local people, but most of them only have ordinary jobs. The high-ranking officials with power to make decisions are all foreign nationals. Furthermore, in recent years, the number of public employees recruited from Portugal by Macao's government has been increasing rapidly. This deviates significantly from the spirit of the Joint Declaration; therefore, we must step up effort to staff government positions, especially high-ranking positions, with local residents.

We should realize that at present language is one of the main barriers keeping local residents from government jobs. Most official documents, laws and regulations, various announcements and forms, and even everyday internal communications are in Portuguese, and in Macao, few people are fluent in both Chinese and Portuguese. Thus, one issue which must be resolved before we can staff government positions with local people is the recognition of Chinese as the official language.

#### **How To Maintain Social Stability During the Transition**

To ensure social stability in Macao in the interim, we must stabilize the elements that constitute social stability. We can break the task down into the following areas: (1) maintain Macao's political stability; (2) maintain the confidence of the residents of Macao; (3) stabilize and even continue to raise the living standard of the people of Macao.

##### **—Maintaining Macao's political stability:**

Since the founding of the PRC, the Chinese government has always maintained a policy to ensure Macao's stability and has supported Macao's economy and lifestyle fully. In recent years, the Portuguese government too has continually revised and improved its Macao policy. In particular, since China and Portugal established formal diplomatic relations in 1979, the future of Macao has been clarified. The matter of principle of China's territorial claim to Macao has been affirmed. Subsequently,

negotiations between the Chinese and Portuguese governments successfully resolved the problem left behind by history, and China will recover her sovereign right over Macao, and the Portuguese government has promised to maintain Macao's development and stability until that time. The efforts of the two governments have guaranteed the political stability of Macao. Many hope that with the hard work of Macao's Portuguese government and other quarters, there can be continuity and stability in Macao's social and economic policies.

##### **—Maintaining the confidence of Macao's residents:**

An important part of Macao's social stability is the peace of mind of her citizens. The confidence of the people of Macao is subject to influences from two directions: from Macao's Portuguese government and from Mainland China. The two are related and in turn affect each other. If Macao's government enacts social and economic policies which are good for Macao, then her people's livelihood, jobs, and welfare are protected, and Macao's economy and living standard will continue to improve, and the people can live and work in peace and contentment, and society will remain peaceful and stable.

On the other hand, when the 11-year transitional period ends, Macao will become the PRC's Special Administrative Region, and the relationship between Macao and the Mainland will be even closer. The people of Macao are very concerned about the Chinese government's policy toward Macao, particularly with the continuity and stability of the policy which promises to keep the present social system, economic system, and lifestyle unchanged for the next 50 years. At the same time, the success or failure of China's own economic reform and the policy of opening up to the outside world will have a significant effect on the people's confidence.

If the Chinese government's policy toward Macao remains stable and her domestic economic reform and the policy of opening up to the outside world are both successful, and if there is political stability and economic growth, the people's living standard will improve, and China's international position will strengthen, and the people of Macao will regard the Mainland as their strong backing and support, and they will have full confidence in Macao's future.

##### **—Maintain stability while raising the people's living standard:**

To maintain stability while continuing to raise the standard of living of the people of Macao can have significant effect on boosting the peoples' confidence and maintaining social stability. During the transition period, if the people have jobs, if they have income, and if their consumption level and the benefits they enjoy continue to improve, society as a whole will enjoy stability and prosperity. To achieve this goal, besides



relying on Macao's government to enact fair and reasonable financial allocation and social welfare policies, it is even more crucial to ensure the growth and development of the economy as a whole.

#### **Promoting Economic Growth and Development**

To promote Macao's economic growth and development, the key lies in setting the direction and goals of future economic development, improving the investment climate, maintaining Macao's good foreign relations, and enhancing her harmony and cooperation with the neighboring regions.

Macao has always practiced a laissez faire economic system, but this refers only to her giving full play to the market mechanism and does not mean that Macao does not need plans for her socioeconomic development. Even well-developed industrial nations such as Japan and newly industrialized and developing nations, including Singapore and others, need clear economic development goals and plans.

Macao's midterm developmental program (from now until the year 2000, meaning the transitional period) should start with analyzing her own advantages and disadvantages as well as internal and external trends and then put forth her goals and the ways and means to achieve those goals. This includes determining the scale of development of the city of Macao, the total population, the rate of economic growth, the average per capita income, and all other necessary installations, economic, and social welfare facilities.

To promote Macao's economic development, we must attract foreign investments, and to do to attract foreign investments, we must provide a good investment climate. At present, Macao has a limited source of foreign funds, and her so called foreign funds are mainly from Hong Kong and Mainland China; only a very small percentage can be considered real foreign funds. For this reason, Macao must find ways to attract overseas investments.

Macao has little foreign investment funds, not just because she is small and has little room for growth, but more importantly because of her yet imperfect investment climate. Recently, several large construction projects are almost ready to be launched, and if these projects are successfully completed, they no doubt will improve the "tangible aspects of the investment climate," but to improve Macao's "intangible investment climate," we have to expect a long and arduous struggle to perfect the legal and taxation systems, raise the educational standard and the workers' quality, and improve the efficiency of the government organs.

Since the 1970s, external support has been an integral part of Macao's rapid economic development. Take industry for instance. Specifically, this kind of external support can be summed up as: "foreign markets and quotas; Hong Kong money and technology; Mainland raw materials and labor forces." In the days to come, Macao's economic growth must continue to rely on the positive role of the above factors, particularly in the areas of developing overseas markets and forging closer ties with the neighboring regions.

Historically, Macao and Hong Kong have always shared an intimate economic relationship. Hong Kong's influence can be felt in every sector of Macao's economy. Even if Macao should build its own airport and deepwater harbor in the future and become less dependent on Hong Kong, the close relationship between Hong Kong and Macao should be maintained. In particular, when both Hong Kong and Macao become China's Special Administrative Regions in succession, this kind of close tie will have new meaning.

As for the villages and towns in the Macao-Pearl River Delta area and even other regions in the mainland, cooperation in the areas of trade, tourism, industry, and labor services are already fairly successful. From now on, the direction should be to broaden the scope of cooperation beyond what has been achieved so far.