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# ***JPRS Report***

# **China**

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# China

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## GENERAL

### Exclusion From East Asian Economic Circle Discussed

40050326 Shanghai SHIJIE JINGJI DAOBAO  
in Chinese 30 Jan 89 p 5

[Article by Peng Puzhang 1756 2528 3864: "The Formation of an East Asian Economic Circle and Consequent Problems: An East Asian Economic Circle Is Now Forming as a Natural Course of Events, and China's Exclusion Will Precipitate a Series of Problems"]

[Text] Since the advent of the 1980's, Japan's economic clout has skyrocketed even further. Japan's real GNP has surpassed that of the Soviet Union and its per capita GNP has exceeded that of the United States. It holds first place on the world scene in terms of its net balance of foreign assets, daily balance of payments surplus, and foreign exchange gold reserves. Japan is no longer an economic power in any ordinary sense: it is the leading and most influential economic powerhouse in the world today.

Since Takeshita rose to power his foreign affairs strategy has been essentially to perpetuate the "Nakasone line." That is, economically, it continues to pursue and exceed the United States, struggling to make Japan's real GNP (calculated in U.S. dollars) equal to or greater than that of the United States by the end of this century or the beginning of the 21st century. It is also striving to create a Japanese-led "circum-Pacific economic circle" in the Asian Pacific region. One of its first major steps toward achieving this strategic goal is to establish a Japan-centered "East Asia economic circle" in Asia.

After Takeshita rose to power he distinctly expressed an Asian focus in foreign affairs. This trend and Japan's current activity to establish an East Asia economic circle can be traced to the same origin.

A former high-level official in the Ministry of International Trade and Industry has divulged that the ministry has established an East Asia Economic Circle Problem Research Association, composed of specialists, students, and figures in the economic world, who are now formulating a scheme and strategy for the East Asia economic circle.

It is reported that the "scheme for an East Asia economic circle" that the Japanese Government is formulating consists of the "four little dragons" and the Association of Southeast Asian Nations (ASEAN).

From the perspective of current objective conditions, the creation of such a Japan-centered East Asia economic circle is no fantasy: we should acknowledge that it is a very real possibility. There are several reasons for this, such as changes in the regional economic structure, an abundance of funds, and changes in the market.

Even though Japan claims that it has no intention of establishing an exclusive, closed economic circle, in fact an East Asia economic circle is forming as a natural course of events. It looks as though this trend is unalterable.

Various signs indicate that although on the one hand Japan is interested in developing Sino-Japanese trade and expanding direct investment in China, on the other hand, it has also excluded China from the East Asia economic circle. The reasons are as follows:

1) China is a major political nation, which, if included in the scheme would block Japan from playing the leading role.

2) China is a socialist nation, and its social institutions, economic system, ideology, and so forth are very different from those of other member nations. If China is included interrelationships would be cumbersome and foreign relations disputes would arise easily.

3) Japanese enthusiasm for economic cooperation with China has waned. Japan feels that natural and energy resources have limited potential in China, supplies on the domestic market are insufficient to meet demand, and export capacity is slight. In addition, the international supply and demand relationship for natural and energy resources is easing up, and China is losing its position as a supplier of natural and energy resources. With respect to trade, China is still considered to be an important commodity export market, but Japan also feels that China has limited ability to pay for these products and frequently slaps restrictions on Japanese imports. Consequently the Japanese are not overly optimistic about expanding exports to China. As for exporting capital, financial circles still express substantial interest in expanding commercial credit and securities investment in China, but manufacturing enterprises feel that China has a less than optimum investment climate and that economic restructuring needs more time. Moreover, China is still facing serious inflation, and is beginning to institute new economic readjustments. Japanese manufacturers are adopting a wait-and-see attitude about whether they will make direct investments in China at some future time.

4) Although the Japanese welcome improvements in Sino-Soviet relations, they are also afraid that normalization and the restoration of party relationships between China and the Soviet Union may pose a threat to Japan. The Japanese Government's purpose for providing China with loans in Japanese yen is to keep China from turning to the Soviets. The Japanese do not rest easy at the prospect of Sino-Soviet relations.

The formation of an East Asia economic circle will have the following effects on China:

The circumstances under which we may import foreign capital will grow more grim, prospects for importing technology will be bleak, expanding exports to Japan will

be all the more difficult, and the disparity between China and the East Asia economic circle's member nations will grow. All these facts require us to use every countermeasure at our command to meet this challenge.

### **'Unstable Factors' Exist Despite Eased World Tensions**

40050454 Beijing SHIJIE ZHISHI [WORLD AFFAIRS]  
in Chinese No 5 22 Feb 89 pp 22-23

[Article by Xue Bing 5641 0393: "Relaxed World Tension Contains Hidden Potential for Crisis"]

[Text] *The fact that tensions have eased does not mean that the world is at peace. The underlying international divisions still exist. There are still sufficient nuclear weapons currently in the United States and the Soviet Union to destroy the earth 10 times. They are getting rid of old arms and developing new weapons. Some Second and Third World nations are also continuously strengthening their arsenals. These are potential dangers which cannot be overlooked.*

Overall, world tensions are becoming more relaxed by the day, but easing of tensions cannot make everything smooth sailing. There is a host of divisions and crises, and unstable factors lurk within the current state of affairs. The current trend toward easing of tensions does not exclude the possibility of friction and conflict in some areas, and war at one level or another.

**1. "Easing of tensions" is not entirely a result of a sincere desire for peace.** More than 80 percent of the world's regional conflicts have been caused either by interference by the two superpowers, the United States and the Soviet Union, or are connected with the U.S.-Soviet struggle. When a thaw occurs in U.S.-Soviet relations, the world shows a fundamental tendency toward peace. However, for the superpowers and developing nations alike, the easing of tensions is to a high degree not the result of a sincere desire for peace, but has been forced by international and domestic pressures. Specifically, *in the first place it is an attempt to use the easing of tensions in foreign relations to mitigate serious domestic problems.* The Soviet Union has had no choice but to make repeated concessions to the United States. For the last 50 years, the Soviet Union has sacrificed agriculture and civilian industry, and has given priority to development of heavy industry and military industry in order to vie with the United States for world hegemony. This has caused lopsided development of the economy and an extremely pronounced imbalance of domestic supply and demand. Bureaucratism in government organs, grabbing of special privileges, and corruption of cadres is very serious. Racial and religious conflicts are becoming more serious every day. These things have all had a serious effect on the Soviet Union's reforms and the implementation of major policies. The Soviet Union now badly needs a stable international environment in order to reorganize its economy, develop production,

achieve overall growth of the nation's strength based on economic development, and strengthen its power in its struggle with the United States.

*In the second place, it has been forced by the limits of economic endurance.* Conflicts in the world's hot spots are all in stalemate, and no one will be capable of achieving decisive victory within a short period. Endless war and disruption have brought heavy losses to the areas and countries involved in conflict. All participants in these conflicts have experienced paralysis of production, economic stagnation, and heavy foreign debt. The Iran-Iraq war has caused petroleum production in Iran to drop precipitously; it now is only one-half or one-third of what it was before the war, but Iran's military expenditures are about \$14 billion dollars a year. Iraq buys about \$12 billion worth of arms and ammunition every year, and its foreign debt has reached \$50 billion. Both parties to the conflict need a period in which to catch their breath and reconstruct. The domestic economy of the Soviet Union is developing very slowly, and every year they must provide economic and military assistance to such Third World countries as Angola, Ethiopia, Nicaragua, Cuba, Afghanistan, and Vietnam. This burden is becoming heavier and heavier, so they also would like to use relaxed tensions to recall their troops and ease the burden.

*In the third place, it is an attempt to use the relaxation of tensions to bring about an international situation favorable to domestic development.* The international situation has undergone a big change, and the world is evolving from a bipolar to a multipolar one. The efforts of the Soviet Union and the United States to reap benefits by establishing their political and military hegemony have suffered serious setbacks. With the awakening of the developing nations and the rise of Japan, Western Europe, and the four little dragons of Asia, the overseas markets, raw material production bases, and military bases of the Soviet Union and the United States now face a serious challenge. In an effort to change their image of "hegemonists" and "invaders," the Soviet Union and the United States are again searching for partners with which to cooperate economically and militarily. This is the motive behind the frequent meetings between Soviet and U.S. leaders. At the same time, Second and Third World countries also hope to acquire greater independence, sovereignty, and development in a multipolar international situation.

*In the fourth place, it is a change of fighting tactics, by which it is hoped that benefits can be gained at the negotiating table that could not be won on the battlefield.* The Iran-Iraq war continued for eight years, and the efforts of the Arab world to mediate were fruitless, which brought disapproval from numerous countries. The purpose of the cease-fire and peace talks is to undo the adverse effects of the war and obtain greater international support and aid. The Soviet Union, while pulling its troops out of Afghanistan,

has also pressed the United States and Pakistan to discontinue their aid to Afghan resistance forces. The Soviet Union has also increased its aid to the Kabul government in order to safeguard its rule.

**2. Underlying international antagonisms and hidden dangers have not been fundamentally resolved or eliminated.**

At the present time, the world's military superpowers and the participants in conflicts in the world's "hot spots" are making concessions and peaceful statements one after another. However, because the international problems that led to the conflicts and disputes have not been fundamentally resolved, the antagonisms still exist. The relaxed tensions for the most part only present the appearance of harmony, while open strife and veiled struggle continue. That the two superpowers, *the United States and the Soviet Union*, have achieved a third detente is to be welcomed, but their basic political stances and interests have not changed. The antagonisms between the Soviet Union and the United States, as well as those between them and Second and Third World nations, continue to exist. Although *Iran and Iraq* have reached an agreement, their territorial dispute has not been resolved, and the conflict between their two peoples and religions is still very pronounced. The old divisions and hatreds have not been fundamentally eliminated. Both sides have been purchasing weapons since the truce. With regard to *South Africa*, although they have signed an agreement concerning southwestern Africa, they continue to station large numbers of troops in Namibia because the problem between Angola and the UNITA rebels has not been resolved. Therefore it is a big question whether Angola's war and chaos will come to an end, and whether Namibia will be able to become independent. When *the Nation of Palestine* declared its founding, the United States and Israel refused to recognize it, and Israel rejected Palestine's territorial demands. The Palestinian people still must put forth a long-term, unflagging effort in order to achieve the goals stated in their "Declaration of Independence." As long as the Palestinian problem remains unsolved, peace and stability for the Middle East will just be an empty phrase. *Vietnam* has stated that it will pull its troops out of Kampuchea by September 1989. They are now accelerating the process of turning large numbers of their troops into citizens of Kampuchea and entering them into false Kampuchean armies. Will Kampuchea be able to break away from Vietnamese control after the withdrawal? And where will the nation go? These are difficult problems to solve. Apart from these issues, there are also conflicts between East and West, between North and South, and between nations with different social systems. There are also conflicts within the powers of the alliances, and there will be conflicts generated after the new world situation has evolved. These conflicts mingle and interact, are complex, and their changes are unfathomable. They cause conditions in a multipolar world to continually fall apart and recombine. Crisis lurks everywhere. There are only two possible results. One is that utilization of advances of the age and new international

political philosophies, and increasing international communication and dialogue could bring about a situation in which all nations practice mutual understanding and respect. They could begin true cooperation, and actively search for methods to solve problems, find thoroughgoing solutions to conflicts, and solve disputes. The other possibility is that nations could be mutually intransigent, and use relaxed tensions as a cover for their military build-up based on economic development. They could continue to amass strength, which could lead in the end to military conflict and local wars. Under the present conditions, both possibilities exist, the only difference being one of degree.

**3. The military strength of some countries is still growing.**

The Intermediate-Range Nuclear Forces Treaty signed by the Soviet Union and the United States is the only arms reduction treaty in recent years with real content, yet the reduction amounts to only 6 percent of the nuclear arsenals of the Soviet Union and the United States, and their remaining nuclear weapons are sufficient to destroy the earth 10 times over. On the soil of the German Democratic Republic and the Federal Republic of Germany, NATO and the Warsaw Pact have 40 percent of their nuclear weapons and six million soldiers aligned against each other. Some Second and Third World countries are using relaxed world tensions to increase the overall strength of their nations. They continually increase appropriations for military expenditures, add to their arsenals, and strengthen their military. India's 1988-89 national defense budget increased by 100 million rupees over 1987-88, to a total of 130 billion rupees (approximately 16 billion U.S. dollars). This constitutes 30 percent of total government expenditures. Japan's military budget has exceeded 1 percent for 2 years in a row. The 1988 military budget was equivalent to 1.013 percent of the total Gross National Product. Because the base number is large, the total expenditures amounted to 3.7003 trillion yen, which is approximately 27.4 times higher than military (Self-Defense Corps) expenditures in 1954, during the reconstruction period. This has already caused uneasiness among several countries in Asia and the Pacific. It is estimated that military expenditures for 1989 will also show an increase.

Because of the budget deficit, U.S. military expenditures for 1988 will be slightly lower than the previous year's. U.S. Secretary of Defense Carlucci called an emergency meeting of defense specialists to study courses of action by which to reduce less significant tactical missiles, cut back military aid to third world countries, and pull out of or reduce the size of some overseas military bases. The money saved would be used on the research, development, and production of strategic and chemical weapons which have deterrence value. The United States already has 132 of the new B-2 Stealth bombers, and is currently planning production of "stealth warships." They also have "stealth ICBM's," "stealth reconnaissance planes," and "stealth cruise missiles" in the research and development stage. The Soviet Union trumpets the call for

military reductions even as it adds to its armaments. It is reported in foreign cables that the Soviet Union has recently installed its 10-warhead SS-24 nuclear missiles on rail cars to afford mobility and avoid U.S. attack. At the same time, it has built an extremely expensive underground defense works and command system that will enable Soviet leaders to direct a nuclear war. The Soviet chief of staff recently pointed out that, as the structure of the Soviet military is converted to a defense posture, special attention must be paid to the quality of armaments, to development and improvement of command systems, to raising the level of automatization in communications, and to reform of battle and combat training. In short, the United States and the Soviet Union are both carrying out adjustments and reform within their military, and are making great efforts to raise the combat capability and responsiveness of their military forces through reduction of the number of military personnel, elimination of old armaments, and the development of high-tech weaponry.

It is worth emphasizing that at the same time that nations throughout the world develop their arsenals and strengthen and modernize their armed forces, they are also putting great effort into disseminating knowledge about national defense, increasing civilian awareness of national defense, and establishing and improving defense mobilization systems and related legislative work. In developing border defenses, they are carrying out strong border policies oriented primarily toward offensive defense. They are carrying out long-range planning and construction as they vigorously strengthen military facilities in border areas and in strategically and tactically important points. All of these developments are potential dangers which cannot be overlooked. To think that "the relaxation of international tensions means that the world is at peace" is harmful.

## NORTHEAST ASIA

### Hirohito's Responsibility for World War II 'Undeniable'

40050369 Hong Kong LIAOWANG OVERSEAS  
EDITION in Chinese No 9, 27 Feb 89 p 26

[Article by Chen Zhi 7118 4160: "Historical Facts Cannot Be Altered"]

Since his death, there has been renewed discussion about the responsibility of Japanese Emperor Hirohito for the Japanese-instigated War of Aggression against China and the war in the Pacific. The renewed discussion was provoked by Japanese power holders' public remarks that Hirohito was one "who always prayed for peace," "who exerted full efforts to avoid war," "who holds no responsibility for the war," and even, "let future historians decide whether the last war was one of aggression." Historical facts cannot be altered by anyone, nor is anyone able to alter them at will. Such statements by the

Japanese naturally incite strong reactions from the countries and peoples who still have the terrible calamity of the Japanese War of Aggression fresh in their minds.

Actually, the issue of Hirohito's war responsibility has been discussed for more than 40 years now. As early as 1954, just when the defeated Japanese militarists surrendered to the League of Nations, the masses deeply tormented by the War of Aggression both in Japan and abroad clearly called for Emperor Hirohito to take responsibility for the war. In prewar Japan, the emperor was the highest ruler in the land. The constitution of the time stipulated that "the great Japanese Empire is ruled by an emperor of the same bloodlines for generation after generation"; the emperor is "the head of the country"; he "assumes overall responsibility and authority for ruling"; moreover, he is "commander in chief of the army and navy." The emperor was deified. The constitution also expressly provided that "the holy emperor is inviolable." The War of Aggression against China and the Pacific war were both undertaken in the name of the emperor. This is equally true of Japan's colonial rule in Japan, Korea, and enemy-occupied territories of Southeast Asia. At the conclusion of the trial, Weikang Fullerton Weber, judge of the International Military Tribunal of the Far East, publicly stated, "evidence presented to the tribunal proves that the emperor actually legalized the war, thus, he bears responsibility for the war." That the emperor was not prosecuted was due to "political considerations." The emperor was exonerated and national affairs ministers bore the blame for the war at the time because some people felt that he was "assisted" by them in dealing with these matters. Weber noted that the emperor's responsibility should not be diminished even though there was evidence to the contrary that the emperor ordinarily had no choice but to act in accordance with the suggestions of those surrounding him. It was reported that the British Broadcasting Corp [BBC] of the UK recently broadcast a memorial film about Hirohito which contained much recently discovered material concerning his wartime responsibility. The film reveals that contemporary U.S. President Truman made the decision not to prosecute Hirohito.

After the war, Emperor Hirohito made his "Declaration to the People"; he returned to humanity from "deification." The new constitution provides that the emperor is a "united symbol of the state and the people." In the past few years, Hirohito's war responsibility has been gradually diminished, or even concealed. Likewise, an endless stream of incidents reversing the verdicts of Japan's War of Aggression also have emerged. For example, Hirohito has been decorated as a "peaceful old man." A WASHINGTON POST report said that such a description of Hirohito by Japan "opens wounds and incites anger." The South Korean TONG-A ILBO said, "Although some deny it, it is an undeniable fact that all war proclamations were issued in his (Hirohito's) name."

Within Japan itself, there are different appraisals of Hirohito. Takako Doi, head of the Japanese Socialist Party, noted: "The Showa Era was an age full of suffering and

unrest. History demanded great sacrifices at home and abroad for the mistakes committed during this age. It would be difficult to say that its scars have fully healed."

When people again bring up Hirohito's war responsibility now, their intention is not to settle old scores, but rather to support respect of historical facts, discrimination of right and wrong, learning from experience, and avoidance of repeating the mistakes of history. The Japanese militarists initiated a series of aggressive wars, catastrophically murdering and sacrificing an estimated 10 million, and destroying property valued at \$100 billion in the Asian Pacific region. If we say that the contemporary highest ruler of Japan, Emperor Hirohito, was not responsible, but on the contrary, was a "peaceful old man," then, how can those sacrificed to the butcher's knife of the Japanese militarists die content? How can one convince those fortunate survivors? We must first own up to historical facts in order to remove the remaining aftereffects of mistakes. Understanding can be reached and wounds healed only in this way.

The Japan of today has become an "economic great nation." While also hoping that Japan can make a positive contribution to global economic prosperity, the people of the world are not without anxiety in attentively observing that Japan is relying on its economic might to rearm. According to a Japanese KYODO NEWS report, on 23 January the Finance Ministry and the Defense Agency negotiated a 1989 total "self-defense budget" for Japan of 391.98 million yen, 1.006 percent of GNP. This will be the third year in a row in which the "self-defense budget" has topped 1 percent of GNP. During these 3 years, the "self-defense budget" growth rates of 1987 and 1988 were as high as 5.2 percent; they jumped to 5.93 percent in 1989. News reports say that Japan's military budget is third in the world, second only to those of the superpowers, the United States and the USSR. It is entirely understandable that Japanese and foreigners are heavy-hearted as they regard the fact of Japan's approach to becoming a "military great nation," while they find it hard to forget the crimes of Japanese military aggression.

**Bukharin Philosophy 'Important Part' of Marxist History**

40050240 Changchun SHEHUI KEXUE ZHANXIAN  
[SOCIAL SCIENCE FRONT] in Chinese  
Vol 12 No 4, 88 pp 81-87

[Article by Zhang Nianfeng 1728 1819 6265: "A New Study of Bukharin's Philosophical Thought"]

[Text] Nikolai Ivanovich Bukharin (1888-1938) was born to a teacher's family in Moscow. He joined the Russian Social-Democratic Workers Party in 1906. He served as a member of the CPSU Central Committee and Politburo, member of the Executive Committee and Presidium of the Communist International, and editor in chief of PRAVDA, organ of the CPSU Central Committee. In 1938, he was sentenced to death on charges of treason. In February 1988, 50 years after his death, the Soviet Supreme Court reversed the judgment and cleared his name.

Bukharin was a well-known theoretician in the early period of the Soviet Union. He wrote on philosophy, economics, political theories, literature and art, education, and other fields. His thought occupies a definite place in the history of the development of Marxism. A study and exploration of Bukharin's philosophical thinking is an important part of learning the history of Marxist philosophy.

I

Bukharin wrote a great deal on theories in his lifetime. His major works include *The World Economy and Imperialism* (1918), *The Political Economy of Usurers* (1919), *The Economy of the Transitional Period* (1920), *The ABC's of Communism* (1920), *The Theory of Historical Materialism* (1921), *The Proletarian Revolution and Culture* (1923), *Imperialism and Capital Accumulation* (1925), *The International Bourgeoisie and Its Follower, Karl Kautsky* (1926), *An Economist's Notes* (1928), and *Darwinism and Marxism* (1932). *The Theory of Historical Materialism* is representative of his philosophical works. Bukharin himself called it a popular teaching tool in Marxist sociology. It is a book which expounds the basic viewpoints of historical materialism in a positive way. While the book is devoted mainly to expounding historical materialism, it also deals with dialectical materialism. Before we get into Bukharin's philosophical thinking, it is necessary to briefly review the book's background, style, and characteristics.

First, *The Theory of Historical Materialism*, completed in 1921, was the first book, after the October Revolution in Russia, to systematically explain basic Marxist philosophical viewpoints.

In 1918, Russia's overthrown landlords, capitalists, and the White generals collaborated with the British, French, Japanese, Polish, and other governments in launching an armed intervention against the young Soviet state.

Under Lenin's leadership, Soviet workers and peasants were organized to fight the foreign aggressors and the White bandits, and they won. After the war, the whole country made the transition from war communism to the new economic policy and began years of peaceful construction. As the turbulent years came to an end, there was an urgent need to educate party members and cadres in Marxist theory, but books systematically expounding the Marxist philosophy were extremely scarce. At this point, the publication of *The Theory of Historical Materialism* was warmly greeted by the vast numbers of cadres. As a basic teaching material for the education of party members and cadres in Marxist theory, the book produced a rather great impact and was praised as an "authoritative theoretical work" on Marxism for a period in the 1920's.

The book has been translated into 20 languages, including English, French, German, Japanese, Chinese, and so forth, and has caused different reactions in various countries. Sidney Hatman of the United States thought that it was "a brilliant exposition of dialectical materialism and historical materialism." L. Kracowsky of Poland thought that the book was "a basic teaching material for the theoretical education of party members and cadres," but that it was "extremely oversimplified."

Second, citing a wide range of evidence and written in an easy and fluent style, the book uses many concrete examples to explain the basic principles of historical materialism, and is characterized by its use of simple language. Bukharin himself said that "the book is written in the same form as *The ABC's of Communism*" and that he "strived to write a book for popular consumption." In this book Bukharin wrote from the medical classification of mental disorders to the development of astronomy, geology, zoology, and botany, and from ancient "Chinese rites" to modern schools of painting. The number of examples given and the wide range of subjects involved were rarely seen in the works of other contemporary Soviet philosophers. The *Encyclopedia of the Soviet Union*, published in 1927, had an entry on "Bukharin" which commented on this characteristic: "Bukharin is an expert popular writer. He has a style like a highly nimble 'keyboard.'" Foreign scholars also thought that "the book is interesting and absorbing."

Third, the book is, on the one hand, a systematic explanation of Marxist philosophy and, on the other hand, a rebuttal to the critics of Marxism. Toward the end of the 19th century and in the early 20th century, bourgeois theorists, revisionists, and anarchists attacked Marxism with concentrated fire. Defending Marxism was the sacred duty of proletarian revolutionaries. Bukharin said: "The enemies are writing a great deal more than before. We have to fight back and do so on the basis of our own increasingly higher theoretical level." In this book, Bukharin refuted the "enemies'" absurd arguments against historical materialism. He exposed the attempt of P. Struvel [phonetic], a major representative of Russia's "lawful Marxists," to turn Marxism into



bourgeois reformism; attacked the "theory of the social body" put forward by a scholar, Wilson Bartell [phonetic], who is of the bourgeois class, denounced the sophistry of the rightwing theorist Karl Renner of the Austrian Social-Democratic Party; and, at the same time, criticized teleology, the race theory, and the Malthusian theory on population, all of which opposed historical materialism. His criticisms were reasonable and convincing.

## II

Bukharin made a systematic study of the historical materialism founded by Marx and Engels and did a rather good job in interpreting it.

1. He systematically expounded the position and role of historical materialism and the significance of its methodology. Historical materialism is an important component of Marxist philosophy. Bukharin called it the "foundation of the foundations" of Marxist theories.

Bukharin expounded his understanding of historical materialism from three angles. First, he pointed out that historical materialism is a theory on the universal laws governing social development. He said: "What is the position of the theory of historical materialism? It is neither political economy nor history. It is a general theory about the laws of social development." He held that historical materialism is the only theory that makes it possible for us to understand the history of mankind as a process with its own laws. Second, he emphasized that historical materialism is a sharp weapon for the proletariat and working people to understand and change the world. He held that historical materialism is "the most original theory, the sharpest weapon for man to think and understand. With its help, the proletariat can understand clearly some of the most complicated questions in social life and class struggle. With its help, the communists have correctly predicted wars, revolutions, and proletarian dictatorships, and predicted the actions of different parties, groups, and classes in the great changes experienced by mankind." Third, he expounded the significance of the historical-materialist methodology. On this question, Engels said in his correspondence on historical materialism in his later years: "Our concept of history is first of all a guide for study and work." Bukharin developed Engels' thinking, maintaining that historical materialism is not only a scientific theory, but provides us with a scientific method to study history. He said that, as historical materialism "explains the general laws of the development of mankind, it provides a method for the study of history." At the same time, it also "provides a method for the study of all branches of social science." He emphasized repeatedly that historical materialism is the best tool for learning.

The thesis that historical materialism means Marxist sociology is a debatable issue. Opinions differ in academic circles in both the Soviet Union and China. Bukharin consistently held that historical materialism is

a dual name and expounded his view from two angles. First, according to the historical-materialist viewpoint, society is nothing but a pattern of movement in material production. The object studied in the conception of social history is the universal law governing the movement in social production and, on this basis, the development of all kinds of social phenomena, which is the same as sociology. In Bukharin's opinion, the questions sociology studies and answers are: "What is society? On what do social development and decline depend? What is the interrelation between different social phenomena?...What causes the replacement of one form of society by another? And so on." Second, if we deny historical materialism as Marxist sociology, we will fall into the bourgeoisie's trap, because they always try to get rid of historical materialism. Of course, this question can be studied further in depth.

2. He expounded the objectivity of natural and social laws. Marxism holds that the natural and social phenomena around us are certainly not a jumbled mess, as they all follow specific laws.

Bukharin expounded this question from three angles. First, all natural and social laws are objective, independent of man's will. Bourgeois philosophers, proceeding from an idealistic conception of history, generally hold that the role of science lies not in revealing existing objective laws, but in imagining these laws with man's intelligence. To counter this viewpoint, Bukharin wrote: "These rules (laws) in the natural world and in society are totally independent of man's knowledge. In other words, they are objective (independent of man's will) laws. And, the most important task of science is to reveal these laws, to sort out these laws from a jumble of phenomena." Bukharin's views are identical with those of Marx and Lenin. Marx, in *Das Kapital*, called the effect of laws iron certainty. He said that the laws themselves "act with iron certainty." Lenin said: "The natural laws existed and acted independent of us even before we knew them." Second, he pointed out that both social laws and natural laws are controlled by the law of causality. Some people recognize the independence of natural laws from man's will, but do not recognize the objectivity of social laws. To this, Bukharin gave a clear-cut answer: "Even if man consciously regulates everything, and everything in society goes according to man's wish, what is needed to explain the phenomenon is not teleology but the cause of the phenomenon, that is, to find the law of cause and effect. Therefore, on this question, there is no difference between social science and natural science." He held that only by adhering to this viewpoint is it possible to get rid of any divinity and any trust in supernatural forces and open the way for mankind to really master the natural and social forces. Third, he systematically criticized idealist teleology. According to a teleological viewpoint, any phenomenon has its own purpose and its own rational mission. Teleologists regard purpose as something that exists in some spiritual entity, transcending reality and in the subjective will of some individuals, and they simply deny the

law of cause and effect in the objective world. Teleologists think that God created all things in order to benefit mankind, that man has a nose in order to hold eyeglasses, that the reason for the world to have pigs is to be eaten by man, and so on. Bukharin criticized this theory. He pointed out that since human society divided into different groups, some groups have given orders and ruled, while other groups have been ruled and obeyed submissively. Just as there are kings, judges, and so forth on earth, who promulgate laws and try cases, there is God, a judge in heaven, for the whole universe. Thus, the universe is regarded as the product of a creative will. Bukharin pointed out sharply: "The teleological viewpoint is diametrically opposed to the scientific viewpoint. It relies on faith. No matter how wonderful this viewpoint is made to appear, it is, after all, a viewpoint of monks and priests." Of course, to have a correct purpose according to objective laws and practical conditions is one of the signs distinguishing man from animals that act by instinct. However, man's purpose is not subjective and self-generated, but preconditioned by the laws of the objective world.

3. He put forward the theory of equilibrium in social development. In his work *The Theory of Historical Materialism*, Bukharin devoted three chapters to explaining this theory. He discussed the equilibrium between nature and society, the equilibrium between key elements of society, and the disruption and restoration of social equilibrium. He named this the theory of "dynamic equilibrium." He wrote: "The equilibrium we see in nature and society is not absolute, static equilibrium, but dynamic equilibrium. What does this mean? It means that when equilibrium is established, it is immediately broken, established again, and again broken, and thus the process repeats itself in endless cycles." Bukharin summarized this process in three forms: first, a state of equilibrium; second, equilibrium broken; and third, equilibrium restored on a new basis. What he called the various forms of equilibrium are in fact various forms of the unity of opposites.

Bukharin's idea about the law of equilibrium in social development is of great significance to socialist construction under the dictatorship of the proletariat.

First, the application of the law of equilibrium to the study of the relationship between industry and agriculture and between town and countryside during the period of socialist construction is of great importance. He said: "Now there is a question—how to achieve a new equilibrium: equilibrium within agriculture on the one hand, and equilibrium between town and countryside on the other. This is a question that will determine the destiny of mankind. Therefore, it is a most important and most complex question."

Second, according to the law of equilibrium, economic relations during the socialist period must be properly proportioned. He said: "The ruling proletariat in any

country faces an extremely important question of economic organization, namely, how to determine the ratio between two forms of production. The proletariat is able to rationalize, organize, and manage in a planned way one form of production. But, during the early period of its own development, the proletariat is unable to rationalize and manage in a planned way the other form of production. This is an extremely important economic question facing the proletariat. If the proletariat fails to establish a proper ratio, if it takes too much into its own hands, beyond the limits permitted by the objective conditions, then it will face the inevitable consequence: the productive forces will be fettered and unable to develop. It is impossible for the proletariat to organize everything. It is impossible for the proletariat to force its own plans on the small farmer and small producer, who have their own private operations." He pointed out that careful consideration must be given to the ratio between controlled socialist economy and free economy. On this question, both China and the Soviet Union have suffered in the past and should learn from the lessons.

Third, as the law of equilibrium requires, the speed of industrialization must be properly coordinated with agricultural capabilities, and we should not be "obsessed with super high speed." He opposed the practice of transferring as much funds as possible from agriculture to industry to insure the maximum speed in industrial development. He also opposed developing socialist industry by increasing the burden of the peasants. He said: "only on the basis of rapid agricultural growth can industry develop at a sustained high speed." He held that industrial and agricultural development should be balanced, and something should be kept in reserve. "Future bricks" cannot be used to build "factories now."

4. He stressed that Marxist philosophy is a developing science. Marxism is a complete and strict science. It is the crystallization of the idea of proletarian revolution, the scientific theory for understanding and changing the world. Marxism is not a dogma, but a guide to action. Bukharin wrote: "Marxism is a complete scientific theory because it is not a dogma," and because it develops continuously with practice. "If the Marxist theory stands still forever, that would be odd." Marxism must be integrated with revolutionary practice in all countries. Bukharin said: "As the revolutionary road in each country has its own characteristics, it is only natural that socialist construction also has its own characteristics." He stressed that, in any case, the specific characteristics of development must not be overlooked, and that it will not do to become stereotyped and copy mechanically in disregard of specific conditions. Only by constantly developing in the practice of proletarian revolution and construction, will Marxist historical materialism always keep its youthful vitality.

Marxism is a developing science. This is exactly why Bukharin had time and again changed his own viewpoint according to development in practice. In 1918, when the

Soviet Union implemented a wartime communist economic policy, Bukharin wrote articles to actively support the policy. In 1921, when the Soviet Union implemented a new economic policy that replaced the collection of surplus grain with a grain tax, Bukharin turned from a supporter of war communism into a champion of the new economic policy. He put forward a series of guiding ideologies for socialist economic construction, including respect for objective economic laws, balanced development of industrial and agricultural production, paying attention to the law of value, strengthening the worker-peasant alliance, and so forth. On the question of proletarian dictatorship, he called for rule through the proletarian party and leader in 1921. In 1929, he put forward the viewpoint of "participation by the masses." These changes showed that Bukharin did not treat the Marxist theory with an ossified dogmatic attitude.

### III

After Bukharin put forward the theory on the law of equilibrium in social development, he was subject to all kinds of censures. The *History of the Communist Party of the Soviet Union (Bolsheviks) Short Course* and the *Concise Dictionary of Philosophy*, published in the Soviet Union, and the *Political Views of Bukharin*, a special volume criticizing revisionism, and related textbooks, published in China, were all harshly critical of this theory. In the Soviet Union, Bukharin's "theory of equilibrium" was denounced for "denying that contradictions are inherent in things and that the struggle of opposites within things is the source of development" and for "creating a ridiculous 'theory of the dying out of class struggle' and, on the basis of this theory, judging that the greater the success socialism achieves in its struggle against capital elements, the more relaxed class struggle becomes, and that there is simply no need to attack the kulaks." In China, Bukharin's "theory of equilibrium" was denounced as a "metaphysical theory of mechanism," the purpose of which was to "oppose dialectical materialism and historical materialism and deny and abolish Marxist-Leninist theories on class struggle and on the dictatorship of the proletariat." The above boils down to two main charges: (1) Theoretically, it is a metaphysical theory of mechanism. (2) Politically, it is a "theory of the dying out of class struggle." These two charges are both unfair.

1. The theory put forward by Bukharin on the law of equilibrium in social development should not be denounced as a metaphysical theory of mechanism. Bukharin himself refuted this charge. He said in an appendix that it was entirely wrong to accuse his theory of being mechanism. The metaphysical theory of mechanism has two major characteristics: First, it denies the internal contradictions of things and regards external causes as the source of development. Second, it recognizes only quantitative change and absolutely denies qualitative change. On these two points, Bukharin's theory of equilibrium is fundamentally different from the metaphysical theory of mechanism.

First, Bukharin's theory of equilibrium does not deny the internal contradictions of things, but takes contradiction and struggle as its premise and basis. To distinguish his theory of equilibrium from the metaphysical theory of mechanism, he called his theory a theory of "dynamic equilibrium." he stressed that this equilibrium "is not an absolute and static equilibrium, but a dynamic equilibrium." In his opinion, equilibrium can be divided into three types: stable equilibrium, positive equilibrium (development of a system), and negative equilibrium (destruction of a system). He said: "This is the process of movement we see, which is based on the development of internal contradictions." Next, he wrote: "A scientific observation of society requires that we observe it from the angle of the contradictions that fill society. The development of history is the development of contradictions." To avoid misunderstandings when he talked about equilibrium among the key elements of society, he once again stressed that the law of social equilibrium is a law of dynamic equilibrium. "It not only does not reject antagonism, contradiction, disharmony, conflict, and struggle, but takes them as its premise. More important, under certain conditions, it takes the inevitability of violent change and revolution as its premise." Please note, in these two remarks, Bukharin placed special emphasis on two points: (1) The law of equilibrium is "based on internal contradictions." (2) The law of equilibrium "takes antagonism, contradiction, disharmony, conflict, and struggle as its premise." The so-called issue of one-sided exaggeration of unity and equilibrium and denial of contradiction and struggle simply does not exist.

Second, Bukharin's theory of equilibrium does not deny qualitative change, but expounds the "transformation of quantity into quality" as a basic law of the motion of matter. He held that "in a certain phase of motion, quantitative change gives rise to qualitative change." "This transformation from quantity to quality is realized in the form of a leap. At this moment, gradualness and continuity are suddenly destroyed." He stressed that the transformation from quantity to quality is one of the basic laws of the motion of matter, which can be seen everywhere in the natural world and in society. He cited some examples. A heavy object is hung by a rope, and the weight is gradually increased. Until the weight reaches a certain limit, the rope "can withstand it." But, once the limit is exceeded, the rope snaps in an instant. When steam pressure increases in a steam boiler, the boiler remains normal for a certain period, but when the needle passes a certain limit, the boiler explodes with a big noise. And so on. All this shows that qualitative change results from the accumulation of quantitative change; quantitative change is the preparation for qualitative change; and when quantitative change reaches a certain point (critical point), qualitative change occurs. Bukharin not only recognized qualitative change as a basic law of the motion of matter, but went further to suggest that there are two forms of qualitative change. He wrote: "Social equilibrium can be restored in two ways: One way is to allow the key elements of the entire society to adapt to each other slowly (in an evolutionary

fashion). The other way is by sudden and violent change." Before the victory of the proletarian revolution, under the historical conditions of fierce class struggle, Marx, Engels, and Lenin all placed greater emphasis on the explosive and leaping way and seldom talked about moving slowly. Bukharin was able to advance clearly the idea that there are two forms of qualitative change soon after the victory of the October Russian revolution. It was a theoretical contribution.

2. Bukharin's theory on the law of equilibrium in social development should not be denounced as the "theory of the dying out of class struggle." In the same book in which Bukharin introduced the law of equilibrium in social development, he devoted an entire chapter to the question of classes and class struggle. He held that, before the proletarian dictatorship seizes power, the spearhead of the oppressed class is always pointed at the state apparatus of the ruling class. And what about the ruling class? "They are constantly waging a class struggle." After the proletariat seizes power, Bukharin maintained, classes, class contradictions, and class struggle will remain through the entire period of socialist construction. The law and trend of class struggle indicate that class contradictions will be overcome through class struggle, and that the general trend of class struggle is to ease up and gradually die out. However, this struggle will still go on for a long time. He said in 1925: "Class struggle will not stop and die out in a short while, but will continue for a very long time, until class division finally comes to an end." How can this be called the "theory of the dying out of class struggle?" Some people accused Bukharin of denying that there was class struggle in the process of the agricultural cooperation movement, and that was also groundless. Bukharin opposed deprivation of the kulaks by force and called for the use of economic means to draw the peasants into socialist construction, but he never denied that there was class struggle in the agricultural cooperation movement. He said: "The process of socialist development through the establishment of cooperatives, especially during the early period when state industry is unable to achieve complete electrification of agriculture, will be accompanied by class struggle between different groups and strata of peasants."

#### IV

There are some questions with regard to Bukharin's exposition of basic historical-materialist viewpoints.

First, there are two major questions about Bukharin's exposition on the theory of equilibrium in social development. The first is that he regarded the contradiction between a system and its environment as the decisive factor in the movement of anything. He held that society is a system, "a system whose environment is the external natural world." "The change in a system's internal structure (internal equilibrium) should depend on the relation between the system and its environment. The relation between the system and the environment is the decisive factor." This formulation is not accurate and

can easily cause misunderstanding, as it seems to say that the development and change of all things are subordinate to the contradiction between environment and system. The development and change of a system should be traced from inside the system and not from the interrelation between the system and the environment. This is exactly why Lenin criticized him, saying: Bukharin "has never completely understood dialectics." The second is that in expounding his "equilibrium" theory, Bukharin improperly confused Marxist dialectics with mechanics. He said: "We hold that it is entirely possible to translate the language of Hegel's dialectics, which Marx described as 'mysterious,' into the language of modern mechanics." Bukharin meant well. In order to give dialectics a stronger materialist basis, he proposed to turn the language of dialectics into that of modern mechanics and, as a result, confused the distinction between the two. When his view was criticized, he persisted, saying: "We must not regard modern mechanics and dialectics as opposed to each other. If mechanics is not dialectical, then motion as a whole is not dialectical either. What, then, is left in the entire dialectic?" Here Bukharin confused the distinction between the general and particular forms of motion and between lower simple displacement and the higher internal movement. Mechanics, even modern mechanics, cannot include all the diverse qualities in the natural world and in human society.

Second, Bukharin adhered to materialist determinism and criticized idealist indeterminism, and he was correct. But, in expounding this viewpoint, he only stressed inevitability and denied fortuity, and that was incorrect. He said: "Strictly speaking, no phenomenon, whatever it may be, is accidental." "The concept of chance should be dismissed in social sciences." Dialectical-materialist determinism regards the interconnection between things as a universal interaction. It recognizes the existence of inevitability, but does not deny the existence of chance. It recognizes the laws which determine man's actions, but does not deny man's reaction on the laws. In expounding the idea of determinism, Bukharin failed to reach the high plane of dialectical materialism and remained at the level of the materialism of the 17th or 18th century. Spinoza said: "In the nature of things, nothing is accidental." Recognizing only inevitability and not fortuity, one cannot shake off the yoke of the theory of mechanism. Engels said: "Recognizing this kind of inevitability, we still have not gotten out of the theological concept of nature."

Third, in expounding historical materialism, Bukharin used some erroneous concepts. For example, he referred to historical materialism as "economic materialism," which is very inaccurate. In fact, historical materialism is totally different from economic materialism. Economic materialism originated toward the end of the 19th century and at the beginning of the 20th century, represented mainly by Bernstein of Germany and the Russian "economic school." Economic materialism is wrong in separating economics from its dialectical relation with politics, thinking of the role of the economy in terms of

absolutes. In contrast, historical materialism, while recognizing the decisive role of the economy, also recognizes the guiding role of Marxist theory. Also, for example, when discussing the question of ideology, he regarded ideology as generally including language and thinking. He said: "There is also a very common ideological superstructure, namely, language and thinking, that also functions in social development." Thinking is the indirect and general reflection of objective things in the human brain. It is characteristic of the cerebrum, the highly organized matter. Language is a material phenomenon. In addition to its ideological content, it also has other aspects, namely, pronunciation, organs, voice, vocabulary, written language, and so forth, which are all objective realities outside consciousness. Therefore, it is not quite right to regard language as ideology.

### **Trend to Reminiscences About Mao, Lin, Cultural Revolution**

40050281a Hong Kong *CHIUSHIH NIENTAI*  
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[Article by Cheng Ying 2110 1305]

[Text] In opposition to the ideological trend of thought demanding that Mao be criticized, a new trend of remembering Mao and appraising the figures of the Cultural Revolution as they really were is emerging. Zhang Yufeng's [1728 3768 7685] recollections of Mao's later years are infused with human sympathy, engaging the reader's emotional memories and compassion. Mao badges are making a resurgence among the people. One after another, interviews with the favorites of the Cultural Revolution, Wang [3769], Guan [7070], and Qi [2058], are appearing. The publication of reminiscences by Lin Biao's secretary is most reserved about appraising Lin.

A short time ago, several thousand passengers on a Nanjing-bound train in Beijing could not help being startled by the sudden playing of music from the major song of the Cultural Revolution, "Rely on the Helmsman To Navigate the Ocean." Who wouldn't be astounded that this tune, which touched the nerves of millions upon millions of people, has been revived? Yet, after a moment of careful listening, the tense atmosphere was swept clear away by the passengers' uproarious laughter, because the words of the song had been changed to: "Great grandpappies just love their wives, when they see the old ladies smile, la, la...."

This story is absolutely true. The amazing thing about it is that this "new" song was recorded by the "Beiguang Video Co," which is under the state Ministry of Public Security. It has long been popular in many cities. It is said that the central propaganda departments decided to shape up the company. Even before the recording went on sale, it was held back for safekeeping. It is unknown whether a certain person at the Jilin Opera House who added the new lyrics did so to stir up trouble with higher authorities.

In contrast to this story, it is interesting that once the antirightist "revolutionary song," "Socialism Is Good," repromoted as an ideological education tool by the central propaganda departments, reached the grassroots, the people sang it as "Wallet-Carrying Imperialists Have Arrived." Song by song, line by line, the contrary hearts of the Chinese people are stealthily revealed.

In contrast to the satire of the "Helmsman" and "Socialism," and contrary to the thorough negation of the Cultural Revolution and the trend of thought during the last few years in the world of Chinese ideological theorists demanding that Mao be criticized, this year there has been a new trend in society and in cultural events. This trend cherishes the memory of Mao Zedong, and asks for appraisal of the Cultural Revolution clique, including Lin Biao, as it really was. This matter is commanding the attention of the central propaganda departments and thinkers. Everyone in society is talking about it.

### **Background of Zhang Yufeng's Writings**

The sensitive reader will surely have noted that in December 1988, many mainland papers published or reprinted long articles on cherishing the memory of Mao Zedong's later years. This is quite unusual. According to the author's incomplete investigations, series were run in YANHUANG ZISUN, GUANGMING RIBAO, HAINAN JISHI, BAKAN WENZHAI, HEILONGJIANG RIBAO, and other publications. The recollections received particular attention since they originated at the hand of Zhang Yufeng, Mao's secretary, who is regarded as having played a dishonorable role.

I have been fortunate to receive flickering news, revealed by insiders, concerning Zhang as well as some inside information on the recollections she wrote.

After the "gang of four" was toppled, 47-year-old Zhang Yufeng was investigated for a time, after which she disappeared from the scene. It is said that the matter reported abroad of Zhang's seeking a legacy is inaccurate. It has come out that although the central archives say she is nominally unemployed, in implemented policy she draws a salary. In view of her special status, she is restricted from granting interviews to any foreign intermediaries. The central party history research unit and researchers of the party history department of the Chinese People's University have many ways of making people nervous. In the end, one cannot see her. Party history researchers feel that Zhang Yufeng is one of the most important insiders and witnesses in the study of changes in Mao's ideological style during his later years, as well as in what went on behind the scenes at top party internal struggles during the years of turbulence. If Zhang does not open her mouth, then many historical materials from the highest levels of politics will be lost for posterity. Thus we cry "Salvage history."

The first time Zhang Yufeng "declared her position" was last summer in an interview with a special correspondent from Hong Kong's WEN HUI BAO, at a time when the Taiwan publication, "Mao Zedong and Six Women," named Zhang as one of Mao's mistresses. The WEN HUI BAO story ran for four days beginning on 23 July. Sensible people will know at a glance that this series was published in light of the questions circulating at home and abroad about Mao's behavior in his later years. The occasion was used to "clarify rumors" that Zhang Yufeng "did not understand herself." However, the series of interviews not only failed to "refute rumors," it was full of holes. It exposed more than it tried to hide, in protesting innocence too much. As a result, it was appropriate to publish.

#### Articles Cherishing Mao's Memory Don't Stop at Reminiscences

Zhang Yufeng's recollections, "A Few Things About Mao Zedong and Zhou Enlai's Later Years" (mainly written about Mao), are different. They were officially published in YANHUANG ZISUN (bimonthly), volume I, January 1989, issued in China and abroad. The CPC history research unit is responsible for this publication, which seeks mainly to introduce historical figures. You can believe that the unit's researchers' repeated mention of Zhang's articles is not without some significance. Recollections touching on the particulars of Mao Zedong's later years could not appear without a nod of the head from high-level personalities. It is said that before the first issue of YANHUANG ZISUN in 1989 was printed, Hu Qiaomu [5170 0829 2606] perused the draft.

What is even more interesting is that on 26 December, the day of Mao's burial, both the big Chinese paper, GUANGMING RIBAO, and Hong Kong's WEN HUI BAO predicted that Zhang's articles would be reprinted. You can believe that this has a special meaning.

Among the 15,000 words in "A Few Things About Mao Zedong and Zhou Enlai's Later Years," Mao appears before the people in "human" rather than "godly" form for the first time; as a doddering old man who moves with difficulty; as a strange guy, continuously wracked by pain, who coughs all day, cigarette always in hand; as a fatuous and self-indulgent ruler in a body covered with sores, losing sight in both eyes, who disregards his doctors' orders and refuses to change; old and ailing as a candle flickering in the wind, divorced from reality and aloof; as a pitiful, friendless, and wretched insect with no relatives to keep him company in a lunar year in which the last month has 30 days. The "myth" was destroyed. The "most beloved great leader," "the reddest, most red sun in our hearts," "His majesty, his majesty, his majesty," the religious idol, had seven emotions and six desires after all. He was actually an utterly pitiful old man.

People have different opinions about the political import of Zhang's writings. Some say that printing such articles on Mao's burial day is more than a remembrance piece

for the occasion. The articles do not involve a moral appraisal, but only touch on details of his life. They relate events that happened, without political connotations. Mao Zedong is described in a great but pitiful vein. Now that the articles are infused with human feelings, it will be hard to avoid making readers cherish his memory with sympathy.

#### Yu Guangyuan [0060 0342 6678] and Yu Haocheng [0060 3185 2052] Have Something To Say

People holding this opinion feel that that is a model example of society's cherishing of Mao.

The famous scholar Yu Guangyuan recently hit the nail on the head when he lashed out at society's political trend of thought that seeks to return to the past. He warned that we should take heed of society's retrogressive ideology that occurs when the economic reform hits snags.

On 27 Dec 1988, at a discussion meeting in Beijing attended by many reform clique theorists, Yu Haocheng said, "Zhang Yufeng must appear and talk about her recollections that were recently reprinted in a certain major paper in Beijing (Note: GUANGMING RIBAO)." Yu Guangyuan unhappily continued the call to account, saying: "How come they can talk, but they can't treat others the same?" The "others" Yu Guangyuan mentioned refers to Yan Jiaqi [0917 1367 0366], author of *A 10-Year History of the Great Cultural Revolution*. Shortly after publication, the book was turned around and pulled back. Yu Guangyuan angrily said, "what is the problem, now that the 'Cultural Revolution Dictionary' is not allowed to be published, and everyone knows what happened to Yan Jiaqi, yet a newspaper in Shanghai fills the page with an interview with Wang Li [3769 0500]?" In giving examples of reversals in an article published a short while ago in JINGJIXUE ZHOUBAO [ECONOMICS WEEKLY], Yu Guangyuan said that some people "fantasize about retrogressing back to the years when everything was overcontrolled," and, "I've heard that in some parts certain people are wearing badges once again."

What Yu Guangyuan says about the reappearance in many places of the ghosts of thinking about the past and cherishing Mao's memory is really true.

In a corner of the Niujiaotuo free market in Chongqing and the southern market district in Shanghai, one can sometimes see crowds of people engaged in a special type of transaction: swapping Mao badges. These fashionable items of the Cultural Revolution were long ago considered scrap metal. As time went by, they became curiosity items in salvage shops. Who would have thought that all of a sudden so many people are collecting them? It seems as though it is a new fashion to sport a "brilliant golden light" badge on your forehead. According to a relative in Sichuan, it has gone so far that you can see foreign tourists mimicking certain Chinese. They swagger through the streets of Chongqing wearing liberation caps bearing Chairman Mao buttons.

Formerly, as a rule, whenever a political movement ended, there was a big "political sweeping out." It certainly goes without saying that after the "gang of four" were toppled from the stage and when Hua Guofeng fell from power, Hua badges, propaganda writings, inscriptions, statues, etc., were gotten rid of. With regard to Mao Zedong, it cannot be said that the "great sweeping out" of the time did not go thoroughly deep enough to the grassroots of the people: his quotations were recalled, slogans eliminated, pictures taken down (although not by force), statues broken (but at night). In form, Mao's influence has been cleared away, but in spirit, it is difficult to fundamentally eradicate the "god" who was enshrined and worshipped for so many years. In a single day "the wind blows and the grass moves." The god has come back to life. Today, in the wake of materialism and inflation brought by reform, and with party practices getting worse by the day, it is no wonder that the ideological trend of cherishing Mao's memory has appeared in society.

The many letters I have received from friends and relatives all exhibit this feeling of nostalgia for the past. One mentions prices: "in those years" it was so much like that and such. This chills the heart. In truth, the people long for the "peaceful" times of "you're poor, I'm poor, we're all poor." No wonder the ideologists of the reform clique cry out in abhorrence.

#### More Detail on the Cultural Revolution Faction

Another development in this trend that is commanding attention is the severe lashing of Ye Yonglie's [0673 3057 3525] interview with Wang Li by Yu Guangyuan and Yu Haocheng.

Ye Yonglie became nationally famous in the late 1970's for his many writings on obstetrics. His works can be said to be widely known. They were incorporated in middle and primary school teaching materials. But in recent years, Ye has changed from popularizing science to politics. Writing biographies of political figures, everything becomes lifelike under his pen. He recently claimed that he wants to write a long article on the "History of the Rise and Fall of the 'Gang of Four.'" Parts of it appeared for several months in succession last year in XIN GUANCHANG, as "Mr Yao's [1202] Father" and "Traces of Zhang Chunqiao [1728 2504 2890]." In succession, he published interviews with the favorites of the Cultural Revolution, Guan Feng [7070 6912] and Qi Benyu [2058 2609 4416]. The aim of Ye Yonglie is naturally to capture Guan, Qi, and the equally famous Wang Li (namely, the so-called "Wang, Guan, and Qi").

It is no accident that in his initial interview, "Wang Li Talks From His Sickbed," Ye complacently explains: for 20 years now, Wang Li has not had interviews with Chinese or foreign reporters. The aim of granting his first revelations to Ye Yonglie was to "clarify and rectify the various erroneous accounts about him."

Actually, the entire "Talks" are Wang Li's own historical appraisal of himself. Several times in the interview, Ye Yonglie says, "we must make an earnest analysis of Wang Li's historical merits and demerits by seeking truth from facts," and "...separated from the matter by 20 years, we must clarify, analyze, and appraise Wang Li's works and actions during the Cultural Revolution by seeking truth from facts." Tact, pity, and empathy abound between the lines. The article ultimately does not stop from eulogizing Wang Li as "optimistically sacrificing himself," "marching ahead with vigor," and even, "the ill silkworm's only desire is to spin out silk until it dies." Thus, the self-respect of a revolutionary replaces the countenance of an insufferably arrogant accessory who incited the big battle between the two factions in Wuhan during the Cultural Revolution.

In Yu Guangyuan's aforementioned article, he very impolitely takes the appearance of this interview as a model example of society's "retrogression." Yu says, "Regarding clarifying the appraisal of Wang Li, can it be done by using the words of the man himself? What generally acknowledged truth can emerge from Jiang Qing studying herself, or from Wang Li criticizing himself? ...Such articles are suddenly filling entire issues! This is a truly extraordinary phenomenon" (JINGJI ZHOUBAO, 8 Jan 89). This makes one feel that a new argument has begun on appraising the figures of the Cultural Revolution and the "gang of four."

Just like the case of WEN HUI BAO's advance reprint of Zhang Yufeng's recollections, Wang Li's "Talks" were reprinted in Hong Kong's TA KUNG PAO from 3 to 7 January. Doesn't this matter warrant similarly profound thought?

#### Zhang Yunsheng [1728 0061 3932]: Another Criticism of Lin Biao?

If we say that there is a new ideological trend of thought and undercurrent in society's cherishing the memory of Mao and the controversial appraisal of the main figures of the Cultural Revolution, then, on the political level, the veiled and convoluted harbinger of reappraising Lin Biao cannot but be considered as a huge quarrel.

The year that the recollections of Lin's secretary, Zhang Yunsheng, were published by Mao Jiawan [3029 1367 3494], there was a strong reaction by readers on the mainland. One after another, various editions appeared with the same contents. Hong Kong editions also were rushed into print. The contents of the book are extremely realistic, based on my own experience in the turbulence of the Cultural Revolution. For example, the recounting of the time, transmission, and experience concerning the "number one order" signed and issued by Lin Biao on National Day, 1969, is identical to the orders I received as a soldier in a grassroots company at the time.

Careful reading of this several hundred thousand word book of recollections shows that it actually is mainly an uncovering of degrading historical facts about Lin's wife, Ye Qun [0673 5028]: her bullying under the protection of her master and the outrages she committed. Whenever the book touches upon Lin Biao himself, it is clearly reserved. At least, the book spurs one on but is unsatisfying with regard to the personality and attitude of China's number two figure of the time towards those under him including his secretary. Zhang Yunsheng naturally could not and dared not make a positive affirmation of Lin's ironclad and definite case, yet, in the book's conclusion, the author still could not resist giving an explanation that is food for thought. Zhang wrote as follows: "...However, to tell the truth, at the time I never found any suspicious sign on him. I wouldn't have worked a day longer if I had known he was some kind of 'careerist, schemer, two-faced counterrevolutionary, or national traitor.' As for how to correctly appraise Lin Biao overall after the discovery of the 'September 13th Incident,' I believe that history will give a verdict."

Even today, quite a few people still dwell on this with relish and question closely: How in heaven did Lin Biao rebel and flee? Actually, the explosive light of several key

figures confirms from different angles that there really are gravely doubtful points about this mysterious time. In a 1988 interview granted by Lin Doudou [2651 6258 6258], she stated that the unclear recollections of Zhang so-and-so who was selected as an imperial concubine give a cross explanation: it seems that we must still await historical proof as to who was really the chief instigator behind the overseas fleeing.

Probably because of the relaxed restrictions on speech on the mainland, or because of further revelations, at this time quite a few figures are tending to take a stand and shed light: Mao Zedong's grandson publicly criticized "Grandpa Mao" at Beijing University; Jiang Qing's daughter, Li Na [2621 4780], reported on her marriage and visit to the prisoner; after leaving jail, the student leader Kuai Dafu [5566 1129 1381] told of his romantic love story; scholarly research coming out related to the people incarcerated by the "gang of four," etc. These are not isolated cases. Are they purely a matter of news, or the wave of an undercurrent for cherishing Mao and a return to the past? It appears that a new round of shocks has begun in Chinese ideological circles.



## NATIONAL AFFAIRS, POLICY

### Nankai Economist Discusses Causes, Remedies of Inflation

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[Article by Pang Jinju 6614 6930 5112, assistant professor at the Economics Research Institute: "On the Damages, Causes, and Remedies of China's Inflation"]

[Text]

I

If, prior to 1987, some people still doubted that China's economy was plagued by inflation, then since 1988, the sharp rise in the price indices, and especially the widespread panic buying that spread across the country in August and September, should have cured their "blindness to inflation." In fact, the seeds of inflation were sown in 1983, and 1988 was when things took a turn for the worse.

To determine if there is inflation, a basic criterion is to determine whether the quantity of money in circulation exceeds the quantity necessary for economic growth. A clear indication of inflation is devaluation of the currency and sharp rise in prices. The table below shows the rates of increase in the issuance of currency and the rates of economic growth in China since 1983:

Year	Increase in Money Issuance (percent)	Economic Growth (percent)
1983	20.65	10.3
1984	49.50	14.7
1985	24.37	17.2
1986	23.34	9.8
1987	19.49	9.4

The above shows clearly that in the 5 years from 1983 to 1987, the money supply has increased a total of 137.35 percent while the economy has grown 61.4 percent. The rate of increase in the money supply far exceeds the rate of economic growth (the rates of economic growth shown above are based on society's total output value, and except for the 1987 figures which are quoted from the State Statistics Bureau's 1987 bulletin, all other figures are taken from the *Yearbook of Chinese Statistics*, 1987, page 38; the rates of increase in the issuance of money are taken from GUANGMING RIBAO, 12 August 1988, page 3).

Since 1988, the above problem has been exacerbated, and the financial situation has become very grim. Figures supplied by People's Bank of China show that on top of several years' continuous rapid increase in the money supply, the balance of currency put into and taken out of circulation between January and June 1988 yielded a net increase of 8.86 billion yuan. By the end of June, there were 154.3 billion yuan circulating in the

economy, an increase of 35.9 percent compared to the same period in 1987 and much more than what the economy really needed. Meanwhile, bank loans increased sharply, but the increase in savings in small towns and townships had been slack: Between January and June, savings fell 36.2 percent compared to the same period in the previous year (figures supplied by People's Bank of China and quoted from XINHUA News Agency copy. See WEN HUI BAO, 18 August 1988.)

If the quantity of money in circulation far exceeds what is needed for economic growth, the result is devaluation of the currency and price increases. Because there is a lag between the increase in the money supply and an increase in product prices, the cumulative effect of the overissuance of money in 1983 and 1984 finally caused China's retail price indices to rise sharply by 8.8 percent in 1985, 6.0 percent in 1986, 7.3 percent in 1987, and 13 percent during the first half of 1988. (The 1985 and 1986 figures are taken from the *Yearbook of Chinese Statistics*, 1987, page 647. The 1987 figure is quoted from the State Statistics Bureau's bulletin, and the figure for the first 6 months of 1988 is taken from JINGJI RIBAO, 17 July 1988.) The continuous and significant increase in the money supply and the chronic and sharp rise in the overall price level are unprecedented in China's socialist history. These conditions indicate that there is serious inflation in China.

Our understanding of this problem tends to be erroneous in two ways. First, we tend to equate price increase and inflation; we assume a price increase to be inflation. Second, we are willing to admit that prices have been rising in China, but deny that the price increase is the result of the overissuance of currency.

Certainly, inflation is manifested in higher product prices, (of course the price increase may be overt, as is the situation in China today, but it can also be covert, as in this country during the period of mandatory planning and price freezes when prices did not rise but supply was tight, goods were rationed, and the gap between market prices at the country fairs and planned prices was widening as the former rose sharply and people had money, but could not buy anything). But higher prices do not necessarily mean inflation. Price increase is a complicated economic phenomenon. Prices may rise for many reasons. They may be due to a reasonable price adjustment, or because the market mechanism is distorted as the result of serious official profiteering or monopoly by administrative-type companies, or it can be triggered by the issuance of more currency than the economy needs. On the whole, if the money supply is not excessive, the price increase in the first two instances is only a structural change and will not cause the overall price level to rise, and even if the overall price level should rise, it is only because most products have been priced too low and is not a problem of devaluation of the currency. Only the last form of price increase, which is accompanied by devaluation of money and higher prices and which causes the general price level to continually rise,

can be called inflation. Reasonable price increases are essential and have a positive effect on economic growth. Unreasonable price increases and inflation are harmful to the economy. Equating higher prices and inflation indiscriminately not only confuses their different nature and obstructs the price reform process but also jeopardizes the effort to find an effective way to deal with inflation.

With regard to the actual price increase situation in China, before 1982 the aim was to straighten out price relations and raise the prices of agricultural and sideline products and some raw and processed materials to a reasonable level and to decontrol the prices of some industrial products (based on figures in the 1987 *Yearbook of Chinese Statistics*, page 658, the overall price index of agricultural and sideline products was 168.7 percent higher in 1986 than in 1978.) This was what led to the increase in the money supply and higher prices. Obviously prices had risen before the money supply increased and, in practice, this had a positive effect on promoting production and development. This was reasonable a price increase and was not inflationary in nature. But as we adjusted prices, we overlooked the problem of inflation and, after 1983, we began to issue an excessive amount of money, which caused prices to rise; higher prices were triggered by the excess money supply, and no doubt, it was inflation. Today, we have a combination of reasonable price adjustment and inflation, and it seems that inflation is getting the upper hand. A certain department has estimated that, of the total price increase between 1983 and 1987, 14.8 percent is attributable to price adjustments as a result of the state's effort to straighten out prices and 14.3 percent is attributable to the overissuance of currency (see JINGJI YANJIU CANKAO ZILAO [ECONOMIC RESEARCH REFERENCE MATERIAL] 1988, No 919, page 17). Since 1988, an even larger proportion of the price increase can be blamed on inflation. We have only noticed the price increase caused by reform of the price system but not the price increase caused by overissuance of currency. This is a symptom of the denial of the presence of inflation in China today, and this has a very negative effect on attempts to curb inflation, stabilize the economy, and bring greater depth to reform.

## II

Chinese theorists are still debating about the pros and cons of inflation, and although the majority disapprove of inflation, some are not so critical. They envision making use of inflation to adjust the distribution of China's resources, accumulate more funds, tap productive potentials, adjust the allocation relationship, and promote economic development. They maintain that China's economy could not have taken off and the era of changing economic modes would be but a fairy tale without inflationary growth; they believe that inflationary growth is our best choice.

In evaluating this theory of benign inflation, we must uphold two principles. One, we must keep in mind China's reality, and two, we must respect the truth.

In the history of world economic development, no doubt, some Western nations have tried to pursue an inflationary policy, but with respect to the long-term consequence, no one has really succeeded; on the contrary, inflation has become the most trying problem for the Western world in the 1980's. Of course, in some countries and for a short period of time, a reasonable amount of inflation can to an extent stimulate economic growth, but only under certain conditions: effective demand is slack, productive resources are idle, the financial market is well developed, and there is tremendous productive potential. Only under these circumstances can inflation lower the rate of interest, stimulate investments, stimulate consumption, and in turn, stimulate economic growth. China's present situation is just the opposite. Since 1978, total social demand has been chronically overstimulated, and instead of excess supply, total social demand far exceeds total supply. Cumulatively, from 1978 to 1986, society managed to supply 3.25-3.75 trillion yuan's worth of goods, but total demand topped approximately 5.4 trillion yuan, a difference of as much as 1.65-2.15 trillion yuan (source: Xiang Zhongwei [4161 0112 0251] et al, "Bringing China's Inflation Under Control," JINGJI YANJIU [ECONOMIC RESEARCH] No 6, 1988). Moreover, our financial market is underdeveloped, the interest rate is fixed, and economic performance is poor. Under these conditions, if China should pursue an inflationary policy, we could only end up with an upward price spiral, and the economy will be thrown into chaos.

Since the founding of the PRC, China has resorted to inflation on several occasions, but none has brought positive results. Aside from the inflation left behind by the Kuomintang [KMT] government which caused tremendous problems for the new China's economy in the early days of the PRC, inflation in the early 1960's seriously upset the balance in the national economy and led to a huge financial deficit and negative economic growth. In 1960, society's total output value fell 13.3 percent compared to the previous year, and fell another 38.2 percent in 1961 (figures quoted from 1987 *Yearbook of Chinese Statistics*, page 38). Today's growing inflation has its origin in 1983.

Briefly, inflation has caused damage to the economy in at least the following areas:

One, inflation fuels already overheated investment and consumption and it exacerbates the imbalance already present in society's total supply and demand. When key constructions began in 1983, investment and consumption also surged. In 1984, investments in basic construction in the ownership by the whole people system totaled 73.5 billion yuan, 23.7 percent more than the year before, and cash payment of wages and bonuses also

increased by 25.7 billion yuan, or 22.3 percent, compared to the previous year. These two items far exceeded the 12 percent rate of increase in the national income (source: Yang Peixin [2799 1014 2450], "China's Monetary Policy," *Living, Studying, New Knowledge*, Sanlian Bookstore, 1987 edition, pp 9, 11, and 23). Meanwhile, the bank was issuing more and more money. More than 9 billion yuan were issued in 1983, 26.2 billion in 1984, and 19.5 billion in 1985 (source: same as above), and eventually, these led to inflation, and it has been raging since. As a result, on the one hand, enterprises have been led to pursue huge profits brought by higher prices and to go all out to increase investment and engage in reckless expanded reproduction. On the other hand, because of surging prices of capital goods, the demand for money and credit has risen sharply, thus exacerbating the already bloated investment and consumption, and the gap between total social demand and total supply has widened.

Two, inflation causes the price parameter to lose its credibility and leads to an improper distribution of resources and distorts the economic structure. In an inflationary situation, prices no longer reflect value, nor do they reflect the true supply-demand relationship. Guided by a false price signal, too many key productive elements are being diverted to businesses and departments where prices are rising relatively faster than cost. Under China's present chaotic market situation, these businesses and departments tend not to be the economy's bottleneck industries; instead, they often turn out to be township and small town or individual enterprises in the circulation and production sectors that are relatively unrestrained by the system but that are technologically ill-equipped, yield little social benefit, and enjoy few economies of scale. This is one of the reasons why the energy, communications, raw and processed materials, and other industrial departments have not been able to develop fully in recent years and why we have not been able to eliminate the administrative-type companies.

Three, inflation causes irrational enterprise behavior, making it impossible to improve economic performance. In an inflationary situation, enterprises can make a profit without improving management and operation. As a result, enterprises have no internal drive or external pressure to improve the internal operating mechanism so as to improve economic performance. The nation wanted to follow a new path and develop the economy by improving economic performance back in 1982, but rising production cost, enterprise losses, and low input-output ratios continued to plague the economy. During the first half of 1988, production cost of the nation's budgeted industrial products rose 6.8 percent, the highest rate in recent years, and losses incurred by nonperforming enterprises rose another 23.6 percent on top of the 4.6 percent rise in 1987, topping 3.12 billion yuan. Worse yet is the decline in the input-output ratio and the rise in material consumption. In the first 6 months, each 10,000 yuan spent by industries generated only the same amount of profit tax as in 1987, but taxes collected on

sales revenue actually decreased by 1.16 percent. Statistics based on 105 consumption indices of key enterprises show a 63.8 percent steady rate of decline between January and June, 4.8 percent lower than the previous year for the same period (source: JINGJI CANKAO, 31 Aug 88). Many factors might have contributed to this situation, but inflation has no doubt exacerbated the conditions.

Four, inflation leads to lower standard of living and unfair allocation. Because of huge sums of government subsidy, the living standard in China has continued to improve in recent years, but inflation has led to a 20-percent decline in the real standard of living for families in the large and mid-sized cities in 1987, and it may be worse in 1988. Statistics show that inflation has brought triple damage to the people. One, for society's 700 billion yuan in retail sales, a 14-percent inflation rate means the consumers have to pay 98 billion yuan more. Two, with 350 billion yuan accumulated in the banks in the form of savings, at 7-percent negative interest, the total loss equals 24 billion yuan. Three, with 150 billion yuan cash in hand, a 14-percent loss equals 21 billion yuan. The above adds up to more than 140 billion yuan in total loss (see Yang Peixin: "Curbing Inflation is the Prerequisite to Price Decontrol," SHIJIE JINGJI DAobao [WORLD ECONOMIC REPORT] 10 Oct 88, page 5). Profiteers in the government and other speculators and profiteers are reaping exorbitant profits, and there are renewed inequities in social distribution. The inverse income relationship between intellectual and physical labor and other unfair conditions have been exacerbated by inflation. These consequences of inflation lead many to fear price increase, and as a result, there are panic buying and runs on banks nationwide as people try to protect the value of their money. These have a devastating effect on reform and economic growth.

### III

What are the causes of China's inflation? The direct cause no doubt is the overissuance of currency, because without an excess supply of money, the currency would not depreciate to the extent of causing the overall price level to rise. In this sense, the overissuance of currency is the crux of the inflation problem. But from the point of the economic process, the overissuance of currency is a consequence. The factors which lead to the overissuance of currency are the real causes of inflation. These factors include:

(1) An imbalance in total social supply and demand: We have already explained how inflation can exacerbate the imbalance in total social supply and demand, but in China's case, excess total demand is the cause and inflation is the effect, and in turn, the cause and effect have given impetus to each other. In essence, therefore, China's present inflation is a demand-pull type of inflation. Excess demand can appear in two different forms: one, excess investment and consumption relative to the national income, and two, excess government expenditure relative to its revenue. In China, each year from

1984 to 1987, fixed asset investment increased 33.9 percent, 38.8 percent, 18.7 percent, and 16.5 percent respectively and wage-related cash expenditure increased 22.3 percent, 26.2 percent, 30.8 percent, and 16.4 percent respectively while the national income increased only 13.5 percent, 12.7 percent, 7.4 percent, and 9.3 percent, respectively, during the same period. Between 1982 and 1987, except for 1985 when there was an apparent surplus because of the nominal income generated by the overheated economy, the government budget was in the red every year. The deficits ran from 2.93 billion yuan in 1982 to 4.35 billion yuan in 1983, 4.45 billion yuan in 1984, 7.06 billion yuan in 1986, and 8.017 billion yuan in 1987 (source: the 1987 *Yearbook of Chinese Statistics*, pp 52, 617, etc.). Bloated investment and consumption as well as financial deficits have been sustained and remedied by printing more money, and thus inflation is inevitable.

(2) Conflicts during the transition from the old to a new system, and the effect of price reform: Since the full-scale launching of the restructuring of the economic system, although the old system has been under siege, its foundation cannot be dismantled in a short period of time, and because the old order has been disrupted but the new order of the commodity economy is not yet in place, the excess demand which was suppressed under the old system has simply exploded, and investment and consumption have expanded almost beyond control. We have underestimated the situation and are ill-prepared spiritually and in terms of adequate measures. Therefore when faced with an upsurge in demand for funds, we are without effective measures to control the demand effectively. Instead, we rely on the printing machine and the credit loan mechanism and let the money supply get out of hand.

An important aspect of the restructuring of the economic system is price reform. Theoretically, price reform is but a one-time adjustment of the retail and wholesale price indices, and it is temporary in nature and cannot possibly lead to inflation. But because of the chaotic market condition, the lack of restraining mechanism at the microeconomic level, the absence of control mechanism at the macroeconomic level, and the imperfect legal system, price reform has triggered inflation. We have made several price adjustments since 1983: the price of small goods was decontrolled in October 1984; meat, poultry, egg, fish, and vegetable prices were decontrolled in 1985; seven categories of industrial consumption goods were decontrolled in 1986. Because these measures have been introduced under relatively tight economic conditions, prices have risen much faster than expected. For example, the planned price increase was 6 percent in 1985, but the actual increase was 8.8 percent. As a result, in order to ward off a decline in the real standard of living, the state is forced to pay out several billion yuan each year in government subsidies, and enterprises and institutions have to find ways to hand out more bonuses; the result is growing financial deficits, more consumption funds, and, with no other solutions,

the bank prints more money. Consequently, prices were straightened out in 1979 and 1980 in vain; the old price parities were restored, providing one more excuse for inflation.

(3) The erroneous ideology that guides our reform and development: We should review two aspects of the ideology which has been guiding our economic development in recent years. One, the emphasis on expansion at the expense of growth with respect to economic development, and two, the emphasis on quick success and instant profit with respect to reform. The former is manifested in the pursuit of accelerated expansion at the expense of performance, and the latter in the overemphasis on stimulating consumption.

Elementary economics has taught us that economic expansion is not exactly the same as growth. Economic growth encompasses not only quantitative increases but also qualitative improvements. Statistics show that China's gross national product has increased from 348.2 billion yuan in 1978 to 1.092 trillion yuan in 1987, an increase of 1.23 times based on constant prices, and on top of this, the GNP has increased another 11 percent in the first half of 1988. During the same period, the gross value of industrial output [GVIO] has grown from 423.7 billion yuan to 1.3813 trillion yuan, an increase of 1.74 times based on constant prices, averaging 11.8 percent per year (the above are the most recent figures furnished by the State Statistics Bureau as published in JINGJI RIBAO 5 Aug 88). Such a high rate of economic expansion is not only unprecedented in this country in the 26 years from 1953 to 1978, it is rare among nations in the world. But what accompanies this expansion is poor performance. With respect to consumption, to produce a dollar's worth of goods in China requires 2.7 times the amount of energy consumed in India and the United States, 4.2 times the amount in West Germany, and 6.5 times the amount in Brazil. China's energy consumption level is comparable to Japan's but our GNP is only one-sixth of Japan's. With respect to product quality, take machinery and electrical products, for example. Only a little more than 10 percent of China's products are comparable in quality to foreign goods produced in the 1970's; 35 percent of the products are comparable to foreign products of the 1960's, and 55 percent are comparable to products of the 1950's. With respect to investment return, a study conducted by the Construction Bank of China in early 1988 shows that 50 percent of the more than 200 large and mid-sized projects that have gone into production in recent years are nonperforming. More than two-thirds of the productive capacity in the recently introduced color television and refrigerator assembly lines is idle. Most of the imported large-scale industrial equipment and computer systems are either grossly underutilized or not being used at all. With respect to labor productivity, compared with the world's more advanced and average standards, the gap is widening. Labor productivity in many of China's industrial sectors is only 10 percent or a little more than 10 percent of the productivity rates in the well-developed

countries (source: SHIJIE JINGJI DAOBAO, 3 Oct 88, p 7). The above problems indicate that China's economy is expanding too fast but with very little growth. We have not paid enough attention and have not tried hard enough to solve the problem. This is because we are partial to this kind of acceleration. Acceleration requires high input; poor performance means low output. These kinds of highs and lows have been sustained by issuing more currency, and this is the deep-seated cause of inflation.

Another error in the guiding ideology is the desire for quick success and instant benefit in implementing reform. We must admit that we have underestimated the systematic character, the protracted nature, the difficulty, and the complexity of reform, and in practice, we have been too eager for quick success and instant benefit. We want not only to solve in an instant all the problems that have accumulated over the years, we also want reform to bring tangible benefits to the people right away. Guided by this ideology, on the one hand, we have increased employment significantly. In the 10 years between 1978 and 1987, units in the ownership by the whole people system have added 47,861,000 more workers (a net increase of 24.5 million, discounting the "quit-and-rest" or retired,) and together with the small town and township units in the collective ownership system, a total of 70,334,000 new workers have been added. On the other hand, we have overemphasized material stimulants and have no effective control measures when it comes to handing out bonuses. As long as the "iron rice bowl" system is not yet abolished, a huge increase in total employment means a significant increase in the total wage bill and greater financial expenditure. As long as enterprises are not yet bona fide economic entities capable of taking care of their own profits and losses, handing out large sums of bonuses also means greater financial expenditure, and the result is a financial deficit, and issuing too much money inevitably leads to inflation.

(4) Inadequate financial, banking, and other macroeconomic control measures: The most serious problems with the financial measures are: one, there is little control over government spending, especially over the spending of consumption funds, and as a result, government spending has continued to climb every year despite orders to control it. This has significantly increased the pull toward inflation. Two, we have run into financial deficits several years in a row. Between 1982 and 1987, we have accumulated 26.8 billion yuan in deficits, and we have relied primarily on bank overdrafts to finance them, and this has been one of the main causes of inflation. There are many problems with the banking measures too. One basic problem is that, because of the failure to calculate accurately the velocity of money and other technical problems, and because of the many disagreements over the basic theory of the velocity of money, we basically cannot ascertain the quantity of money the economy really needs; and, only by the extent of price increase and so on, can we determine if the

amount of money in circulation is excessive and by how much; we have put ourselves in a very passive position. Another serious problem is the low interest rates. First, the low loan rate has overstimulated both the urge to borrow and the investment impulse: between 1983 and 1987, the gross value of industrial and agricultural output [GVIAO] has increased 61 percent, but during the same period, the credit volume has increased 252 percent. Second, the low rate of interest on deposits discourages savings and accumulation. This has a major impact on increasing total demand which in turn adds fuel to inflation.

(5) The impetus of bloated demand for foreign exchange: With controls lifted, foreign exchange becomes another form of currency. Since 1984, the price of imports has risen sharply, but China's demand for imports has not diminished as a result. This has led to a chronic trade deficit; the trade deficit ran 3.99 billion yuan in 1984, 44.89 billion yuan in 1985, 41.62 billion yuan in 1986, and approximately 13.69 billion yuan in 1987 (sources: 1987 *Yearbook of Chinese Statistics*, p 591, and the 1987 State Statistics Bureau bulletin.) Foreign exchange reserve has been on the decline. Meanwhile, although the renminbi-to-dollar exchange rate has been raised from 1.52:1 to 3.7:1, indications are that it will continue to climb. Today, the exchange rate is almost as high as 6-7 renminbi to \$1 in the market. This is an indication that China's demand for foreign exchange far exceeds supply. If we were careful with controlling the issuance of currency and credit, this excess demand for foreign exchange should not lead to inflation. Unfortunately, on the one hand, in the wake of increasing demand for foreign exchange, the amount of renminbi spent on chasing after foreign exchange (for example, renminbi used to match the amount of foreign funds brought in and renminbi spent by domestic units to purchase foreign exchange when importing foreign goods) has also increased. On the other hand, domestic demand has not diminished as a result, and the demand for foreign exchange has turned into increased issuance of currency, which is a major cause of inflation.

In summing up the above, the causes of China's inflation are three-pronged: one, error in the guiding ideology; two, the system which lacks control capabilities; three, society's bloated total demand.

#### IV

Inflation must be brought under control, and it can be done. The problem is in making the right decisions and having the practical measures and the mechanisms which guarantee the application of those measures. Considering China's actual conditions:

One, we must have a proper guiding ideology for our economic tasks. We must abandon the theory which lauds the benefits of inflation and the ideology which leads us to pursue a high rate of expansion at the expense of economic performance. We should make the primary

goal of our macroeconomic control to control bloated investment and consumption and surging product prices. To counter the economy's continuous high rate of expansion and society's chronic excess total demand, we must limit the scope of investment. All loans for non-production-type projects must be suspended according to the state's regulations. Loans for production-type projects should be tightened. We must reduce the purchasing power of the various groups in society and reduce government expenditure and limit the increase in consumption funds. Today, wages should no longer be linked to product prices. Wage increases must be kept to a rate slightly below the rate of increase in labor productivity to prevent the self-feeding price-wage-cost-price upward spiral. At the same time, we must enhance foreign exchange management, reduce the demand for foreign exchange, and try our best to balance our foreign exchange income and expenditure.

Two, we must tighten credit and the money supply and keep a tight rein on the issuance of currency. On the one hand, through a tight policy, we must slow the rate of issuance of currency and control the total money supply in order to reduce the pressure that is driving prices up. This is the key to controlling inflation. At the same time, as we reduce the total volume, we must give consideration to individual situations. In adhering to the principle of building a more rational economic structure, we must be selective in supporting certain industries in order to correct the structural imbalance which has given impetus to the price increase and prevent the tight policy from leading us into a recession. We must do our best to withdraw from circulation the excess amount of money already issued. The banks should raise interest rates and the reserve ratio, offer savings accounts that are inflation-proof, and take steps to ease the run on banks. To reduce the flow of cash into the market, people should be encouraged to save. In addition, we should reform the housing system to allow citizens to buy houses, gradually implement a social insurance system, decontrol the bond market, and promote the shareholding system and other measures to absorb the excess amount of money in the economy and ease the pressure on prices. The People's Bank of China must take control of the currency taken out of circulation; the portion in excess of what the economy needs should be withdrawn gradually.

Three, we should complement the above with a tight financial policy. At the peak of inflation, the government must do everything to reduce the deficit. It must refrain from using bank overdrafts to finance existing deficits. Furthermore, the government can make use of taxation to add new tax categories and raise some taxes. The inflation we face today is actually the result of profiteering by individuals, especially those in the circulation realm, and this in turn has generated the unfair income distribution. Even state-run enterprises and collective enterprises are taking advantage of the higher prices and turning the resulting profits into private gains for small cliques or into workers' bonuses, and the state is left with a heavy burden. To counter this situation, we can impose

a progressive price-increase tax. Specifically, we can use the state's planned price increase as the base point and levy taxes according to the amount of price increase—the higher the price increase, the higher the tax rate. Through this measure, income generated by higher prices will go to the central government, and the Finance Ministry can use this part of the revenue to finance the deficit; and at the same time, a fixed proportion should be handed to the bank for safekeeping, to be taken out of circulation. To implement this measure, the Pricing Department, the Finance Ministry, and the Planning Department must work closely together. The extent of the price increases and the amount of taxation should be figured out scientifically, and we should pay special attention to making a distinction between price increases caused by reasonable price adjustments and those caused by inflation, to make sure that the amount of price-increase tax is exact and to enable it to function properly by curbing inflation and reckless price increases without hampering the progress of price reform.

Four, we should make the reform process thorough and complete. First, it is very important that reform of the enterprise system be thorough in order to improve economic performance and increase total social supply. To remedy the inflation brought about by excess social demand, a direct cure is to suppress demand, but a more basic measure is to increase supply, and in order to reduce demand and increase supply, we need thorough enterprise reform. The important step is to continue to perfect the contract system and implement the shareholding system to turn enterprises into bona fide producers of commodities that are responsible for their own profits and losses and that can make independent decisions and plan their own development. In this way, not only are we assured of enterprises' proper investment and consumption behavior and thus achievement of the goal of reducing social demand, we can also improve the input-output ratio and increase society's effective total supply which, in turn, will narrow society's supply-demand gap. Furthermore, we need to enhance market organization and construction and eradicate all monopolistic blockades, regional separatism, and hoarding and speculation, and we should promote market development and the perfection of the market system. In addition, through reform of the political system, we must overcome the corrupt workstyle in the contingent of cadres and abolish extravagant and wasteful practices; we must also sort out and consolidate companies that mix official and private businesses and fail to separate government and enterprise; and we must punish, according to the law, corruption, bribery, and illegal profiteering. In this way, we can not only reduce the government's excess spending but also create a better social environment for fighting inflation.

Five, we must give full play to the government's role as macroeconomic manager. The present inflation is the result of sharp conflict, antagonism, and contention during the transition from the old to the new system. Inflation cannot be eliminated without the government's

strong and effective management. We learned many lessons from our efforts to fight inflation back in 1950 and 1962, but the most important lesson is that the nation must be of one mind; everyone must follow orders and prohibitions. Today, the most important thing is to pull the people together. Government at all levels, which has a special responsibility in implementing the anti-inflation policy, must enforce all orders and prohibitions. Otherwise, even the best policies will not work, and we will not be able to curb inflation.

## FOREIGN TRADE, INVESTMENT

### 'Difficulties Remain' for Resuming Position in GATT

40060337 Beijing LIAOWANG [OUTLOOK] in Chinese  
No 6-7, 6 Feb 89 pp 58-59

[Article by Feng Yushu 7458 0060 5771: "Outlook on When China May Return to the GATT"]

[Text] China was one of the founding countries of the GATT. After establishment of the PRC, there was a period of time when Taiwan authorities illegally occupied China's seat. In July 1986 the Chinese Government made a formal application requesting return of their legal position in GATT. This application received a general welcome from the member nations. They felt that this was an indication of China's open policies and movement toward participation in the international trade system.

During the past 2 years China and the GATT have been taking active steps to accelerate consideration of the return of China's seat. These steps include the formation in March 1987 of a special working group to look into China's membership status and the sending in 1988 of four delegations by the Chinese Government to attend this group's meetings on China's foreign trade structure memorandum. However, in contrast with the way China resumed its legal position in the World Bank and the IMF, there are greater difficulties for China to resume its position in the GATT and the process will take longer. This is because:

#### I. The GATT Is a Charter International Organization

The GATT was established in 1948 as part of an international multilateral treaty on tariff and trade policy. Its primary activity is carrying out multilateral trade negotiations and mediating trade disputes between signatory parties. The GATT is a charter organization and its headquarters is in Geneva. According to the rules, when a country enters this organization it must sign an entrance protocol based on a series of bilateral negotiations supported by GATT work groups. The protocol outlines the responsibilities shouldered and benefits enjoyed once a country has been admitted.

When China was resuming its position in the World Bank and the IMF, China was qualified, took on payment of membership dues and did not have any ongoing problems with bilateral negotiations with other member nations, and, therefore, regaining its position was relatively easy. But the situation with the GATT is different. China needs to engage in bilateral negotiations with GATT member nations about tariff reduction and other substantive problems, and the resulting agreement is then entered into the entrance protocol. Then, under the principles of the GATT, rules are set that are most beneficial to all member nations. Therefore these negotiations affect the overall economic welfare of each country, which makes haggling unavoidable and takes time.

#### II. Rights and Duties

Entrance into the GATT allows you to enjoy economic benefits, but you also must accept duties. This is to say that "there is no free lunch."

China hopes to take on duties that are consistent with its own economic strength and that indicate to member nations that they want to engage in negotiations on substantive problems such as tariff reduction. However, quite a few member countries feel that tariffs in countries with planned economies do not fulfill their primary purpose of adjusting import and export trade; the import-export trade of state-run trade enterprises is carried out according to departmental policy and plans. Lowering or eliminating the tariffs will not necessarily increase imports or improve the sources of imports, nor will it lead to opening of markets for foreign products. Therefore, when countries with planned economies enter the GATT, they must make a special promise in the entrance protocol to guarantee an increase in imports. For example, Poland promised to "increase imports from all the member nations at an annual rate of not less than 7 percent." Romania agreed that "the rate of increase of imports from GATT member nations would not be less than the import increase rate specified in the 5-year plan."

However it goes against the direction of China's economic reforms for it to take on responsibility for increasing imports. For example, in taking the responsibility to reduce tariffs, there are many member nations who are concerned that economic reforms still have not caused China to become a market economy. Therefore, the responsibility to reduce tariffs will not cause China to open markets to member nations.

Although there is no precedent from previous negotiations for China to follow in determining what responsibilities to take on, the negotiation points are very clear—whether a voluntary protection clause will be included in the protocol for China to regain its seat.



### III. Sleeping Lion and the Cage

The so-called voluntary protection clause refers to situations where particular import products cause harm or loss to another country's economy, and this country can unilaterally employ restrictive measures against the exporting nations without having to directly confront the country that is exporting the product.

Although China is a developing nation, the other countries of the world view us differently. Many member countries are concerned that China will become a superpower, and that economic development potential is huge. If they do not impose controls on China prior to its entrance into the GATT, then after the sleeping lion has been awakened, it will "become a menace" in the GATT. Therefore, they stress that before China's trade and price reforms are completed, a voluntary protection clause must be put into the entrance protocol, thereby attempting to build a cage (voluntary protection clause) to control the Chinese sleeping lion. Looking at the past history of the GATT, when Hungary and other countries with planned economies entered they also accepted this clause.

However, in reality the situation with China is different. China exports many products that very early on were subjected to discriminatory protectionist restrictions in the international market. This not only restricted increases in China's export income but also limited increases in China's import capabilities and affected China's trade development with GATT member nations. Moreover, GATT's nondiscriminatory principles require a country, when restricting imports, to treat all countries the same, which is to say that if a country imposes import restrictions on one country, it must impose restrictions on all countries. You cannot restrict just one country while turning a green light on to other countries. The GATT Uruguay multilateral trade negotiations that are currently under way are also emphasizing the nondiscriminatory principles of the protectionist clause. Under this condition, it seems very difficult to get China to accept a voluntary protectionist clause that goes against GATT principles. A crucial problem that must be resolved in negotiations is to come up with a mutually acceptable approach.

### IV. Deepen Understanding, Make Mutual Allowances

China's basic policies of opening up have made possible its return to its position as a member nation of the GATT. Economic reforms have paved the road for China's entrance into the GATT. After 10 years of reform, China's economic structure is no longer controlled by the central government, but rather by plans in conjunction with the market. China's foreign trade reforms, as evidenced by China's participation in international economic organizations related to the GATT, have led to tariffs, prices, and exchange rates all leading to reduction of the gap between China and the GATT. It will not only be beneficial for China to return to the GATT—it will also be beneficial for the GATT member

nations. If China's economic and trade policies are subject to the rules of the GATT, member nations and China can develop economic and trade relationships on a stable foundation.

If the member nations and China can assume a constructive attitude, deepen their understanding, and make mutual allowances, on the one hand, China will take a step toward deepening reforms and perfecting trade regulations that will be more consistent with GATT regulations. On the other hand, the GATT member nations should consider the long-run perspective and take an active stance toward pushing for China's early return to the GATT, support China's economic reforms, and then the problems will be more easily resolved.

When China will return to the GATT will depend on the desires of the member nations and the results of bilateral negotiations. Other examples we can use as reference are Hungary, which spent 4 years, Romania 3 years, and Poland, 8 years. We are hoping to return to the GATT before Uruguay completes its process, which would be in the year 1990.

**Mauritius Announces Opening of Trade Center**  
34190155z Port Louis LE MAURICIEN in French  
22 Feb 89 p 8

[Article by Leon Baya: "Opening of the Chinese Trade Center, Ltd"]

[Text] "Mauritius is being transformed very rapidly into a commercial and financial center in the Indian Ocean, and everything indicates that a brilliant future awaits it," declared Prime Minister Sir Anerood Jugnauth en route yesterday afternoon to Port Louis for the inauguration of the first permanent trade center of the PRC, the "Chinese Trade Center, Ltd."

Sir Anerood Jugnauth emphasized that one of the factors in Mauritius' success is its pragmatic policy in foreign trade. "Our trade policy transcends more than one barrier," the prime minister said. He went on to stress the development of trade relations with the PRC, pointing out that our imports from that source totaled 692 million rupees in 1987. "We are prepared to increase these imports," he added.

Turning to another area of interest, the prime minister spoke of Mauritius' efforts to diversify its industrial production and of Chinese aid to various sectors, notably for the construction of the new airport at Plaisance and the Belle Vue Mauricia Stadium as well as for agricultural development.

Xu De Zhi, deputy director of the Guangdong Provincial Commission on Foreign Relations and Trade, believes that the opening of the center will permit consolidation



of economic and trade relations between the PRC and the countries of the Indian Ocean and East Africa. He also gave an account of the PRC's policy of opening up the nation.

The Chinese Trade Center, Ltd, has obtained authorization from the government for opening a bonded warehouse under customs regulations. Goods from the PRC could be transshipped at Mauritius for dispatch to other ports of the region.

### Strategy To Improve Economic Returns From Textile Exports

40060422 Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 2, 27 Feb 89 pp 4-10

[Article by Yuan Wenqi 5913 2429 4388 and Chen Jiaqin 7115 1367 0530: "Some Ideas and Proposals on Improving Macroeconomic Returns From Textile Exports"]

#### [Text] 1. Strategic Position of Textile Exports in China's Exports and in the Expansion of the Export-Oriented Economy of the Coastal Regions

According to a "large textile requirements" computation, the total value of textile exports in 1987 was \$8.8 billion (according to the customs statistical requirements it was \$9.55 billion),<sup>1</sup> which accounted for 25.4 percent of the total national exports of \$34.6 billion (according to customs statistics, it accounted for 24.14 percent of a total export value of \$39.565 billion). This places textiles at the head of China's export industries. The following are some special particulars of textile exports:

1) Textiles generate a high rate of net foreign exchange and, through exports, have become an important source of China's foreign exchange earnings. According to customs statistics, China's 1987 textile exports (including processing of imported raw materials) amounted to \$11 billion. Deducting \$3 billion for imported cotton and wool, net foreign exchange earnings were \$8 billion, which is a substantial contribution to national economic growth and toward increasing foreign exchange income.

2) The textile industry is a branch of trade that requires little investment and engenders early returns of foreign exchange. For instance, Yingkuo's No 1 Textile Mill manufactures heavy woolen cloth for export. During the 6 years from 1982 to 1987, the plant showed a ratio of 1 to 6.2 between total foreign exchange used and foreign exchange earned in its exports.

3) The textile industry as a whole is still one of the labor-intensive industries, and China's textile industry is, therefore, in a very advantageous competitive position in the international market. According to statistics for 1987, China's manpower costs in the textile industry compared with those of the United States and Japan at a ratio of 1 to 23. Comparing China with South Korea,

Taiwan, and Hong Kong, the ratio was 1 to 6. Comparing China with Thailand, India, and Pakistan the ratio was 1 to 2.<sup>2</sup> That means that manpower costs in China's textile industry are not only far below those of developed countries, but also lower than in newly industrialized countries and territories and in developing countries.

### 2. Main Problems in Macroeconomic Returns From China's Present Textile Exports

The above analysis demonstrates that textiles occupy an important strategic position in China's exports, earning a high net rate of foreign exchange and enjoying the great special advantage of low manpower costs. However, to utilize these special characteristics to full advantage, and to further expand textile exports, we have to start with a highly intensive analysis of our strategy and make continual efforts to raise macroeconomic returns from our textile exports. This is crucial for our strategy to achieve further growth in textile exports from China's coastal regions. We believe there presently exist the following six main problems in macroeconomic returns from China's textile exports:

First, while the trade volume of textile exports grows larger year by year, the unit prices of textile goods exported, in comparison, decline year by year.

In the last few years China's textile exports have increased at a very rapid rate. Comparing 1987 to 1980, textile exports have increased 2.69 times. From 1980 to 1987, they increased at the average annual rate of 15.2 percent. However, export returns have been very unsatisfactory. This is apparent mainly in the fact that the growth rate of the volume of textile exports surpasses by far the growth rate of the monetary value of textile exports. For cotton and cotton yarn, for instance, see tables 1 and 2:

**Table 1: Volume, Value, and Unit Prices of China's Cotton Exports, 1982-1986**

	(Units: metric tons, \$10,000 U.S.)				
	1982	1983	1984	1985	1986
Export trade volume	7,399	68,080	202,481	349,495	526,550
Export trade value	1,454	9,230	29,533	42,003	49,992
Export unit prices	1,965	1,355	1,458	1,201	949

(Source of data: 1984, 1987 *Almanac of China's Foreign Economic Relations and Trade*)

From table 1 it is evident that the volume of cotton exports increased 71 times from 1982 to 1986, but the export value increased only 34 times. Unit prices of cotton exports declined during the period from 1982 to 1986 (with the exception of 1984), and the annual average decline was 16.6 percent (figures do not take devaluation of the U.S. dollar into account). Comparing 1985 and 1986 cotton export unit prices, the decline in the export unit price is as much as 107 percent.

**Table 2: Volume, Value, and Unit Price of China's Cotton Yarn Exports, 1982 to 1986**

	(Units: skein, \$10,000 U.S.)				
	1982	1983	1984	1985	1986
Export trade volume	229,277	562,256	681,775	379,279	976,080
Export trade value	10,462	22,733	30,431	24,616	34,348
Export unit prices	456	404	446	362	352

(Source of data: same as for table 1)

We see from table 2 that from 1982 to 1986 exports of cotton yarn increased 4.25 times, but the value of yarn exports increased only 3.28 times. The unit price for yarn also declined year by year, except in 1984, at an average annual rate of 6.3 percent (figures do not take devaluation of the U.S. dollar into account). If we compare the per skein unit price between 1982 and 1986, there was a 29.5 percent decline in the export unit price.

As far as economic returns from fabrics and clothing are concerned, they also were not completely satisfactory. For instance, in 1986 the unit price per square yard of fabric and clothing exported to the United States was only \$1.37, but South Korea's and Taiwan's unit prices were \$2 and \$1, respectively.<sup>3</sup> In the case of knitwear and shuttle-loom garments, China's average sales prices were the lowest, even lower than India's and Pakistan's, while the EC's sales price was 11.7 times higher than China's.<sup>4</sup>

All causes for the above-stated problem are complex. We believe the main reasons to be: 1) One-sided pursuit of growth in disregard of economic returns. Because of China's shortage of foreign exchange, insufficient consideration was given to export costs in the rush to increase foreign exchange earnings, and enterprises were deprived of the opportunity to try for a larger margin of economic returns. 2) Enterprises engaged in foreign trade had for many years had the system of "eating from the big pot," and had lacked any mechanism for their own decisionmaking in business operations and for shouldering responsibility for own profits and losses. 3) Illegal exports of textiles are doing great harm to regular trade and are adversely affecting attempts to improve economic returns.

Second, the product mix of textile exports has not been qualitatively improved, which has adversely affected macroeconomic returns from export trade.

For many years, the proportion of raw materials and semifinished goods in China's product mix of textile export has been excessive. This has not only restricted the capacity to earn more foreign exchange from China's textile exports, but also has directly impeded efforts to improve macroeconomic returns from textile exports. According to statistics, raw materials and semiprocessed goods, such as cotton, cotton yarn, and gray cloth,

accounted for around 60 percent of the total value of China's 1987 textile exports. In some provinces, like Shandong, the Textile Import-Export Corporation exported in 1987 textiles to the value of \$450 million (not including garments). In this figure, cotton exports alone amounted to about \$200 million and 44 percent of the said corporation's total exports during that year. In 1986, exports of raw materials and semifinished products by the said corporation accounted for 64.9 percent of its total value of textile exports.

The reason why China's textile exports for a long time consisted mainly of primary products is, of course, related to the fact that China is technologically rather backward, achieves a low rate of up-to-standard printed, dyed, and finished products, and that its production is poorly managed. For instance, only 40 percent of Shandong's printed and dyed materials are of up-to-standard quality, and in Liaoning Province the rate is only 45 percent. However, a more important reason is the pressing need for foreign exchange, so that the need to improve macroeconomic returns from textile exports is to a certain degree being ignored.

It must be pointed out that compared with certain countries with well developed in-depth processing of textiles, China's level of in-depth processing and fine processing of textiles is rather inferior. However, we must realize that, because of the attention given and importance attributed by China in recent years to the importation of advanced textile technologies and equipment, China's capability of in-depth processing has improved considerably. The Chang Jiang delta at Shanghai, the center of China's textile industry, has the best facilities for in-depth processing and fine processing; it has great capabilities for such in-depth processing as printing, dyeing, colored weaving, and knitting. However, in the last few years, some textile mills in Shanghai were seriously underproducing because of a shortage of cotton yarn and white cotton cloth. This resulted in the following strange phenomenon: On the one hand, China exported in recent years high-quality and cheaply priced textile raw materials and semifinished products, while, on the other hand, it experienced a serious shortage of textile raw materials in the textile export centers of the Chang Jiang and Zhujiang deltas and the Liaodong Peninsula, textile centers which are very well equipped for textile processing and textile production. According to statistics, in 1987 the entire Chinese textile industry was 2 million dan (i.e. 100,000 tons) short of cotton, but China's cotton exports that year reached 750,000 tons. For instance, when Guangdong Province needed 190,000 skeins of cotton yarn in 1987, the state allocated 50,000 skeins, only 26.3 percent of the requirement, so the province was forced to import the remainder and to buy it at market rates.

The causes of the above-stated problems are also rather complex, but we believe one of the main reasons is the lack of consideration given to the overall situation, and the fact that government policies are not sufficiently

applied at the basic level. As a result, some local authorities and export corporations disregard the overall interests of the state, merely start out from a consideration of their partial interests of fulfilling the export task of their local area or local unit, consisting of exports of whatever is produced in their own district.

Third, there are too many textile export corporations, macroeconomic control has been lost, the corporations engage in mutual cut-price competition, much of the profits flows into the pockets of foreign parties, and illegal exports are now also quite rampant.

There is not the slightest doubt that the reform of the foreign trade system is moving toward foreign trade decentralization, but the more that business operations are decentralized, the more that macro-control of foreign trade should be strengthened. Particular attention should be paid to avoid precipitate action and to guard against direct textile exports by non-foreign-trade units that do not have the capability for direct exports. However, under present conditions, these phenomena have indeed already occurred in some districts. For instance, through the end of 1986, Guangdong Province had authorized, apart from the National Textile Import-Export Corporation, textile export activities of some 34 enterprises, and in addition there are almost 1,000 export enterprises throughout the province that are authorized to do export business, and they too can export textiles. There is a broad range of units involved, including the Guangzhou Economic and Technological Development Zone, industrial and commercial units, the salt industry, guest houses, railway stations, wharfs, even schools and military units.

Since they all export the same types of textiles, the various corporations engage in a mutual cut-price competition, and the foreign merchants have the benefit of it, reaping much of the profits. In 1978, for instance, children's clothes were exported from Guangdong to the Middle East at \$34.50 a dozen and with an export volume of over 300,000 dozen. But because of competition by various units in the same line of exports, the export volume of this article now dropped to below 20,000 dozen, and the price declined to \$17 per dozen, a drop of almost 50 percent.

At the same time, illegal textile exports are quite rampant. According to official Hong Kong statistics, in 1986 China exported to Hong Kong textiles totaling \$3.8 billion, but the records of China's Textile Import-Export Company show only \$1.6 billion. With illegal textile exports as high as \$2.2 billion, they account for 57.9 percent of the total value of China's exports to Hong Kong, or 37.5 percent more than exports through regular channels.

Fourth, there is the abnormal phenomenon of exported Chinese textile raw materials and semifinished materials being reimported into China. Initial estimates have it

that over 90 percent of the fabric imported for processing in the Zhujiang delta region are gray cloth and raw silk, originally exported from China. Some of the fabric imported for processing was ordered in Hong Kong, to be delivered at their place of origin in Foshan City in Guangdong Province. Similar conditions prevail in the case of textile dyes and chemical agents. For instance, dyes and chemical agents manufactured at Xiongyue in Liaoning Province are in great demand by all printing and dyeing establishments in China, but in order to engender foreign exchange, the dyes and chemical agents manufacturing plant exports its products at low prices. Later, the same dyes and chemical agents manufactured in China are then imported at high prices by domestic printing and dyeing plants. These conditions seem to be beneficial from the microeconomic viewpoint of the enterprises and departments involved, but they are representative examples of activities harmful to the macroeconomic interests of the nation. They allow foreign merchants to enrich themselves unjustly by such manipulative transactions.

Fifth, mutual competition for textile export quotas adversely affects the increase of textile exports as related to the improvement of macroeconomic returns. In the textile export trade, many developed countries have instituted quota restrictions on China's textile exports, but these quotas restrict quantity, not quality, i.e., they do not restrict unit prices. It is therefore quite possible to adopt a method of exporting smaller quantities of newer designs, thereby increasing the foreign exchange returns per unit of exported goods. However, because of the competition for export quotas among enterprises authorized to export textiles, they each try to be first by exporting in excess of quotas, which then causes the countries issuing import quotas to prematurely close the door to further imports. As a consequence, some provinces and enterprises, in favorable positions but fearing that another port may try to be first and export in excess of quotas, find themselves compelled to abstain from raising the foreign exchange amount of unit prices for their export goods, and this in turn has a great adverse effect on efforts to improve macroeconomic returns.

Moreover, the distribution of quotas does not consider the more favorable conditions in certain districts, but is handled according to an egalitarian distribution system, which has a detrimental effect on efforts to improve macroeconomic returns from textile exports. For instance, jeans are an export item first developed by Guangdong Province, which has attained a certain superiority in jeans exports. In the past, Guangdong Province was every year allocated one-fourth of the total quota for jeans, but in 1988, with a total Chinese export quota of 1.9 million dozen, Guangdong's share was only 130,000 dozen, i.e., only one-fifteenth of China's total export quota for jeans. This method of "taking from the fat to pad the lean" is detrimental to the fullest utilization of the relative advantages of certain districts, and violates the principle of improving economic returns. The irrational distribution of export quotas has had the effect

that some districts, less advantageously situated, were unable to fulfill their export quota plans and resorted to selling their export quotas.

Sixth, the geographical overconcentration and too narrow confines of the textile export markets adversely affects improvement of the macroeconomic returns from textile exports.

In recent years, it was useful for China's textile exports to utilize the advantages of the Hong Kong market to expand China's textile exports. However, it also had certain shortcomings to overly concentrate textile exports on the Hong Kong market. Statistics show that in 1987 the total value of Hong Kong's textile imports was \$10.7 billion, including imports from the Chinese mainland amounting to \$3.897 billion, which account for 36.4 percent of the total. In a more easily perceptible quantification: In all of Hong Kong's imports those from mainland China account for two-thirds, of this volume, mainland cotton yarn accounts for 77 percent, pure raw cotton cloth for 92 percent, shuttle loom garments for 84 percent, knitwear for over 90 percent, and sheeting for 80-90 percent of that category of Hong Kong's imports. Because the textile export market is overly concentrated in Hong Kong, unit prices for textiles are very low and are the cause for the deterioration of economic returns from exports. For instance, the Hong Kong price is generally 20 to 30 percent below prices for the same textile article in other territories or countries. In the case of China's exports of "96 Xin" brand towels, the export price for the Gulf area was \$6.70 per dozen, but they would fetch only \$5.80 in the Hong Kong market. As one resident of Hong Kong expressed it: "We can buy a lot of mainland textiles at a very cheap price."

### 3. Strategy for Improvement of Macroeconomic Returns From Textile Exports

The above statements reveal that the issue of improving macroeconomic returns has become a key question that directly affects the expansion of China's textile exports, and directly affects particularly the increase of foreign exchange earnings from China's textile exports. We must, therefore, explore this problem at a high strategic level and put forward countermeasures to further improve macroeconomic returns from textile exports, so that we shall gain a greater capacity for earning foreign exchange from textile exports, and thereby better implement the Central Committee's strategy for the economic development of the coastal regions.

1) The base line from which to approach any development of textile exports must always be the improvement of macroeconomic returns from textiles.

In our opinion, it is, of course, necessary to maintain a certain growth rate in the development of China's textile exports, but it has to be on the premise of improving the macroeconomic returns from textiles. In other words, growth in the development of textile exports must be

arrived at through constant improvement of macroeconomic returns from textile exports. Mere pursuit of accelerated exports of textiles, blindly increasing export volume and trying to show superiority merely by quantity, is undesirable, because the result of acting in this way would not only be useless for improving foreign exchange earnings per unit, but would, on the contrary, reduce the capacity to earn foreign exchange from exports. This explains that merely increasing textile export volume should not be the direction of our strategy in the development of China's textile exports. In actual fact, if we could appropriately control the volume of textile exports, improve the product mix, and export a higher grade of products, we could increase our capacity to earn foreign exchange from our textile exports, even without increasing volume. For instance, Japan imports annually about 550,000 tons of textiles (excluding raw materials). In this figure, imports from China account for 31.5 percent by weight, but only 24.7 percent by value. If China would export to Japan higher grade products, the sales price of such articles could catch up with South Korean prices. China could then increase its export value by 2.5 percent, without increasing the volume of its exports.<sup>6</sup>

Moreover, even without changing its export mix and without introducing higher grade products, appropriate quantitative control of certain textile products could also achieve larger returns of foreign exchange and improve macroeconomic returns from exports. For instance, China's exports of cotton gray cloth already accounts for 41.8 percent of the world's trade in this line.<sup>7</sup> This shows that China's cotton gray cloth exports occupy a dominant position in the international market. According to general principles of international trade, if a country controls 40 percent of the worldwide trade of one commodity, it can control the price of that commodity in the world market. China could, therefore, exercise a monopolistic control over the international trade in cotton gray cloth, and thereby ensure an appropriate increase in the unit price of China's gray cloth exports and gain larger macroeconomic returns.

To be sure, exercising its monopolistic position and realizing an appropriate increase in cotton gray cloth prices is not a matter where China will have it all its own way. In the competition for monopoly, the general principle for determining a price is to determine one's own expenses other than for manufacturing the product, i.e., expenses that are incidental to the basis for the determination of prices, and to determine the same expenses of the competitors, including a rough estimate of the latent production costs of the competitors. According to this principle, the main foundation for determining China's export price for cotton gray cloth is that China's manufacturing costs are not higher than those of the other countries and territories who compete in cotton gray cloth exports. Because China's present labor costs for manufacturing gray cloth are not only lower than those of the developed and newly industrialized countries and territories, but also lower than even those of certain

developing countries, China is indeed in the advantageous position of still being able to raise its price of gray cloth in the international market. Justified by this fact, we propose to establish in China a center that will disseminate information on gray cloth prices, and to change the traditional path of merely following market quotations, so as to attain the best economic returns possible from China's gray cloth exports.

2) Energetically strive to change, gradually but within a fairly short time, the textile mix being exported and to introduce a higher grade and a greater variety of goods.

The fact that China's textile export mix has not been improved in the best possible way has had a direct adverse effect on the macroeconomic returns from textile exports. According to statistics, during the period from January to June 1987, the average unit price of all fibers and clothes imported by the United States was \$1.67 per square yard. During the same period, the stated price for imports of these items from China was only \$1.42, while for imports from Taiwan Province and South Korea prices were \$1.86 and \$2.81, respectively, not only far above China's unit price, but also above the U.S. average import unit price. China's export unit price for all fibers, textiles, and clothes was 14.9 percent below the U.S. average import unit price, 23.7 percent below that of Taiwan Province, and 49.5 percent below that of South Korea.<sup>8</sup> This shows that if we want to have a continual improvement in the macroeconomic returns from China's textile exports, it will be necessary to continuously improve the textile export mix, gradually reduce the proportion of raw material-type products in these exports, increase the proportion of in-depth processed products, and to have China's exports of textiles and clothes be more varied and smaller in volume, with shortened delivery times, and to have them develop in the direction of medium- and high-grade products.

In view of the very advantageous situation of China's coastal regions for textile exports and capability for in-depth and fine processing, and in view of the technological foundation and scientific and technological advancement of the textile industry in the coastal regions, we propose the following strategic pattern for the development of an improved textile export mix: Designations in this pattern are high-grade, medium-grade, and low-grade goods. At their different price levels, each is to have its particular points of emphasis and slant, to gradually arrive at a higher grade of the textile export mix. This improvement of the textile export mix cannot be achieved in one jump. In order to realize the above-mentioned overall pattern for the improvement of the textile export mix, it is necessary to institute a three-phase strategic development.

First phase: The strategic pattern for the improvement of the textile export mix should comprise simultaneously the three grades of goods—low-grade, medium-grade, and high grade—and the developmental strategy should tend toward low-grade and medium-grade goods. This is

because such factors as the present level of development in the textile industry of China's coastal regions and the comparative advantages of that industry determine that a direct transition of the textile export mix to high-grade goods only is not yet possible. At present, the "yu sha" and "mian bu" cotton yarn and cotton cloth of China's coastal regions and the three forms of import processing and compensation trade still represent advantageous items of China's textile exports. We must, therefore, through a strategy tending toward low-grade and medium-grade goods gradually create favorable conditions for a transition to a medium-grade/high-grade production strategy. This phase ought not to be of long duration, it must energetically work to create the stated favorable preconditions, and efforts must be made to have its objective realized within 4 to 5 years.

Second phase: It must be a strategic pattern for improvement of the textile export mix, in that it should be a developmental strategy that tends to consist simultaneously of high-grade, medium-grade, and low-grade goods. This is so because, after another 4 or 5 years, further imports of advanced textile technologies and equipment from abroad, especially printing, dyeing, finishing, and garmentmaking technologies and equipment, will have provided the material and technical conditions for China to export medium-grade and high-grade textiles. There is also the fact that China's textile industry has already made great progress in the last few years. For instance, China's coastal regions have imported open-end spinning machines, gripper and arrowshaft looms, as well as key equipment for printing, dyeing, and finishing, all late 1970's and early 1980's models. Imported from Japan were tubular permanent pleating machinery, tubular dyeing machinery; imported from Italy were pre-shrink machinery, schreinery machinery, embossing (pressure) machinery, permanent press machinery, etc. All these items raised the efficiency of China's textile in-depth and fine processing. We can certainly say that after continually importing various advanced textile technologies and equipment and continual improvement in scientific production management, that we will constantly be narrowing the gap between China and the developed and newly industrialized countries when it comes to printing, dyeing, finishing, and the design of fashionable clothes. The second phase ought to take 4 or 5 years, judging by international experiences and China's actual capacities.

Third phase: The strategic pattern of textile export mix improvement must be a complete transition to predominantly high-grade and medium-grade export goods. We shall strive to achieve this phase by the year 2000, when China's textile exports will be of high quality, when we will strive to have the entire country take off on an upswing, and have China become the greatest textile exporting country of the world.

For the smooth achievement of the above-stated strategic patterns of textile export mix development, certain encouragement measures must be adopted within China's production policy. 1) As to equipment for printing,

dyeing, and finishing, the state must make key investments, in line with the principle of state export direction. As to loans (in foreign exchange and in renminbi), a policy of low interest or no-interest loans should be adopted, to support the development of the in-depth processing industry. 2) In the area of in-depth processed textile products, especially in the fields of printing, dyeing, and finishing, enterprises and individuals who have made special contributions must be presented with substantial rewards.

Third, [as published] strengthening macroeconomic control of textile exports, establishing a competitive group organization, needed to cope with the competitive mechanism of the international market.

In view of the excessive number of China's present textile export corporations, macroeconomic control has been lost, and there is, to a serious extent, mutual price-cutting competition, allowing profits to flow into the pockets of the foreign parties, and also a rampancy of illegal textile exports. It is obvious, therefore, that strengthening macroeconomic control and administration has become extremely important. In our opinion, the more that textile exports become decentralized operations, the more it is necessary to strengthen macroeconomic control and centralized administration. We must not have the macroeconomic control and centralized administration stand in hostile opposition to microeconomic decentralized business operations, but must rather have the two integrated organically, must adopt the principle of unified administration, joint operations, and a unified stand toward the outside world, in order to strengthen the competitiveness of China's textile export corporations and manufacturing industries in the international market, and to ensure a continuous rise in economic returns from textile exports. For this purpose, it is, in our opinion, necessary to fully utilize a group-type competitive organization, made necessary by the mechanism of competition in the international market, i.e., by means of lateral economic linkages, organize all current corporations of all kinds authorized for textile exports and set up an all-China textile and clothes exporters trade association. The basic function of this association would be unified coordination of export prices, setting lowest limits for export prices, and unified coordination of export markets and customers. The association would be the export coordinating organ for all trade, with a certain authority, an authority manifested in the legal character prescribed by the trade association. All statutes, after discussion and adoption by the whole body of members, would have the force of law, and all enterprises engaged in textile exports must be members of the textile exporters trade association. The Ministry of Foreign Economic Relations and Trade would withdraw its authorization to engage in the textile export business from any enterprise that does not join the textile exporters trade association.

At the same time, resolute action must be taken against all forms of illegal export of textiles, to prevent losses to China's macroeconomic returns from textile exports.

For this purpose, it is necessary to resolutely adopt strict administrative and legal measures to stop all smuggling of textiles. Close cooperation is necessary among foreign traders, industrial and commercial administrations, and the customs service. For the strict supervision, investigation, and stopping of smugglers at checkpoints, the public security and judicial departments must work together inside and outside the country, and have all lawless elements that engage in smuggling dealt with firmly according to law.

Fourth, [as published] it is necessary to adopt appropriate economic policies and measures to prevent reimportation of certain textile raw materials and intermediary products (such as dyes and chemical agents). All textile raw materials or semifinished products that, after export from China, must be reimported for in-depth processing and reexport, must be encouraged according to the policy of "production to offset imports." For instance, since dyes and chemical agents are important raw materials for China's textile printing and dyeing industry, we must prevent them from being exported and then reimported by adopting the policy of "production to offset imports," which would then solve the problem.

At the same time, to prevent reimportation from occurring, we must improve the administration of export licenses. Semifinished products, raw materials, and chemical agents urgently needed for domestic in-depth textile processing must be subject to a strict export license system, in order to ensure increased macroeconomic returns from China's textile exports.

It must also be pointed out that although certain exported textile raw materials and semifinished products may not fall under the category of those that are then later to be reimported, they are still raw materials and semifinished products domestically in short supply. Because of the fact that the "production to offset imports" policy has in practice never been truly implemented, certain districts or departments, starting out from their local regional or departmental microeconomic interests, are disregarding the overall interests of the whole and are exporting large quantities of raw materials. For instance, an obvious example is the fact that China exported large quantities of cotton in recent years, while certain district were adversely affected in the production of export textiles by a shortage of cotton as raw material. To reduce the export of cotton as raw material and to support the production of textiles for export, we must in these cases too implement the above-stated policies and measures.

Fifth, [as published] textile export quotas must be distributed and utilized in a scientific and rational manner, to have them utilized to the greatest advantage.

Generally speaking, import quotas for textiles in developed countries only restrict volume, but not quality and unit prices. In view of this special characteristic of textile

quotas, and to gain the utmost benefit from the utilization of the quotas, we have to raise by every possible means the quality and unit prices of our export textiles. According to statistics, in 1986 the Chinese quota for exports of textiles and clothes to the United States was 1.59 billion square yards, and the value of what was exported was \$2.176 billion, so the average price per square yard was \$1.37.<sup>9</sup> If we could improve the quality of textile exports to the United States and raise the per-square-yard price to \$2, as is the case with South Korea, the value of China's quota exports of textiles would go up to \$3.18 billion, an increase of 46.1 percent.

In order to prevent fighting for quotas, and to bring about a change in the egalitarian distribution of quotas in the current system of distributing textile export quotas, we propose to use the method of open bids, on the principle that better macroeconomic returns from textile exports and comparatively favorable facilities should be the decisive criteria: the quotas to be given to the textile export units that win the bids. The criterion for "better economic returns" in the bidding shall mainly be highest sales prices quoted by the textile exporting unit in question.

One may, furthermore, resolve the problem of units in the same line of textile trade fighting among themselves for quotas by opening up new methods, as there is indeed the possibility of using new methods in textile exports, not impeded by customs barriers, to expand textile exports and raise macroeconomic returns from textile exports. For instance, it is possible for the exports of textiles and clothes to adopt the method of establishing a plant in the free trade and processing zone of the importing country and to do all printing, dyeing, and after-treatment of gray cloth manufactured in China within that free trade and processing zone of the importing country. Western-style clothes to be exported from China could be semifinished in China and then completed in the said zone.

Sixth, [as published] while maintaining our present key export markets for textiles and garments, it is necessary to energetically try to open up new markets, i.e., to adopt a strategy of opening up new textile export markets in every direction.

Presently, China's textile and garment export markets are mainly concentrated in Hong Kong, the United States, Japan, and the EC. As said earlier, China's textiles are concentrated in too narrow a market, which is extremely disadvantageous for economic returns to be gained from China's textile exports. If it were possible to break out from these key markets and appropriately reduce the proportion of textile exports to Hong Kong, it would markedly increase economic returns. Analyzing the regional spread and economic returns for cotton and cotton yarn alone reveals that China's exports of cotton and cotton yarn to Hong Kong in 1986 accounted for 34.1 and 73.5 percent, respectively, of China's total

exports of cotton and cotton yarn.<sup>10</sup> According to statistics, the unit prices of cotton and cotton yarn imported by Hong Kong from China in 1986 was not only much below Chinese export prices to countries far away across the oceans, as well as below the overall average export prices of Chinese cotton and cotton yarn. It reveals not only the shortcomings of having an overly narrow market for China's cotton and cotton yarn exports, but also that opening up textile markets in all other directions would clearly be very effective for improvement of China's economic returns from its textile exports.

#### Footnotes

1. *SHIJIE JINGJI DAOBAO*, 28 March 1988.
2. Ibid.
3. and 4. See *KUODA FANGZHIPIN CHUKOU LUNTAN* [FORUM FOR EXPANSION OF TEXTILE EXPORTS], No 2 1988 p 3.
5. Ibid. [position in text unknown]
6. See *KUODA FANGZHIPIN CHUKOU LUNTAN*, No 1 1988 p 11.
7. Computation based on figures in the "1986 Annual Statistical Report of the United Nations."
8. See *KUODA FANGZHIPIN CHUKOU LUNTAN*, No 2 1988 p 7.
9. See *KUODA FANGZHIPIN CHUKOU LUNTAN*, No 2 1988 p 3.
10. Computation based on statistical data in the 1987 *ZHONGGUO DUIWAI JINGJI MAOYI NIANJIAN* [ALMANAC OF CHINA'S FOREIGN ECONOMIC RELATIONS AND TRADE].
11. Compiled on the basis of statistical data in the 1987 *ZHONGGUO DUIWAI JINGJI MAOYI NIANJIAN* [ALMANAC OF CHINA'S FOREIGN ECONOMIC RELATIONS AND TRADE]. [position in text unknown]

#### AGRICULTURE

**Further Agricultural Reform 'Very Urgent'**  
40060374 Beijing *NONGYE JINGJI WENTI*  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
in Chinese No 2, 23 Feb 89 pp 3-8

[Article by Li Yining 0632 0110 1337, Institute of Economics, Beijing University: "The Agricultural Market and Macroeconomic Regulation"]

[Text] To understand the special characteristics of China's present agriculture system, it is necessary to first understand the supply of and demand for agricultural products in the agricultural market. And to understand



these matters, it is again necessary to start with an analysis of the imbalance in China's present economy. This is the only way for us to get at the key to China's present agricultural problems, and to find the fundamental way, suited to China's national condition, for vigorous development of its agriculture.

Since we take imperfection of the market and limited available resources to be important indicators of economic imbalance, agriculture is indeed in a very conspicuously unbalanced condition. This is reflected most conspicuously primarily in the fixed amount of available land and the restrictions in agriculture on the free transfer of resources. The agricultural imbalance in present-day China is reflected mainly in the following three directions:

First, under conditions of limited supply of resources, and because of the uncertainty about property rights, the free transfer of resources is very much restricted. This refers not only to restrictions on internal transfers of resources within agriculture, but also to restrictions on the free transfer of resources between agriculture and nonagricultural sectors and between the countryside and the cities.

Second, there is an insufficient supply of major agricultural products, and there is a certain gap between supply of and demand for these agricultural products. There are, as a consequence, restrictions in the market for major agricultural products, government quotas on the one hand and market quotas on the other, and the simultaneous existence of double-track pricing, all indications that trading in major agricultural products is not altogether of a competitive nature.

Third, even in market transactions of agricultural products not under government quota restrictions, the lack of adequate information, the tangible and intangible restrictions on circulation between districts, the lack of properly developed intermediary organizations of trade, and the delay in setting up necessary institutions have caused trading costs to be very high, and competition to be not yet fully activated.

This shows that if we want to resolve China's agricultural problems, measures must not be merely concerned with prices and the market, but must start from the condition of imbalance and adopt measures outside the areas of prices and markets. Furthermore, in view of the actual conditions at the present stage, these measures outside the sphere of prices and markets will become the important ones in the future, and this will involve the problem of the effect of macroeconomic regulation on the supply of agricultural products.

# I

To achieve an increase in the supply of agricultural products, the following measures outside the sphere of prices and markets may be presented to the government for its selection:

1) Establishment of an agricultural products equalizing fund. The government should determine categories of major agricultural products for which state support prices would be fixed to ensure sufficient volume of production as well as an adequate income for the peasants. Should prices for these agricultural products drop below the support prices, purchases at support prices would be made from the agricultural products equalizing fund. The main source of funds for the agricultural products equalizing fund would be allocations by the treasury. Profits made by the agricultural products equalizing fund in the course of its trading in agricultural products could also be a supplementary source of funds. Agricultural products support prices should be published in advance, and their stability should be guaranteed for a certain time. This will bolster morale among the agricultural producers and prevent large fluctuations in the volume of production of major agricultural products. Under present conditions, support prices may be fixed somewhat on the high side. Even if supplies of agricultural products increase, and the gap in the supply of agricultural products is reduced, the agricultural products equalizing fund, once established, must be maintained over a long period of time, but the support prices may later be adjusted according to the supply-demand situation of the time in question.

2) Development of cultivating and harvesting companies, use of intermediary monetary measures to achieve a relatively high degree of concentration of landholdings. With the waning enthusiasm for cultivation and trading among agricultural producers and with the restrictions on circulation of resources in agriculture, an increase in the supply of agricultural products requires a steady working force to be readied for agricultural production. Formation of something like cultivating and harvesting companies would, therefore, be worthwhile to be encouraged by the government; they could be rapidly set up and developed. Cultivating and harvesting companies would have to be organized from resources of society at large, and would sign cultivating and harvesting contracts with the contract peasants on the land. The companies would collect fees according to work performed or by the sharecropping system. With a steady force of farm laborers and working at a high rate of productivity, cultivating and harvesting companies could greatly increase production and improve the land utilization ratio.

Achieving a relatively high degree of concentration of landholdings by means of intermediary monetary measures refers to establishing land savings banks (or land savings credit cooperatives, or peasant land savings fund societies) or some such financial organization, to engage in the business of taking in land from contract peasants on the land and paying a certain interest. They may loan the scattered landholdings of contract peasants to expert cultivators or to cultivating and harvesting companies, and may also sign contracts with cultivating and harvesting companies on a sharecrop basis or against remuneration according to work performance. These financial organizations could be organized by having society at



large put up the capital, and the profits of these financial organizations could be the interest differential in land deposit and leasing transactions and the income from their own management of land. Through these financial organizations, the process of concentrating landholdings will be greatly speeded up, and expert cultivators could use the land they have rented to farm on an intensive scale, and also develop into family farm owners.

3) Establishment of a network of franchises for the supply of agricultural means of production and for cooperative supply of agricultural means of production. Considering the shortages in agricultural means of production and the imperfect market conditions, the government quota system for major means of production (such as chemical fertilizer, pesticides, main agricultural tools, fuel, and plastic film) should not only not be abolished, but even expanded. The franchise system might very well be introduced at the present stage. Government quotas must primarily be fixed on the principle of the worthiness of the objectives, but must also work on the principle of equality and historical precedent. When determining the objectives to be served by quotas for agricultural means of production, food grain should be given top priority. However, relying merely on government quotas and franchises would not be sufficient, and as early as possible a cooperative supply network for agricultural means of production should be set up, but this should not be operated by the present supply and marketing cooperatives, because the supply and marketing cooperatives deal with a large variety of commodities, have a broad scope of business operations, and would therefore hardly be able to devote themselves wholeheartedly to the marketing of major agricultural means of production under the government quota system. Furthermore, the supply and marketing cooperatives have been established very early, and although they are, by name, organizations of the collective economy, their relation with the agricultural producers is not a close one. It would be better for the agricultural producers to raise money and organize a new supply network, specializing in the handling of agricultural means of production. This would facilitate supervision and control by the agricultural producers and also give them better service.

Moreover, when we start out from the imbalance in China's economy in an attempt to regulate the social demand for agricultural products, the government too must employ appropriate regulatory measures, and in this respect the government must also focus on areas outside the sphere of prices and markets. This is not to say that the government's regulation of agricultural prices would not also be helpful to reduce the gap in the supply of agricultural products, but says only that under conditions of imbalance, the said measures must not become the primary measures for effective alleviation of the supply-demand contradiction with regard to agricultural products. As to government quotas for certain important agricultural products, they too should continue to be used under particularly serious conditions,

but, seen from the demand angle, quotas are, after all, not fundamental measures to alleviate the supply-demand contradiction in the case of agricultural products.

## II

The following are three measures outside the areas of prices and markets that could be suggested to the government to choose from to regulate demand:

1) Regulating the demand for agricultural products by users of agriculture-supplied raw materials by means of differential taxes, differential interest rates, and differential credits. Users of agricultural products are in three large categories. One category is enterprises and other units engaged in production; they need agricultural products as raw materials. When certain agricultural products are critically short, the demand by these users of agriculture-supplied raw materials should be reduced as much as possible, and their raw material selection revised. The government can certainly achieve this objective by adjusting the price for these agriculture-supplied raw materials or by instituting a quota system for these agriculture-supplied raw materials, but price adjustments have large repercussions, and instituting quotas will dampen production enthusiasm among enterprises and other units engaged in production using agriculture-supplied raw materials. Besides, these measures cannot guarantee greater efficiency in the use of agriculture-supplied raw materials. The government may therefore be offered the method of employing differential taxes, differential interest rates, and differential credits to induce enterprises and other units engaged in production to revise their raw material selection and reduce their use of agricultural products in short supply. Adjustment of the raw material selection must be only a supplementary measure. However, if the government can provide realistic benefits for those enterprises and other units engaged in production, which revise their raw material selection and reduce use of agriculture-supplied raw materials, and if the government uses methods of differential taxes, differential interest rates, and differential credits so that they still feel they can make a profit, it would be beneficial for society as well as for these users of agriculture-provided raw materials.

2) Regulating the export commodity mix and reducing the volume of agricultural export products by such measures as differential taxation, differential interest rates, differential credits, as well as differential foreign exchange retention. The second of the three large groups needing agricultural products is enterprises exporting agricultural products; it is their business to export agricultural products. Whenever there is a serious shortage of certain agricultural products, these export enterprises can be made to reduce exports of the agricultural products in question. Of course, in any such exigency, the government might achieve that objective by rigidly imposing restrictions on the export of the agricultural products in question. This, however, would be highly detrimental to efforts to stimulate enthusiasm for

exports among enterprises, so that it would be preferable to use differential taxes, differential interest rates, and differential credits, as well as differential foreign exchange retention, to induce the export enterprises to adjust the commodity mix in their exports according to the supply-demand situation and revise amounts of agricultural products for export. In this way, it would on the one hand be much easier to stimulate the enthusiasm of export enterprises and on the other hand these measures would be more flexible and would leave more initiative to the export enterprises to adjust the composition of export commodities.

3) Employment of various methods to change the savings-consumption ratio and the consumption structure of the people, and to induce the people to consume less such agricultural products that are in short supply. The third large group needing agricultural products are the people, who directly or indirectly buy agriculture-supplied products. For instance, food is the main agricultural product directly bought by the people and the main buyers of cotton, hemp, silkworm cocoons, sheep's wool, etc. are enterprises, while cloth and garments bought by the people are products manufactured by the enterprises from agricultural raw materials. These articles (cotton, hemp, silkworm cocoons, and sheep's wool) can therefore be considered as agricultural products indirectly bought by the people (the purchase of processed foodstuffs by the people can also be regarded as indirect purchases by the people of agricultural products). As measures to have the people reduce their direct or indirect purchases of agricultural products, the government could, apart from price adjustments and quotas, also find ways to change the saving-consumption ratio of the people and change the consumption pattern of the people, including changes in food composition. In this respect, the government has a series of possible measures to choose from, for instance: 1) Regulating the savings-consumption ratio of the people by adjusting tax rates and interest rates; 2) Changing the people's savings-consumption ratio by levying new taxes and by changing the people's consumption composition (including the people's foodstuffs composition); 3) Changing the people's consumption composition by selling houses as well as gold and silver jewelry. It is also possible to sell property of state-run enterprises, issue shares in state-run enterprises, and issue treasury bonds to change the people's savings-consumption ratio and consumption pattern; 4) Adopting measures to induce the people to increase labor consumption (including expenditure on traveling, on cultural affairs, and on education), to reduce the people's direct or indirect purchases of agricultural products; 5) Adopting a variety of financial and credit measures, under conditions of total social demand exceeding total social supply, to restrict total social demand with the effect of cutting down demand for agricultural products. All the above regulatory measures could be used in combination with price adjustments for agricultural products or the implementation of a quota system, also with measures regulating the supply of agricultural products.

However, the above-mentioned adjustment of supply and demand in agricultural products is not without its difficulties. The difficulty is that all the above-mentioned regulatory methods are measures outside the areas of prices and markets. They are to bring about a change in the supply-demand ratio for agricultural products through adjustments in the government's financial policy, credit policy, and in the volume of fixed assets, or through the transformation of certain institutions (for instance, the establishment of a land savings system, institution of a shareholding system, etc.) as preconditions for bringing about a change in the supply-demand ratio of agricultural products. If the agricultural producers themselves lack enthusiasm for the expansion of the scope of their production, or if those requiring agricultural products are not interested in changing raw material composition or consumption composition, or if they feel that costs of these changes are inordinately high and benefits minimal, it will hardly be possible to achieve any notable results, regardless of what methods the government employs to change the supply-demand ration for agricultural products. In other words, suppose the suppliers and the consumers of agricultural products are both acting in a shortsighted way, if they see no clear-cut short-term benefits for themselves in the government measures for the supply-demand regulation of agricultural products, it is then quite possible that they will not arrange their future economic activities according to the government's anticipated objective of regulating supply and demand. It is possible that they will give little thought to the possible long-term benefits. In that case, it goes without saying that no notable result will be achieved by the government's regulation. This shows that there is a clear conflict between the government's macroeconomic regulation of supply and demand for agricultural products and the short-term orientation of the demand and supply sides of agricultural products.

### III

One question we are facing is what government regulatory measure would cause the suppliers and consumers of agricultural products to overcome the short-term orientation in their conduct and induce them to adopt a long-term orientation. Fundamentally, whether a microeconomic unit (be it enterprise or individual) will adopt a long-term orientation in its conduct will depend on three conditions, which are: a microeconomic unit must have a clear developmental goal to follow in its business activities, it must have an inner motivation in striving for the realization of the developmental goal that it has set for itself, and, when advancing by its own efforts toward the anticipated developmental goal, it must feel hopeful that it will realize that objective through its own efforts. While exploring the present condition of China's agriculture and its developmental trend, let us analyze along the lines of the three conditions for a long-term orientation in the conduct of microeconomic units, dealing first with the actual conditions of the supplier of agricultural products.

First, the developmental objective of economic activities. Most important in this connection is determining the developmental objective of the supplier of agricultural products. The supply of agricultural products by the producer is nothing else than a necessary means toward realizing his own developmental objective. We must not simply believe that the developmental objective of the producer of agricultural products is cultivation of the land and raising chickens and animals. If we assume they are aware that providing agricultural products is for the purpose of contributing to society, then increasing their contribution to society is their personal objective. If we assume they think of larger supplies of agricultural products as a means of increasing their incomes, improving their livelihood, and attaining prosperity, then it is greater material benefits that are their developmental objective. If we assume that both, social responsibility and material benefits, are one combined objective, then their developmental objective has an even more substantial content. However, be this as it may, as long as there is one developmental objective, the agricultural producer will have a clear vision in which direction to expend his efforts. At the present stage, however, these kinds of objectives have become, to say the least, ambiguous and vague. Social responsibility, taken as an objective, is regarded as nothing but an empty generality. Material benefits again, taken as an objective, are considered unrealistic, because in real life vastly superior material benefits can possibly be obtained from many economic activities other than the supply of agricultural products. In the end, speaking for many agricultural producers, the developmental objectives have become increasingly indistinct.

Second, the motivation to achieve the predetermined objective. Without a developmental objective, there is no way to talk about the problem of motivation. On the premise of increasingly indistinct developmental objectives among agricultural producers, we cannot consider them sufficiently motivated for the supply of agricultural products (especially for additional increases in agricultural supplies). Of course, that is not to say that the agricultural producers lack any motivation in whatever economic activity they engage in. If they do not care about increasing agricultural supplies, it merely shows a lack of motivation in this particular direction. Even though their pursuit of short-term benefits may also be regarded as an "objective" of sorts that they want to achieve, it is not the same as the developmental objective that is to be accomplished in the course of economic activities. It is precisely because they lack sufficient motivation that economic self-adjustments by agricultural producers will not agree with the intentions of the government, regardless of what financial, credit, or other regulatory measures the government may take.

Third, confidence of achieving the developmental objective through one's own exertions. This problem is similar to the above-discussed problem of motivation. If there is not even clarity about the developmental objective, and if there is a lack of or insufficiency of motivation, can

there still be any talk of confidence in achieving the developmental objective? For this reason it is not difficult to explain the short-term orientation in the behavior of agricultural producers. What needs to be clarified now is even if there should be some agricultural producers who have developmental objectives and who, furthermore, are prepared to achieve their objectives by increasing supplies of agricultural products, can they after all achieve their objectives by relying on their own efforts? We have to admit, that there is no such confidence. Under conditions of imperfect markets and the lack of resources, it is doubtful whether agricultural producers can achieve results commensurate with their own efforts. In this way, as their confidence wanes, so will their efforts at increasing the supply of agricultural products decline. That will also make it impossible to realize the government's intentions, namely that the government's various regulatory measures may encourage agricultural producers to increase supplies.

The above is an analysis under the aspect of the short-term orientation in the conduct of agricultural producers. Below, we shall explore the problem from the viewpoint of the users of agricultural products. To simplify matters we shall reduce users to two categories, enterprises and people. Under the conditions of imperfect markets and the lack of profit or budget restraints on enterprises, the enterprises cannot possibly have their own developmental objectives; they also lack motivation for and confidence in efforts to achieve any such objectives. They will therefore not reduce the volume of their purchases of agriculture-supplied raw materials by way of adjusting their raw material selection or by reducing costs. The short-term orientation in the conduct of the enterprises themselves determines the short-term orientation of their actions as consumers of agricultural products. As to the people as consumers of agricultural products, there is, on the one hand, the fact that the income level of the people is in general still very low, so that it cannot be denied that changes in the structural composition of their consumption, especially the structural composition of foodstuffs consumption, can only be of a limited nature. On the other hand, due to the imperfect markets and lack of resources, the expectations of the people are very unstable, and it is therefore quite possible that they will not change their direct or indirect purchases of agricultural products according to the pattern predetermined in the regulatory measures of the government. In other words, the confused expectations of the people themselves determine the short-term orientation of the people when acting as consumers of agricultural products.

All this may be called the incongruity in the relationship between the supply-demand situation of agricultural products in present-day China and the government's regulation of the situation. Going on from here, we shall raise a very urgent question, namely the further structural reform of agriculture.

#### IV

Where shall the further reform of the agricultural structure start? This is a pressing problem; it is also a difficult topic of theoretical research. The above analyses allow us to see clearly that the crucial point is to resolve the short-term orientation in the conduct of both sides of the agricultural supply-demand situation. The short-term orientation in the conduct of the users of agricultural products, although also closely related to alleviation of the agricultural product supply-demand contradiction, is still not a task that is to be resolved mainly in the agricultural structure. Further reform of the agricultural structure will be mainly a question of resolving the short-term orientation in the conduct of suppliers of agricultural products, namely how to have the conduct of these suppliers of agricultural products (the agricultural producers) change to a long-term orientation through further reform of the agricultural structure. As said earlier, in order to overcome the short-term orientation in the conduct of agricultural producers and to increase the supply of agricultural products, it is necessary to have them gain a clear developmental objective, gain the motivation necessary to realize this objective, and gain the confidence that the predetermined objective can be achieved through their own efforts. It appears that this is where the further reform of the agricultural structure must start.

As far as the vast number of agricultural producers are concerned, the question directly bound up with objective, motivation, and confidence is the question of land ownership. If it were possible, based on the realities of China in connection with the ownership concept of the vast number of agricultural producers, to formulate a land system reform plan consistent with the nature of the initial stage of socialism, it would be most beneficial to effect a turnaround in the low level of enthusiasm for the supply of agricultural products among agricultural producers, and it would change their conduct into one of long-term orientation. How are we then to reform the land system? Is it possible to institute private ownership of land? In my opinion, if we were to again institute private land ownership on top of the public ownership of land, now already practiced for many years, the disadvantages would outweigh the advantages. Speaking of the advantages, it is possible that private land ownership would raise the enthusiasm of the agricultural producers for cultivation. They would take good care of their own property and the fruits of their efforts, would cherish their land, and expand production. However, the disadvantages may be even greater, because the land has been publicly owned for many years, a fact which has fostered the idea of public ownership of the land in the mentality of all quarters of the society. If public ownership were abolished, social turbulence and unrest might have extremely unfortunate consequences. Moreover, private ownership of land would naturally involve the problem of the landowner being able to sell and transfer ownership rights of the land according to his own free will, and this could, as conditions are now, lead to the ruin of

agricultural productivity, and to an aggravation of social contradictions. Weighing advantages and disadvantages, I would, therefore, not agree to make privatization of land the crucial problem in the further reform of the agricultural system.

This being the case, we have to discuss the problem of overcoming the short-term orientation in the conduct of agricultural producers, by accepting the continued maintenance of the system of public land-ownership. However, what kind of public ownership is to be maintained? Is it the public ownership system that has persisted all along until now? It is not. The public ownership system that has persisted until now is conceptually vague and ill-defined; it is a public land-ownership system which cannot work to full advantage, and we might as well call it the traditional public land-ownership system. The present task is to reform this traditional public land-ownership system. Concrete suggestions are:

- 1) Implementation of the nationalization of land. All land within the borders of the PRC belongs to the state. Under the Standing Committee of the National People's Congress a State Land Commission has been established to represent the whole nation in supervising and administering the nation's land, and to prevent encroachments on the land, which is the property of the whole people.
- 2) Implementation of a system of land use by individuals under the overall system of nationalization of all land. "All land under heaven belongs to the state," but there is a concrete "landholder" on every piece of arable land used for agricultural production. These concrete landholders are the microeconomic units (peasants or agricultural enterprise organizations) which have contracted for the land and are engaged in agricultural production. The inherent meaning of the individual landholding system on the basis of land nationalization is that the state holds the ultimate ownership right of these agricultural lands. Microeconomic units which concretely occupy and cultivate certain pieces of land, although merely occupiers of the land, may use it, transfer it, lease it, and also transmit it as property to their heirs. However, since the ultimate ownership right of the land belongs to the state, they have no right to decide on their own that agricultural land be used for nonagricultural purposes, no right to decide on their own to transfer or lease it to nonagricultural land users, and also no right to decide on their own to transfer or lease the land to foreigners. Moreover, whenever these microeconomic units transfer land to agricultural land users, they must take care of the transfer procedures of the land administration organ under the State Land Commission, which is the representative of the state land ownership (the ultimate owner) and pay certain fees (land transfer fees, etc.).

Since we have determined the state ownership of land, the property relations of land are therefore clearly established at the ultimate ownership level. Since we acknowledge the individual landholder's right to cultivate the land, all microeconomic units using agricultural land, as

long as they do not infringe upon the ultimate land-ownership rights of the state, are empowered to use the land and pass it on to their heirs, facts which will have them take much greater care of the land. But it may also give rise to another question—is it not contradictory that a piece of land is owned by the state and at the same time occupied by an individual peasant? This question can be resolved. The ownership of the state refers to the ultimate ownership; this is in conformity with the public character of land. Landholding by an individual refers to the right of an individual to occupy the land, on the premise of not violating or encroaching upon the ultimate ownership rights of the state. There is only one ultimate owner of the land, namely the state. If a piece of land is sold by one individual to another, it still does not change the ultimate ownership. This shows that determination of the ultimate ownership is helpful to determine the nature of the ownership system, and the coexistence of the ultimate ownership of the state with the landholder rights of the individual is beneficial to bring about improved land utilization and to bring about a long-term orientation in the conduct of agricultural producers.

Another related question is: Proclaiming nationalization of all land and, at the same time, occupation of land by individual agricultural producers on top of the nationalization of the land, could this not be considered depriving the collective? Quite correct, prior to the further reform of the agricultural system, this point has to be considered, but it is not an insoluble question. We have to remember who the collective is representing. Isn't it the agricultural producers, and isn't the collective composed of individual peasant households? Since we are implementing not only state ownership of the land, but also landholdings of the individual, both being coexistent, and without the former there being none of the latter, then the latter is precisely what the agricultural producers, who make up the collective, had hoped to materialize. Compared with pure state ownership of land, this plan is much more realistic. The peasants will think, "The collective ownership of land of the past was a sham, while the present individual landholdings are for real." Moreover, although the collective ownership of land has now been substituted with state-ownership of land with individual landholdings, when disposing of constructions originally financed by the collective, either the state or the individuals involved will have to compensate the collective to a certain extent, and this will also greatly dispel feelings of discontent in the collectives.

If the agricultural system is restructured according to the above-stated ideas, the state, as the ultimate owner of the land, will collect an appropriate rent from the individual landholders, and the state as administrator will at the same time collect tax from the agricultural producers. Theoretically, rent and tax are different in character, but when it comes to the actual collecting of both, tax and rent may be combined. Moreover, on the basis of the individual landholding system, individual agricultural producers may, if they desire, organize cooperative economic organizations; this can be easily done. After the individual landholder contributes his land as a share, the

nature of the individual landholding system is not changed, and neither is the nature of the ultimate land ownership of the state. Supposing individuals pool resources and organize a cooperative economic organization, this newly created cooperative economic organization can rent land to individuals and also buy land from individuals to become common property of the cooperative economic organization. Even so, the state still has ultimate ownership of the land, while at the same time the cooperative economic organization is landholder, and will have to pay rent and tax to the state.

In summary, to change the conduct of the agricultural producers to one of long-term orientation, the further reform of the agricultural system (especially the reform of the land system) has become increasingly urgent. There are a few more land system reform plans that could be submitted for selection, for instance, the "privatization of land" idea, the idea of "collective ownership of land, individuals to contract for land with transferable use rights," the idea of "collective ownership of land, land to be leased out to individuals, even for very long periods, and even as perpetual leases," pure "state ownership of land", etc. The above-stated idea of "individual landholding on top of state ownership of land" is just one of many plans to choose from. It cannot be denied that this plan is not altogether perfect; it cannot possibly be flawless, but I believe it is a very feasible plan.

**Henan Tobacco Area Expansion 'Out of Control'**  
*40060353a Beijing JINGJI CANKAO in Chinese*  
15 Feb 89 p 1

[Article by Xie Guoji 6043 0948 6068: "Henan's Tobacco Area Expands Out of Control, Exceeding the 1989 Provincial Plan by 65.7 Percent and Even Being 32 Percent Higher Than in 1985 When Tobacco Was So Hard To Sell; Sowing Tobacco Seeds To Get Rich Is the Root of the Tobacco-Sales Problem"]

[Text] A recent survey in Henan Province by a rural socioeconomic survey team that was conducted on the planting plans of 7,580 peasant households in 59 counties found that Henan's tobacco area will reach 4,970,000 mu in 1989, exceeding the provincial plan by 65.7 percent, surpassing 1988's record by 17.6 percent, and even being 32 percent higher than in 1985 when tobacco was so hard to sell.

Since no attention was paid to improving varieties, and the area sown to tobacco was expanded improperly beyond control in Henan's tobacco production in the last few years, the quality of tobacco constantly fell and the market gradually shrank. In addition, competition raised procurement prices and caused losses of 160 million yuan throughout Henan in 1988 alone. In order to improve the situation, Henan's party committee and government ordered a severe reduction of the tobacco area in 1989, cut back the number of counties that produce tobacco from 91 in 1988 to 59 in 1989, and

demanding that tobacco-producing counties plant according to plan and stop unauthorized expansion. But the provincial rural survey team found that some peasant households in the counties that were ordered to reduce production not only did not comply, but planted even more than in 1988, for a high average growth rate of 81.2 percent. For instance, 150 peasant households surveyed in Qixian County plan to increase their 1989 tobacco area 3-fold over 1988, 150 in Xixian County will increase it 2.5-fold, 120 in Zhongmou County will increase it 1.8-fold, and the minimum increase will be 23.7 percent.

It is understood that the major reason why tobacco cutbacks were not effective is that the progressive increases in procurement prices caused by competition among all areas in the last few years gave peasants the wrong message. Tobacco department statistics show that the percentage of "high-quality tobacco" that was procured by Henan Province in 1988 was 38 percent, when it was actually only 5-10 percent. The average procurement price of tobacco in Henan was 2.88 yuan per kilogram in 1987, but was much higher in 1988. A secondary reason why cutbacks were not effective is that tobacco taxes are high and all areas vigorously urged peasants to expand tobacco production in order to increase public revenue. Some areas even used the tough measure of fining or taxing peasants 100 yuan per mu for cutting back their tobacco area, forcing them to maintain their tobacco area. Some areas actually adopted the policy of stopping or decreasing payment of wages to their staff members and workers to squeeze out funds for procuring tobacco in order to counteract the Henan party committee and government policy of "not allowing the agricultural bank to provide procurement funds for tobacco planted without authorization in unsuitable areas."

The Henan rural survey team thought that the unchecked expansion of the tobacco area not only disrupted the rational cultivation structure, but also caused the quality of tobacco to steadily deteriorate. They recommended that the government and relevant departments take quick measures to guide peasants to plant less, so as to avoid a tragic recurrence of "the inability to procure, store, cure, sell, or get rid of" tobacco.

#### **Hunan Lacks Agricultural Inputs**

40060476 Changsha HUNAN RIBAO in Chinese  
22 Feb, 6 Mar 89

[Articles by staff reporters Mo Xiyan 5459 6007 1484, Wang Liya 3769 0448 0068, and Liu Lin 0491 7792: "A New Challenge Facing Agriculture"]

[22 Feb pp 1-2]

#### **Agricultural Inputs in Perspective**

[Text] *When discussing the current situation of agricultural inputs, it is better to look more at the problems than to describe the good points. Clear understanding is, after all, the precursor of correct action. (From interview sketchbook.)*

#### **The Great Earth of Hunan Issues Warning Signals**

The great earth of Hunan nurtures over 50 million lives and has been making selfless contributions one generation after another. At the same time, it needs nourishment from mankind—a continuous input and supply. But what is the current condition of farmland on which our existence is dependent? After touring and investigating in the southern, central, western, and northern parts of Hunan Province, we found that agricultural inputs have been reduced to such a degree that we cannot help but worry. The great earth of Hunan has been issuing emergency warning signals.

#### **Warning Signal No 1: After Drawing on the Principal for More Than a Decade, Original Water Conservancy Facilities Grow Old and Agricultural Lifelines Harbor Crisis**

During a period of 30-some years after the liberation, with indomitable willpower, people built numerous large and small water reservoirs and dams on the great earth of Hunan. These water conservancy facilities have played a foundation-laying role in the development of Hunan's agriculture. In the 10 years that followed, they were, however, ignored, neglected, and gradually slid to the delicate condition they are in today.

In people's impressions, the Lake Dongting area is a granary overflowing with gold and silver. But the current water conservancy condition does not measure up to this land of treasure. While touring rural areas in Yueyang, we randomly recorded the following few scenes.

At a 4,000-kilowatt-hour irrigation and drainage pumping station, two sets of machines were already rusty, the operating room was wet and damp, the floor was covered with moss, and the machines jarred repeatedly after they were turned on. An operator said, "This pumping station was built in the 1960's. It has become "an old lady" who has all kinds of physical problems but is still working overtime."

An irrigation ditch, nearly 10 kilometers [km] long, was overgrown with weeds, clogged with silt, and laden with cracks. A farmer told us that, during the drought of 1988, each household pitched in 10 yuan or so to buy the electricity needed to pump water. But after a whole day of pumping, villages in the lower reach did not even see the water because it all leaked out.

On top of a dam that was roughly 20 to 30 km long, there were buildings everywhere. And at its base, were bumps and hollows that looked extremely dangerous.

Obsolete and incomplete water conservancy facilities have become a universal problem in the lake area. According to the departments concerned, most of Hunan's electric irrigation and drainage facilities have been in operation for over 20 years. Among them, one-third

urgently need to be replaced and revamped, and nearly 30 percent cannot start at critical moments. Of 3,471 km of dammed areas along Lake Dongting, 1,290 km were unsafe sections.

The condition of hills and mountains also makes us worry. About 70 percent of the equipment in Hunan's 12,000-plus reservoirs has been in use for more than 30 years. Reservoirs with problems and unsafe conditions can be found everywhere. Twenty of Qiyang County's 33 medium-sized and small reservoirs have hidden problems; 20 percent of its 172 small secondary reservoirs are inefficient. The storage capacity of Xinhua County's 186 reservoirs is 20 million cubic meters less than that of the 1970's.

Some people call water conservancy facilities the "patron" of agriculture. But due to its deteriorating condition, this patron can no longer "make its presence or power felt." During the summer drought of 1988, many large and small reservoirs dried up, which not only caused a sharp decline in the production of crops, but also threatened the drinking water supply of humans and animals. As soon as the summer drought was gone, the autumn flood arrived. Emergencies were reported throughout Hunan Province. More than 70 counties and cities were afflicted, more than 12 million mu of crops were flooded, and 2.2 billion kilograms [kg] of grain was lost. The total damage of this disaster was close to 4 billion yuan. The disaster-resistant capacity of farmland is weakening day by day. The percentage of drought and flood areas in the total seeded areas of Hunan Province was 10.5 in the 1970's. It reached 17.3 percent in the first 7 years of the 1980's.

**Warning Signal No 2: Declining Soil Fertility, Decreasing Output, Farmers' Increasing Indifference Toward Land, and "Aging" of Farm Labor**

Farmers of Yueyang City made a figurative comparison: In the 1960's, applying chemical fertilizer was like sprinkling "pepper." In the 1970's, applying chemical fertilizer was like using a "catalyst." By the 1980's, chemical fertilizer became the primary fertilizer. Currently, the amount of chemical fertilizer applied to each mu of paddy field is approaching 60 kg in Hunan Province, and has reached 100 kg in some affluent areas. In 1988, a farmer in Changsha applied close to 200 kg of chemical fertilizer in 1 mu of contract field. But he still complained that it was not enough. Meanwhile, traditional organic fertilizer has been completely forgotten. In the past few years, green manure production has been reduced repeatedly. Its acreage has been reduced to less than 10 million mu. It per mu yield has also declined. Human and animal manure of urban areas used to be a hot commodity, but now nobody is interested in it anymore. As a result, manure pits in many places are constantly overflowing.

The preference of chemical fertilizer over other fertilizers has seriously reduced soil fertility. According to sample tests done by the Changde City soil and fertilizer

department, in 1988 the content of quick-acting nitrogen in soil had declined 11.9 percent and organic substances had declined 8 percent from 1980. In the rural areas of Yueyang County, which is known for rich soil, we saw at the side of a plowed field that what had been shiny black soil had turned white as if all moisture had been squeezed out of it. When we stepped on a block of soil, it felt as hard as a brick.

Declining soil fertility has created two problems for agricultural production: 1) Output has declined. Scientific and technological personnel told us that the increase in paddy productivity resulting from application of 0.5 kg of urea has declined to 1.5 kg from 6 kg in the 1970's. Many places have spent a lot of time and energy in popularizing new technology and variety, but results are not satisfactory. 2) Production cost has risen sharply. An old farmer calculated that chemical fertilizer expense has increased from less than 10 yuan per mu in the 1970's to more than 50 yuan per mu. Chemical fertilizer costs alone account for half of production cost.

Rising cost and declining output of agricultural production have made land less attractive to farmers. In the past, farmers "cherished land like they cherished gold" and "loved land like they loved their life." Now all this sentiment has faded. A survey conducted by the Lingling Prefecture shows that more than 30,000 mu of land, including 12,000 mu of paddy fields and 17,000 mu of dry land, was deserted in 1988. In Linxiang County, over 6,000 mu was deserted just by farmers-turned-merchants. In Tanduzhuang village of this county, a farmer contracted some 3 mu of land. Later, he wanted to return it because he had engaged in business and made some money, but nobody in the village was interested in it. So he planted some trees in the field and left.

Most farmers still cannot leave their land. Quite a few of them, however, would fly away at the very first chance they see, because "although their bodies are in the Cao's camp, their souls are in Han." Most farmers staying on the land are either elderly farmers or "troop 3861" (women and children). A survey of Wanghaiping Village of Xizhushan Township in Hanshou County shows that 65 percent of farmers are over 50 years old, 25 percent are over 35, less than 10 percent are under 30, and more than 90 percent of young people do not know how to use a plow or a rake.

Farmers' feelings for land have changed. They become increasingly careless with farming. Land is deteriorating and soil fertility is becoming exhausted. This is not alarmist talk.

**Warning Signal No 3: Agriculture Needs Technology, but Technology Is Hard To Get and "Gods of Wealth" Switch to Other Lines of Work One After Another**

Farmers of Changde City said that, in the past, new agricultural technologies were delivered to them one after another, and agrotechnicians and township cadres



all went down to the fields to teach them how to breed crops, transplant seedlings, and dry fields. But now, nobody takes care of any farming technology except for popularizing hybrid rice.

Some farmers in Yueyang complained that there used to be many "high-yield stretches" and "high-yield plots" run by cadres who came to rural areas from higher levels, but now that "stretches" are hard to find and even "spots" are rare, farmers do not know where to turn when they want to learn new technology.

A set of figures provided by the departments concerned shows that the number of agricultural professionals in Hunan Province declined from 31,200 in 1978 to 21,300 in 1988, a reduction of 31.5 percent; the number of agrotechnicians at the district and township level declined from 7,434 in 1972 to 4,110 in 1980, and each township had an average of only 1.2 persons; the number of agrotechnicians in collective units at the district and township level declined from 30,000 in 1978 to today's 6,500, a reduction of nearly 80 percent.

Agricultural departments are responsible for the sharp decline in the number of agrotechnicians and the decline in the popularization of agrotechnology, but they also have their own problems. The Linxiang County agricultural bureau had 102 agrotechnicians in 1988. After paying for the expenses of agricultural tests and demonstrations, they found, at the end of the year, that the funds they received from the higher authorities was not enough for the payroll, about 3,000 yuan short. Without money, dozens of "gods of wealth" could only stay home and worry in vain.

Many agrotechnological departments in Hunan Province are "feeding 10 people with five people's food." In other words, they can only operate for 6 months with 1 year's funds. In 1987, the Yiyang Prefecture assigned 103 college students who majored in agriculture to different counties, but because of insufficient funds, only 37 were accepted by agricultural departments. In 1988, higher authorities assigned six graduate students who majored in agriculture to Yueyang City, but the city agricultural department could not accept any of these talents because it had no money or positions. Later, Vice Mayor Tan Zaiyang [6223 6528 7122] personally attended to this matter and, finally, just one person was accepted. A frustrated agricultural bureau chief said: "Agriculture needs competent people, but due to insufficient funds, hiring a college student is like adding another burden." Meanwhile, over 15,000 agrotechnicians in Hunan Province have left technical positions since 1982. The state has assigned a total of 2,200 cadres specializing in agrotechnology to Yiyang Prefecture since the founding of the PRC, but only 1,114 now remain in agrotechnological departments. Many experts sigh that there is no greater hidden danger in agriculture than the shrinking ranks of agrotechnicians and a growing gap between technology and production.

### Incompatible Input Mechanism

With regard to the reduction of agricultural inputs, we should look for the real "cause of disease" in the structure of mechanism and "suit the medicine to the illness" so as to revitalize and rejuvenate the undernourished body of agriculture and gradually develop it to become a strong "man." Then, what are the "causes of disease"?

### Cause No 1: Rural Strength Is Overestimated, Manmade "Industrial Fever" and "Urban Construction Fever" Cause Imbalanced Investment, and the "Foundation" Role of Agriculture Is not Properly Guaranteed.

When we toured northern and southern parts of Hunan Province, we could see similar scenes wherever we went. One truck after another drove by, transporting building materials to capital construction sites. Mixers were on day and night. A luxurious Western-style building, which required over 1 million yuan of investment, could be completed within a year.

There was a house which cost hundreds of thousands of yuan to build in the 1970's. Its owners thought it "could not conform to convention." And "boom," it was gone. In its place, a new dormitory of still higher standards was built.

On both sides of a new street that is several kilometers long and runs north and south through the county seat, there was a forest of tall buildings. In other words, dozens of million renminbi has turned what used to be a wasteland several years ago into a busy city overnight.

What a "city fever" this is! Such an imbalance of investment is caused mainly by the urban tendency of our economic policies. Some leading departments thought that, since rural areas have implemented the household contract system, farmers' enthusiasm has been aroused, and agricultural problems have been solved, the state can lay down a burden. Therefore, when they consider the distribution of economic construction, and balance the relationship between rural and urban areas, they often stress urban areas and give priority to meeting urban demand for financial input. According to the statistics of departments concerned, Hunan's total agricultural input declined from 1978's 182 million yuan, accounting for 13.5 percent of total social investment, to 1986's 92 million yuan, accounting for only 3.3 percent of total social investment. For instance, between 1985 and 1988, urban investment in Linxiang County cost 3.67 million yuan, but its agricultural input was only 2 million yuan. Since the money supply has been tightened, urban areas suffer from a shortage of funds. So some areas ask rural areas for help and make funds flow back to urban areas. In 1988, 7 jiao out of every yuan deposited at Hunan's rural credit cooperatives was taken away by urban areas to be used in industrial and urban construction. As a result, even budgetary financial input in agriculture became impossible.



**Cause No 2: Old Input Mechanism Conflicts With New Management Style, the Role of Collective Organizations Weakens, and a Major Source of Agricultural Input Is Lost**

For many years in the past, agricultural input, especially the construction of medium-sized and small water conservancy projects, was always made possible by village-level collective organizations that organized farmers to contribute money and labor for this cause. People still remember that in those years village cadres summoned wind and rain and set the tune with one beat of a gong—controlled and decided—in the construction of collective water conservancy projects. Since the implementation of the production responsibility system, thousands upon thousands of farmers have become rich. But at the same time, the old input mechanism has also been affected. Agricultural input which used to be taken care of by collectives has become the farmers' individual responsibility, and collectives have lost their ability to control financial input. In many areas, farmers' income has increased and agricultural input conditions have improved substantially compared to the past, but agricultural inputs have declined sharply due to the loss of the organizing function of collectives. According to Xiong Jien [3574 0679 1869], an official of the Changde City agricultural commission, before the 1970's Changde City set aside some 90 million yuan every year of collective funds to be used for farmland capital construction. This money was automatically retained by villages according to a set ratio without any instruction from higher authorities. In the past few years, collective funds have virtually disappeared. Some township enterprises in certain areas have retained some funds, but they are basically used for the wage subsidy of village cadres and local school teachers or other public welfare programs. Very little is used for agricultural inputs.

Labor input in collective farmland capital construction is also declining every day. In Shaoyang and Lingling Prefectures, where water conservancy tasks are heavy, only 12 farmers have worked on water conservancy projects every year in the past few years. Some villages have not built a single pond or reservoir during the 10 years since implementation of a production responsibility system.

**Cause No 3: Prices Are Distorted, the Relative Profit of Grain Production Declines, and the Short-Term Behavior of Contracted Land Management Makes Farmers Reluctant To Invest in Farming**

Based on the calculation of a deputy county mayor in charge of agriculture, in the past few years the price of state-supplied chemical fertilizer has increased more than 50 percent and the pesticide price has doubled, whereas the price of grain that farmers sell to the state according to a procurement contract has increased less than 10 percent. A thresher used to cost 80 yuan, but now it costs over 200 yuan. At one time, 50 kg of rice could be traded for 5 to 6 kg of plastic films. Last year, it could be traded for only 1.5 kg. In 1988, after harvesting

his early season rice, a farmer delivered 400 kg of grain to a grain station according to a procurement contract. He was offered 17.5 yuan for 50 kg, while the price of chaff for pig feed sold at the station was priced at 18 yuan for 50 kg. Even the price of chaff was higher than the price of grain.

Normally, modern agriculture must be backed by a strong agricultural industry. For many years in the past, we developed agriculture by compensating the agricultural industry. But in the past 2 years, part of agricultural industry has "fattened up" by exploiting agriculture. There is a pesticide plant which used to be a policy-related money-losing enterprise subsidized by the state. Since the subsidy was stopped in 1988, this plant has assumed sole responsibility for its own profits and losses and made an annual profit of 8 million yuan by raising prices.

What the state gives farmers is expensive, and what farmers give the state is cheap. For instance, chemical fertilizer is sold at a negotiated price whereas grain is sold at the state price. High production cost brings in low income. It is only natural that farmers, who have just survived starvation and cannot wait to get rich, are unwilling to contribute to agricultural inputs by reducing money in their pockets. People still remember that during the initial period of liberation, when farmers first got their share of land, they were as thrilled as if they had found a priceless treasure. In those days, farmers cherished land as life. When they found pig or cow dung on the road, they would take it to their field even if they had to pick it up with their hands. After collectivization, farmers' feelings for land cooled. Later the responsibility system aroused their enthusiasm. However in some areas, this enthusiasm is again slowly disappearing.

Many farmers do not want to cultivate more land, still less do they want to engage in intensive and meticulous farming. Their only purpose in farming is to get something to eat. The emergence of such a self-sufficient tendency in grain production makes us worry.

Land nurtures farmers. Land also needs nourishment. How do we increase input in land and enhance the vitality of land? People are thinking and roads need to be widened...

[6 Mar pp 1-2]

**Inputs Call for a New Mechanism**

The alarm has been sounded about decreasing agricultural inputs. What, then, is a good solution to the problem of agricultural inputs? A grassroots rural cadre drew an analogy. He said, "The process of establishing a solid agricultural input mechanism is like labor pains suffered by a woman who is '10 months pregnant,' during childbirth. At this time, all comforting words or advice are futile. Only by hastening parturition can we help her reduce labor pains and bring the mother the joy of a new life." To "hasten parturition" is to establish a

pluralistic input mechanism which is guided mainly by the state, composed mainly of farmers, backed by the agricultural industry, and supported by the concerted efforts of all sectors.

### **Establish a Mandatory Control Mechanism and Guarantee by Law the Materialization of Agricultural Inputs**

Agriculture is the mainstay of Hunan Province. But in the past few years, this mainstay has been ignored, an "urban inclination" has appeared, and emphasis has been switched to urban construction. Besides, the amount of agricultural input has fluctuated too much. Input is reduced after a bumper harvest and increased after a lean harvest. In accordance with the guidelines of the central government, Hunan Province decided in 1979 to increase the ratio of agricultural investment to about 18 percent within 3 to 5 years. But because of the lack of an effective and powerful control mechanism, the ratio of such investment has declined seriously instead of increasing. Therefore, it is imperative for the state to establish a mandatory agricultural input control mechanism and reinforce it with law. Some people suggest that government organs at all levels manage agriculture from now on according to law. They suggest that "a law of agricultural inputs" be issued to clearly stipulate the ratio of agricultural inputs, the sources and channels of funds, and the scope of usage. This is a basic trend of thought worth exploring.

In addition to the part of investment stipulated by the state, an important way to guarantee agricultural inputs is to establish a special agricultural development fund. For this, all localities should establish corresponding foundations. Their funds may come from extrabudgetary funds, increased taxes on township enterprises, technological improvement fees collected at the grain management level, land taxes, increased taxes on private enterprises and individual industrial and commercial households in rural areas, and taxes on special farm and forest products. These funds come from agriculture, so they should be used for agriculture.

Currently, the urban resident living subsidy is a major item in the distribution of state revenue. Statistics show that the state gives close to 1 jiao of subsidy for every 0.5 kg of commodity grain. State subsidies for farm and sideline products have exceeded 30 billion yuan a year. Such subsidies are indeed necessary, but in a sense they have simultaneously stimulated the appetite of urban consumers. While agricultural development remains slow, the greater the appetite, the greater the contradiction between the supply and demand of farm products. The state will also have to pay more and more subsidies. This will create a negative effect. The more subsidy they get, the more money urban residents would waste without feeling guilty. Some people figure that about 6,000 kg of meat and fish, which comes from rural areas and is subsidized by the state, is thrown out every day as "high-class sewage" by urban residents of Changde City.

If urban consumers can endure, we should use part of the urban subsidy, which is close to 10 billion yuan, to subsidize agriculture and thereby give the consumers real benefits by developing agriculture, increasing farm products, and stabilizing the nonstaple food market. This not only can give agriculture a shot of "cardiotonic" but also can give urban consumers real long-term benefits. Judging by the current situation, we should consider readjusting the distribution ratios of state revenue from the angle of agricultural input.

Agricultural input is also affected by market environment. It needs a perfect mechanism of market regulation. During the coverage of this report, we heard an idea that "the issue of input is the issue of grain price. When grain price is raised, farmers' enthusiasm for input will also be raised." This view is neither completely wrong nor right. Price is like a Rubik's cube. If you touch one square, the whole cube would look entirely different—namely, the balance between the price disparities of different varieties is bound to be tilted. If we raise grain prices, cotton prices would be lower. "If it is not one thing, it is another." Furthermore, a rise in capital goods prices would follow immediately. So after going around in a large circle, grain prices will still end up at rock bottom. Because of this, a simple price increase is not a fundamental measure to stimulate input. What is important is to create a favorable market environment and to strengthen the state's ability to exercise macroeconomic regulation of the market and to guide farmers' input because today's farmers are willing to increase production input only under risk-free conditions. Before those simple-minded farmers throw bundles of money into the soil, they would first calculate input and output and possible risks. When they see that the market is reliable, they would be reassured and encouraged to increase investment. In 1988, there was an oversupply of vegetables in Changsha City. Vegetable farmers turned to the government for help. To protect vegetable farmers' interests, the city government went so far as to purchase vegetables at a loss and dump them in the Xiangjiang river. (Of course, this practice is not recommended—Editor.) Vegetable farmers did not lose money because vegetables were not in demand. This enhanced their confidence in investment. A survey shows that in 1988 vegetable farmers of Changsha City generally invested more in production than in other years. Both fertilizer and labor inputs showed 25-percent increases over the previous year. This brought in another bumper harvest of vegetables.

### **Awaken the Awareness of Inputs, Use Administrative Intervention as a Supplementary Measure and Bring Into Play Farmers' Major Role as the Main Source of Inputs**

We cannot expect the state to provide all funds needed for agricultural development in a country where 80 percent of the population is engaged in agriculture. The state can play only a guiding role in agricultural inputs. The main source of inputs should be farmers themselves.

An important measure to guarantee agricultural inputs is to help farmers realize that they are the main source of inputs and bring into real play their role as the main force of inputs.

Rural areas now practice a responsibility system based on household management. Under this system, the relation between collectives and farmers is one that separates ownership and management. Under this relationship, farmers are most concerned about direct interests, namely the output, not the input, of land. To organize farmers to invest in land, we need to use policy-related administrative measures as a supplement. Many places have made some explorations in this area. One of them is to establish a soil fertility improvement fund. This is to divide contract land into different grades and classifications. Those who upgrade their land by increasing inputs will be awarded. Those who cause their soil fertility to decline by engaging in extensive cultivation and reducing inputs will be punished. Those who let their land lie waste or cause soil fertility to decline seriously will lose their land. Shengtang Village of Jiangnan Township in Linxiang County established a "soil fertility improvement fund," which collects 5 yuan from each mu of field a year. The village also formed a soil fertility appraisal committee to uphold awards and punishments. In the second half of 1988, Jiangnan Township earnestly popularized this practice. As a result, 800 mu of 2,000 mu of low-yield field were completely transformed within 6 months.

To develop farmers' role as the main source of inputs, we need to rely mostly on nonagricultural production to develop rural areas and to build up agriculture through industry. This requires that we establish an agricultural investment mechanism which uses the industrialization of rural areas to promote agricultural modernization. In the past few years, we have seen some light of dawn in regard to rural industries increasing agricultural input. During the Sixth 5-Year Plan period, 2.3 billion yuan of profits of township industries in China was invested in agriculture. A considerable amount of profits of township industries in Hunan Province was also invested in agriculture. Many cases in which industry helps agriculture have appeared everywhere in Hunan Province. In the past few years, the output value of rural industries in Liling City has increased by an annual rate of 100 million yuan, and 50 million yuan of profits of rural industries has been invested annually in agriculture. In recent years, Pinghe Township of the suburbs of Hengyang City has developed over 70 rural enterprises and has thus established a system to help agriculture with industry. Following a given ratio, these enterprises have invested 300,000 to 400,000 yuan each year in agricultural capital construction, thus effectively improving rural conditions. That such a small township could manage to invest so much money in agriculture every year, without asking the state or begging farmers for help, calls for deep thought.

Another way to increase agricultural input by relying on farmers is to establish an agricultural accumulative labor

system. Labor input is still a major means of farmers' investment at the present stage. Farmers engaging in accumulative labor is a longtime custom in Hunan's rural areas. The current problem is to work out a set of systems and measures, compatible with new economic relations, to guide and organize farmers in engaging in such labor. Under general circumstances, every rural laborer should do 25 to 30 days of community labor on infrastructure construction. This should be written into contracts. Those who fail to serve should pay the "wage of accumulative labor" according to current labor price. This practice not only can alleviate contradictions caused by the shortage of agricultural funds but also can enhance farmers' collective concept and their awareness of unity in combating natural calamities.

This new style of thinking and behavior has formed a charming "minor climate" in agricultural input in many localities. Such a "minor climate," if promoted, would bring about a "major climate" under which the whole society will come to help increase the temperatures of agriculture.

**Departments Should Develop Themselves by Combining Their Economic Interests With Agricultural Development and Engage in Agricultural Input To Expand the Reserve Force of Agricultural Input**

At the National Rural Work Conference, which was held in 1988, some people suggested that "all complaints and grievances about agricultural input be changed to the consciousness of cost and that excessively high expectations be changed to the responsibility of an ordinary man." The "responsibility of an ordinary man" here brings up an intangible aspect of agricultural input. Namely, all departments should also enhance the awareness of agricultural input and voluntarily carry out their proper duties.

Some farmers say that if departments do not exploit agriculture, they would be contributing to agricultural input. This makes a lot of sense. In recent years, some departments have put profits above everything. They have taken more than they have given to agriculture. Farmers have frequently been cheated, rejected, discriminated against, and hurt. Whenever departmental interests conflict with farmers' interests or urban interests conflict with rural interests, the solution always is to protect departmental interests at the expense of farmers' interests. The repeated price increases of some capital goods, in particular, have become a means for departments to exploit agriculture, causing farmers' investment returns to decline. It looks like we need legislation and mandatory regulations to force departments to support agriculture and properly readjust the economic interests of departments and farmers.

Another good way to guide departments into agricultural inputs is to combine the interests of departments and farmers by establishing a horizontal economic link

between them. This is to allow nonagricultural departments to raise funds and cooperate with farmers in rural areas to build bases for raw materials, export goods, and nonstaple foodstuffs, thus establishing stable production, supply, and marketing relations. Under this method, both sides would be willing to commit to agricultural input. Through this method, Yueyang City in 1988 invested 3.14 million yuan in agricultural development and financed the building of 71,000 mu of fishponds, with outstanding results. In 1988, more than

70 departments of Qiyang County turned to agricultural involvement and development. New ways of agricultural input are taking shape.

Of course, there should be a process for the formation of a new mechanism, and agricultural input cannot enter a fairy tale world without the least effort. We believe that as long as the whole society is concerned about agriculture, the day the new mechanism of agricultural input is formed will be the day agriculture regains its prestige.

### Negative Social Consequences of 1988 Inflation

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[Article by Chun Liang 3196 0081: "Oh God, Price and You!"]

[Text] Back on 1 June 1945, at the closing ceremony of the 7th CPC Congress, Mao Zedong said: "We must persist and continue to work. Even God would be moved. This God is nobody but the broad masses of people throughout China."

It was this God that was deeply shocked by the whirlwind of price increases in 1988.

The State Price Bureau announced in October that the national price indexes for the first three quarters of 1988 increased 16 percent, indicating that the real income of many staff and workers declined.

Other figures show that the real income of much-envied Guangzhou residents declined 3.49 percent and their real living expenses increased 9.94 percent.

The whirlwind of price rises and the devil of inflation caused God to suffer more losses throughout the country.

God paid 90 billion yuan more in the retail sales of social commodities.

God quietly lost 24 billion yuan as a result of negative interest in savings deposits in banks.

God was robbed of 21 billion yuan from his pocket (by means of actual depreciation).

The above three items amounted to 130 billion yuan.

Plus workers' losses resulting from the decontrol of prices of nonstaple foodstuffs.

Plus peasants' losses resulting from the increase in prices of capital goods...

Oh God, God!

God cursed too, but...

If there were an opinion poll, we would find that God still supports reform. If we could communicate with God, he would demand the arrest of the suspect who caused price increases and would demand to find the root cause of the illness.

Chinese God is gentle and kind and often plays the role of a victim. He seems to lack proper magic.

Let us take a look at God's "diary" for 1988.

### Market Is Not Yet Omnipotent in Guangdong

One day in April 1988, a plane flying from Xian to Guangzhou landed at Baiyun Airport. Mayor Yang Ziyuan [2799 6327 0337] descended from the airplane. As soon as he claimed his luggage, he hurried to meet with the director of the price bureau. Waiting for them was the task of raising grain prices!

It was only at the beginning of this year when major newspapers in Beijing and Shanghai reported "Guangzhou residents do not talk about price rises," "their ability to withstand price increases is strong," and so forth. But the people involved understand very well that, after 3 consecutive years of substantial price increases, "a red light" has lit up on Guangzhou residents' mental ability to withstand price increases.

In accordance with orders of the central government, efforts have been made to step up preparations for carrying out various programs as planned. Grain price is the thorniest problem for those in charge of commodity prices. Grain price is linked to everything. "If it rises, everything else would rise too."

But in recent years, the negotiated price of grain has increased continually, the price of imported rice has skyrocketed, and every day several hundred thousand jin of rice are being shipped out of Guangzhou; whereas the grain acreage of Guangdong Province has continually been reduced due to unreasonable prices. In 1988 early rice crops were reduced by a shocking 460,000 mu. In view of this situation, Guangdong Province decided to raise grain prices on 1 May.

As the day drew closer, the director of the grain bureau was on tenterhooks. He was afraid that numerous grain coupons saved by residents and large numbers of grain rations recorded in the grain distribution books would be turned into actual grain purchases. If the information leaked out and caused panic buying, the consequence would be disastrous.

A grain store was located right across the street from the office of the director of the grain bureau. People found him peeping through his window repeatedly to check on the situation in the grain store.

On 30 April, the first queue of grain buyers appeared in front of a grain store in Dongshan District of Guangzhou, a community where most cadres lived and most information was circulated.

On 1 May, the Guangdong television station sent a dozen reporters to investigate the panic buying of grain and to write reports for internal reference.

Rumors spread quietly.

People carrying bottles and cans formed winding queues in front of grain stores. Rumors created the queues. The queues helped spread the rumors.

Within 2-and-a-half days, the stores sold 4.8 million jin of peanut oil, equivalent to the amount usually sold in 6 weeks.

Knowing what was going to happen, the price control department tried their best to stabilize the situation. It postponed the introduction of some programs and replenished stocks of goods for emergency use. But it was too late, for Guangzhou had lost most of its advantage of being the first to carry out the price reform. Guangdong was criticized for raising grain prices. The result of the price increase in grain was then swallowed up by the price rise in capital goods for agricultural use.

Beginning on 20 June, a whirlwind caused by panic buying of daily necessities swept across the entire city of Guangzhou. Wherever it went, household electrical appliances, furniture, bedding, and bicycles simply vanished. After finishing off expensive, high-quality, and popular-brand commodities, it turned to ordinary, low-quality, off-brand, unpopular, and even defective and substandard goods.

The whirlwind was scary, but its source was only hearsay: Beginning 1 July, wages will be readjusted substantially and prices will go straight up.

The authorities published several newspaper announcements to clarify the facts and ask residents not to be easily swayed by rumors. Unfortunately, they were totally ineffectual just as the director of the price bureau said: "I have been on television 19 times (to talk about prices). My popularity is quite high, but my credibility is quite low."

The powerful waves did not stop until 1 July. When people found that there was no price increase, no raise, the torrents slowed and became placid waters.

The fact is that price reform cannot easily achieve success in just one area first, because Guangdong does not have a border drawn with wire mesh, special currency, and a "tariff barrier." If Guangdong Province first had inflation, neighboring provinces could only use "certificates" and "outposts" to stop (actually to only restrict to a certain extent) the invasion of local cash purchasing power.

Outposts could create obstacles and risks in circulation. Risks would jack up profits. Profits would stimulate people within the blockhouse to escape. Measures to counter such a tendency would further strengthen "separate economic regimes."

Such separate regimes would prevent the much-desired market mechanism from maturing, render the natural regulation between supply and demand as empty talk, and suddenly turn every division of labor in previous regional economic cooperation into a fatal weakness.

Therefore, the feasibility of carrying out the price reform first in some areas is largely questionable. Please see the following example:

On 9 September, the Guangzhou Integrated Meat Complex sent its own vehicle to pick up a truck of live hogs from Liuyang County in Hunan Province. It paid 479.5 yuan in local taxes, quarantine, and disinfection fees and got an official receipt. But as the truck arrived in Youxian County, it had to pay a total of 246 yuan in taxes and fees on two different occasions. When it arrived in Chaling County, more money needed to be paid....After the truck returned to Guangzhou, it paid a total of 1,176.5 yuan in various kinds of taxes and fees, averaging 16.2 yuan per hog. Because of delays at different outposts, five hogs died, incurring a loss of 6,585 yuan.

Guangdong belongs to China. Guangdong's market is not an independent and complete market. We must proceed from this point of view to look at Guangdong's price issue.

#### Old Pot Cooks Half-Cooked Rice in Beijing

If we are disappointed in the price regulation and control ability of Guangdong where market mechanism is relatively strong, then how about areas where traditional planning mechanism is stronger? Some people in different localities complain that they would "rather have low wages like they used to, than have today's wage and price increases."

Will restoring the old system do the trick? There is nothing else to do except giving subsidies and issuing certificates. As a matter of fact, many places have already done so.

The quality of vegetables sold at state-run vegetable stores in Beijing is poor, but their price is sometimes higher than at individually run stores. The business of state-run stores is getting worse and worse, and their subsidies are getting higher and higher. In 1987, Beijing Municipality spent 118 million yuan on vegetable subsidies. In 1988, Beijing issued secret subsidies in addition to regular subsidies. The secret subsidies alone amounted to 170 million yuan.

After all, poor consumers have to pay for all this. What a waste! Their money is spent in three places. The first is to municipal and district vegetable management companies that argue back and forth with each other. These vegetable management companies have more than 800 employees and their annual expenses are more than 6 million yuan. The second is to vegetable stores, which are contracted to employees. If a store loses money, its

loss will be reported to higher levels and reimbursed or written off. If it makes money, it gets to keep it. "They take 100 or 200 yuan as bonuses and report ten or twenty thousand yuan as losses." The third is to vegetable farmers who receive subsidies but do not use them to grow vegetables. Instead, they use them to finance township enterprises.

In Beijing, God has to run to farm and trade markets or to vegetable stands run by individual farmers in order to buy vegetables.

In the early hours of 7 August 1988, more than 8 tons of vegetables in five categories were refused by Minshou Road Market in Dalian of Liaoning. Flying into a rage, vegetable farmers threatened to "quit growing vegetables." They also drove their vegetable trucks directly to the municipal government building to file complaints.

When there is an oversupply of vegetables, markets will refuse to buy, and vegetable farmers will suffer losses and therefore reduce production, which will then create shortages of vegetables for consumers. Similar events can no longer be seen in Guangdong, but they can still be seen in inland areas. Dalian spent 7.2 million yuan on vegetable subsidies in 1987. However, since the government used administrative means alone to manage the market, there is still much to be desired in the vegetable basket.

In September 1988, in Xinjiang, 3,500 tons of tomatoes worth more than 500,000 yuan, were dumped into the Gobi desert and ditches of Manasi County, with bright red juice squeezed out like blood from farmers' hearts. This was what happened after tomato companies refused to buy tomatoes.

Meanwhile, 130 km away in Urumqi, citizens were sighing and shaking their heads at the high price and the short supply of tomatoes.

We can cite many other and more tragic instances.

In fact, between January and September in the Year of the Dragon, the average index of price increases in China's 32 large and medium-sized cities was 18 percent; whereas that of Guangzhou was 26 percent, only 8 percentage points higher.

Despite various subsidies issued by the state, which accounted for a third of state financial income every year, prices have continued to increase. Both old and new methods have been used, but because of an underdeveloped market and an incomplete planning mechanism, many strange things have happened. One minute, we heard that there was a bumper harvest, that pig pans were full, and that newspapers were clamoring about a "storage crisis" and "problems in selling pigs." The next minute, while these words were still ringing in our ears, we heard people shouting about a "shortage crisis" and "problems in buying pigs."

Can we solve this crisis by simply relying on stimulating or suppressing demand? We really should not ask consumers to eat more and spend more money to "share the worry of the state" at one moment, and ask them to buy less meat and spend less money to "share the problem of the state" at another. Or should we?

Obviously, the old system has something to do with price increases.

#### God's Income Is Near Zero

In the countryside of Yiyang Prefecture in Hunan Province, fields were filled with ripe crops and harvest was near. People there should be very happy, but they could not laugh after they balanced their books. In 1988, from every mu of grain field, a peasant in Nanxian County had to sell to the state 175 kilograms of grain for the price of about 47 yuan, which was then basically retained by collectives. Taxes accounting for 38.5 percent of net income are too high!

In the price war, peasants play a double role. Since the most important cause of price rises is the price increase of farm and sideline products, peasants are God. Since almost 80 percent of Chinese people live in rural areas, peasants are God. Their movements, mood, attitudes all affect the ups and downs of national prices.

In 1988, the profit of grain farmers was near zero.

In Taishan District of Taian City in Shandong, peasants' net income from each mu of wheat was only 0.27 yuan—less than the price of 1 jin of salt—after deducting agricultural taxes and expenses for irrigation, machine sowing and plowing, chemical fertilizer, pesticide, seeds, human and animal labor, and threshing.

Low prices hurt peasants. This is always true. But what hurts peasants the most is the price increase of capital goods for farm use and of industrial products. Please take a look at the expansion of such "scissor differential" in recent years:

In 1980, 250 kg of paddy rice in Hunan Province could still be exchanged for 26 kg of steel products, 225 kg of cement, or 40 kg of diesel oil. In 1988, 259 kg of paddy rice could be exchanged for only 16.3 kg of steel products, 133 kg of cement, or 20.4 kg of diesel oil.

As a result, more and more people have given up farming for commerce, found work in urban areas, and joined the ranks of pure consumers of agricultural products.

More and more people have switched to developing the township processing industry. Peasants' accumulation ability is limited to begin with. China's agricultural investment is also extremely limited. Today, limited rural investment is being switched, however, to the processing industry. Calculated at the 1986 level, township enterprises need to use 14,000 yuan for every

employee they hire. By the end of this century, at least 250 million rural residents will switch to nonagricultural work, requiring nearly 4,000 billion yuan of investment. The crisis will escalate rapidly.

People often say that "800 million peasants work to grow food" is a sign of backwardness, thinking that migration to urban areas is progress. Little do they know that reduction in the rural population in developed countries is preconditioned by a higher level of mechanization and of the modernization of management, which is preconditioned by a large amount of agricultural investment. Since the 1980's, the absolute and relative quantities of agricultural investment have both declined. The proportion of agricultural investment in total economic investment declined from 10 percent during the "Fourth and Fifth 5-Year Plan" period, to 4.6 percent in 1986. Large amounts of agricultural credit funds have also been absorbed by the processing industry.

Some peasants work for export-oriented, highly efficient processing industries; others work for high-cost, low-efficiency processing industries. What they have in common is that they both control greater purchasing power and that they can run back to the market of farm and sideline products to spend their money.

Some township enterprises hold parties all night long and give banquets that last 24 hours. In some coastal towns, which used to be traditional seafood producers, the prices of seafood are now 20 or 30 percent higher than in large cities. The reason is very simple: They are rich now. They can have the wealth themselves.

Grain acreage is declining. This is why Guangdong wanted to raise the price of grain as I mentioned before.

In 1988, the procurement price of grain increased 30.5 percent as compared to that of 1987, but the price increase of capital goods far exceeded the price increase of grain. Peasants say they suffer more losses when the grain price is raised and then returned to its original level (price spiral).

If you do not believe this, please take a look at Minzhong Town of Zhongshan City, Guangdong Province. Due to the price increase, peasants' income from 1 mu or 800 kg of grain increased 49.64 yuan after deducting seeds, public grain, fodder, and grain ration, but the cost of means of agricultural production increased 82.69 yuan per mu, 66.6 percent higher than the increase of income.

Poor God!

Peasants' profits were offset, but the increase in grain price caused price rises for the meat of poultry and livestock that feed on grain, nonstaple foodstuff that uses grain for raw materials, and industrial products that require grain in production. These price rises then caused price rises in the tertiary industries.

Finally, the whirlwind which originated in the fields of the countryside has blown into China Hotel, Swan Lake Guest House, Garden Tavern....As a result, the prices of rooms and food have both gone up. In 1988, prices at the spring fair were higher than in 1987 and prices at the fall fair were higher than at the spring fair.

The purchase price of edible bird nests has increased from 5,000 yuan per jin to 6,830 yuan per jin, and lobsters have increased from 70 yuan to 100 yuan per jin. "Blue ocean abalone" is a famous dish of Guangzhou Guest House. Each plate needs about 2 liang of abalone. Its sales price has increased from 80 yuan at the last trade fair to 135 yuan. Guangzhou Tavern, whose net profit is strictly controlled, has been forced to raise the price of its lobster dish from 100 yuan to 150 yuan per jin. This has enabled "foreigners" to have a taste of the whirlwind of price rises in China. Some just shrug their shoulders, turn up their hands, and say "oh, my God!"

While foreign diners exclaimed, foreign experts calmly analyzed the situation. Based on the cause of the situation, they came to the same conclusion reached by their Chinese counterparts: price rises can be attributed to a structural factor.

### God Is Sick

Some people say that in the past 10 years, the tendency of egalitarianism has become worse.

Some people say that in the past 10 years, the gap between the rich and the poor has widened.

Who is right and who is wrong? Perhaps they are both right.

First, equal does not mean fair. Second, egalitarianism and a wide gap between the rich and the poor can appear simultaneously.

The income of a salaried man can be divided into several parts: wages, which are distributed according to a wage scale; different kinds of welfare and subsidies, which are distributed equally; and bonuses and allowances. Income from bonuses and allowances is supposed to reflect the size of contribution and the principle of "to each according to his work." But more often than not it reflects the mentality and reality of egalitarianism.

In the past few years, the proportion of egalitarian income—such as labor insurance, price subsidies, and housing investment—in total income has increased to 35 percent from 20 percent in 1978.

During the 1980-85 period, wages increased 39.01 percent, but bonus and allowance increased 97.66 percent. The little difference between grades, demonstrated in the standard wage scale, was quickly drowned by the tide of bonus and allowance.



If a publishing house issues 150 yuan in monthly bonuses per person (grade difference is only 10 to 20 yuan), 80 yuan in different allowances, and 50 yuan worth of apples, beverages, instant noodles, and other things, the difference between the wages of a janitor, assistant editor, and copy editor will become insignificant.

Where are those people who make really "outstandingly" high incomes?

Zhangjiakou City investigated 458 people whose annual income was above 10,000 yuan, in four districts. It shows that 71 percent are peasants; none of them is a teacher; 22 percent are illiterates or have only a grade school education; and 3 percent have a college or higher level of education.

The composition of high-income people shows several characteristics:

There are more high-income people in rural areas than in urban areas—2.4:1; more in the field of circulation than in the field of production—1.14:1; more in commerce than in other trades—2.04:1; more manual workers than mental workers—10.7:1; and more in individual and private enterprises than in collective and state enterprises—21.9:1.

These people, "who have become rich first," could be vanguards in expanding reproduction or vanguards in leading the tide of consumption.

In Hong Kong and overseas Chinese communities, these people usually become the former. In mainland China, most of them become the latter. They are like armored troops in a modern war—always in the vanguard of the tide of consumption. These tanks make the economic bridge moan and groan under their feet.

In November 1988, Guangzhou conducted a survey in which people were grouped according to their income level. The survey discovered that the higher the income of a group, the less optimistic the group felt about the prospect of curbing inflation.

Because they are tense, they tend to act rashly. They may throw away 1,000 yuan more rashly than average folks throw away 50 yuan. Therefore, they may at any moment touch off the "follow the crowd" mentality of lower income people and stir up new waves of panic buying.

The most powerful part of 100 million yuan of purchasing power is in their hands.

#### Satisfy the Desire of God?

The whole country is a giant construction site. Wherever you go and in whichever direction you turn, you see scaffold after scaffold and hear the roar of pile drivers and mixers. As of August 1988, as many as 47,344 capital construction projects were in progress throughout

China. On the average, 60 projects were started each day. The total investment of these projects is more than 700 billion yuan. We ought to know that for each 100 yuan of capital construction investment, 40 yuan of direct or indirect consumption funds are required. Because of this, another 280 billion yuan will be required.

On the stage of capital construction, a farce has been played year after year. Amid the noise of pile drivers, people seem to have taken stimulants. Some rush to start capital construction projects without knowing if they have enough funds. Some rush to take the contracts without knowing if the other side has enough money.

By the end of June 1988, a total of 15,977 construction units failed to collect defaulted payments amounting to 5.242 billion yuan.

Do heads of such capital construction units really not know how to make a budget? Why do they dare to do so?

In order to understand the issue of "courage," we must take a look at another factor of prices—group purchasing power.

In 1987, the volume of group consumption in China accounted for 10 percent of the total volume of social retail sales. In other words, 1 of every 10 yuan spent by the Chinese comes from group purchasing power. So people have determined to control it. But, can they?

In today's China, God is an individual formed by the broad masses of Chinese people, who in name own the property of China. As a body of interest, God does not participate in the distribution of social resources, production, and consumption of state property in the way they would with their own wealth under a limited ownership system (such as private ownership). There are two different psychological responses to this equal status:

1. It is not yours or mine; it is ours—infinately small ownership.
2. It is yours and mine; it is ours—infinately great ownership.

When it comes to management and responsibility, people tend to react like the first case. Masters of the nation shirk responsibility and shift blame onto each other, causing the public servants in charge to take increasingly heavy responsibilities and make increasingly great contributions. Finally this has resulted in their unequal status.

When it comes to distribution and consumption, it is consumption that gives people effects, such as "it's a waste if you don't spend it, but it's a waste if you don't share it." "We eat our ancestors' food and spend our children's money." This mentality has caused disputes. Disputes have caused increasingly more authority of distribution to be concentrated in the hands of public

servants. The criteria used by public servants are concepts that can be interpreted anyway they want (such as equal status and the size of responsibility and contribution). Even better public servants (we are not talking about those corrupt officials) can be caught between two Gods and do not know what to do.

The concept of infinitely great ownership has generated invisible pressures of public opinions. Under such pressure, those public servants who are kind but not bold (the majority of public servants), tend to overdistribute and allow the distribution to go beyond the limit of the ownership and individual contribution made by the body of interest in real life. After their distribution power breaks through material restraints, they will be quick to turn on money printers if they run out of materials to distribute.

Everybody wants to be a good official and to please God. Everybody fears the pressure of egalitarianism. Everybody wants to leave a good name in history. This is how most "officials" feel.

Heads of some departments and units dare to go against the wind to start capital constructions projects, indiscriminately issue bonuses, and engage in illegal sales and many other kinds of short-term behaviors. They do not even fear criticism from higher levels. This, to a large extent, is to satisfy the desire of God.

Such desire is manifested by the indifference toward the appreciation of collective property and by enthusiasm for distribution and consumption. The former rejects long-term behavior, and the latter welcomes short-term behavior.

This "indifference and enthusiasm" often molds public opinions. Caught in the middle of this contradiction are public servants, who are more than happy to push the boat along with the current and go along with public opinion because they are only holding power for God.

"I did it in the interests of the masses," claimed a cadre who had violated discipline.

Please look at those "honest and upright officials," who sold equipment to issue bonuses to satisfy the masses but did not take any money for themselves; those "fine officials," who "would rather violate rules of heaven than offend the public;" those enterprise leaders, who clearly knew what they did was short-term behavior, which would harm the coming generation, but still went along just so they have a good reputation for the present; and so on.

What kind of public servants do we really want them to be?

There are certain words which we Chinese understand very clearly but cannot easily spell them out. When foreigners see them, they can point them out directly.

Criticism made by Kobayashi, a noted Japanese economic expert and standing committee member of the board of directors of the Industrial Bank of Japan, has attracted the attention of high-ranking Chinese officials. He said: "I think that inflation was caused by paying too much attention to personal income while the level of productive force remains the same..." He also said that "in the past 9 years of reform, the Chinese government has adopted a policy of preferential treatment that is too "liberal" for enterprises and the people.

His point was directed straight at Chinese entrepreneurs. "Under this condition, enterprises increase economic returns not by updating equipment, increasing investment, improving management and organization, and increasing efficiency, but by complaining to the government and acquiring various kinds of new preferential treatment and subsidies." "When they lose money, all they have to do to get relief is complain to the government. How Japanese enterprises envy them! But as the world economy merges into an organic whole and competition gets worse, such enterprises will not have a bright future."

It is not that Chinese public servants do not understand this. It is just that nobody dares to point out this weakness. Who is not afraid of being accused of "being divorced from the masses" and "lacking feelings for the people"?

As a matter of fact, what he said is very true. In addition to the material demands for nonstaple foodstuffs, raw materials, and fuel, Chinese economists perceived an unusual demand—an excessive demand for government.

Assuming that an excessive demand for grain and fuel is the final cause of higher prices, the excessive demand for government makes it easier to see the relations between different factors of price rise.

The 10-year reform has not fundamentally affected the original administrative relationship between the government and various economic links. On the one hand, people challenge the legitimacy and authority of the government in managing and controlling the economy by asking the government not to interfere in economic activities; on the other hand, they hope that the government will solve all problems in real life.

When prices rise, they want the government to regulate and control prices and to give out subsidies. When economic returns decline, they want the government to give tax reductions and exemptions. Little do they know that subsidies come from the state treasury, which is backed by tax revenue.

We want to cut government spending and group purchasing power. But at the same time, we want the government to take care of everything from astronomy and geography to childbirth, old age, illness, and funeral

arrangements. What we don't know is that to take care of so many things, the government needs more organs and money. Then, it won't be easy to cut its spending.

The price issue seems to have come full circle and returned to its starting point. At first, the price decontrol used the "blood" of market economy to save and strengthen the "body" of microeconomy. Later, people came to realize that economic intervention by the government was not only a rope restricting development, but also a main artery and central nerve of the old body. Cutting off somebody else's rope is easy, but cutting off your own artery and nerve is far beyond the question of courage, boldness, feelings, and morals.

Consequently, some economists have again thought about the reform of government structure. Since the power of public servants comes from the people, establishing and forming the supply of an effective government and suppressing the excessive demand for government also rely on the understanding and support of the people.

These days, it is easy to be an "honest official" or a "fine official," but it is extremely difficult to be a public servant like Wei Zheng who can regulate and control things according to the objective law and who is not afraid to encroach upon some temporary interests of God.

While thumbing through different economic books published during the past 10 years and reading some of the successful experiences of foreign countries in curbing inflation and price rises, I could not help but recall a person from Guangdong Province, who collapsed under the wall of Beijing City 360 years ago. When Chongzhen Emperor of Ming Dynasty was in power, Yuan Chonghuan of Guangdong Province received orders to take command of troops. Using a special set of strategies designed by himself, he repeatedly defeated Qing's troops, but he was not understood by the public. When the enemies sowed distrust and dissension among them, everybody in the nation turned against him, accusing him of being a spy. The government had to push him to the execution ground.

Without Yuan Chonghuan's courage and resolution, no one can carry out a countermeasure from beginning to end, no matter how good the measure is. They will have no choice but go back to printing money—1 billion, 10 billion—to please God.

### God Is Looking for God

On a November day in Beijing, when a sandstorm was beginning to form, a British reporter stood motionless on a dusty wasteland in the outskirts of Beijing, savoring the sight of yet another great retreat from this ancient land.

He saw "those shacks made of wood and canvas that cannot withstand wind or rain," where contract peasant workers lived. They were some of the millions of peasants who came to seek jobs in urban areas. Their "weather-worn faces" which bore the secret codes of a thousand years of history left a deep impression on the British reporter.

When the little donkeys of northern peasants gradually disappeared into the distance, the sales volume of some stores in Guangzhou declined for the first time in the past year, the savings deposits of banks went back up, and the exchange rate of Hong Kong and U.S. dollars against renminbi dropped on the black market. In October, the prices of 137 of 479 major daily necessities dropped. Money supply has been tightened and improvement and rectification measures are being carried out.

Aggregate demand is being suppressed. It is estimated that 4 months later, namely, when this article is published in February 1989, prices will be stable.

The crisis is over temporarily, but the road before us is by no means smooth. Other problems mentioned or not mentioned in this article still have not been solved.

What public servants and economists gained is only time to seek and work out major plans and to organize forces. But this time cannot be long because God is already impatient.

This God has 229 million illiterate people, and some of them are the richest and the most ignorant people. Of course, the masses are innocent. Stores were shut down because of panic buying, and banks went bankrupt because of panic withdrawals. But these are just innocent responses to their self-defense instinct.

Nevertheless, public servants should find God—another God who represents science, objective law, and the crystallization of the theory and practice of human economic activities. We must let the two Gods get together and merge into one. Only after they become one can God have the real magic power to revitalize China's economy.

This God told us that we are facing a structural and system-related price rise. It cannot be solved simply by tightening demand; nor can we expect prices to drop rapidly immediately after tightening. The price level will only rise but not decline, and shortages will continue to exist. This will be a constant and long-term condition.

He also told us that the current regulatory and control methods of the government are limited. For instance, when a capitalist country tightens aggregate demand, some inferior enterprises will be eliminated and better ones will survive. Therefore, the industrial structure will be readjusted. But in a socialist country, public servants cannot easily lay off redundant personnel or let enterprises go bankrupt. The bankruptcy of the Shenyang

Explosion-Proof Equipment Plant created a furor. As it turned out, the state still had to arrange jobs for everybody from the plant manager to workers.

This is a double danger. If we cannot withdraw funds from enterprises with poor economic returns after tightening, the burden of tightening would fall on enterprises with better economic returns because these enterprises have more funds and bank deposits, but the economic returns of the latter would be substantially reduced.

When public servants raised interest rates and guaranteed values for savings deposits, they expected you to take the money that you were planning to spend back to the bank to reduce pressures on the commodity market. They were exploring a road leading to high income but not necessarily high consumption.

When public servants introduced their housing reform, they hoped to encourage you to buy houses to change the irrational consumption structure and to consider houses as your biggest piece of private property whose value is guaranteed and will increase. They hoped that by doing so they could withdraw billions of yuan from latent purchasing power and use it in productive investment.

When public servants discussed and planned to "transfer part of state property into original accumulation funds," they planned to sell off, by stages, state-owned small enterprises to township enterprises, collective enterprises, specialized companies, individuals, or to Hong Kong, and foreign investors. They expected to sell them in 5 years and get 30 billion yuan in cash every year. When they talked about optimizing organization, they were trying to face an important cause of inflation—40 million redundant personnel. God, do you support this?

When public servants considered selling a part of the ownership of state enterprises, they were trying to turn your abstract infinite ownership into concrete finite equity. It would not only enable the state to withdraw its money but also make you, who are really concerned about the development of enterprise property appreciation, the real master of enterprises.

In sum, God, price is tied so tightly to your spending habits, mental status, work performance, and desire for property rights that the authorities would not be able to figure out how to cut open the knot without hurting you even if they had Alexander the Great's sword.

In an old story of the West, there was a knot called "the Gordian knot." It was a knot tied fast in a very intricate manner. The legend has it that whoever untied the knot would rule Asia Minor. Thousands of people tried but failed. After pondering for a long time, Alexander the Great of Macedonia pulled out his sword and cut the knot.

### Scholar Advocates Intelligentsia's 'Right To Criticize'

40050283 Hong Kong CHING PAO [THE MIRROR]  
in Chinese No 139, Feb 89 pp 46-47

[Article by Yuan Zhiming 6678 1807 2494: "Intellectuals Should Have Right To Criticize"]

[Text] [By the author: On the occasion of the 70th anniversary of the May 4th Movement (1919), the call for democracy and science was once again sounded in China, but in my opinion the most urgent item in democracy and science is the demand voiced by the intellectuals for the right to criticize.]

#### 1. Without democratic participation by the intelligentsia, there cannot be scientifically correct policy decisions by the leadership.

The various difficulties presently encountered by the reform have brought about a unity of thought among the intellectuals: that effective resolution of China's economic and political problems must begin with working on the system.

At last, quite a number of scholars have begun to study plans for transformation of the system, which includes studying such issues as the plurality of rights, socialized or private possession of property, etc. These plans differ from the earlier plans for economic structural reform. They are not merely technical methods of economic improvement, but rather plans for radical social reform. This shows the gratifying progress that China's intellectuals have made under the impact of cruel lessons.

However, people have given insufficient consideration to subsequent complications, namely problems not only of an operational nature, of how to accomplish the radical reform of the system, but also problems concerning certain necessary preconditions. First question: What kind of reform plan will China's leadership choose? Second question: Will it be possible to publish the various plans for general criticism and selection? The immediate question, therefore, seems to be: To ensure that China will choose a reform plan that is nothing less than the best, that is substantial and not merely a sham, and, furthermore, that can enable a comparison of the various reform plans, that can tolerate debates and perfection of the system, and that can create the necessary preconditions for scientific options, all intellectuals must be given the right to publish independent and different opinions, as well as the right to criticize. This is the first step in political democracy, as it is also the first step to realize scientifically founded decisions. Without these first steps, all following steps in China's reform and modernization will lack the assurance of reason and wisdom.

In the 10 years of reform, it cannot be said that the intellectuals have had no influence at all on policy decisions. But, first, their influence was not on a broad

scale, only a few people from a few disciplines were allowed to participate, a way that reminds one of the "behind the curtain" advice given to emperors in ancient China. And, second, it was not a truthful and factual influence; it was only a compliant participation, in which the limit was the extent to which one could guess what was still politically acceptable to the leadership. There was no critical participation, and there was no presentation of ideas based on the logic of objective reality itself. It is quite out of the question to speak here of democratization or of ensuring a scientific character of policy decisions on matters of reform.

Today, the time has arrived to awaken, with deep feelings of remorse, with regard to the relationship between intellectuals and the decisionmaking organs, between intellectuals and the decisionmaking process, and between intellectuals and China's modernization.

Today, as we face an impasse in the reform, groups of excellent middle-aged and young intellectuals are earnestly and intensely debating ways to get out of the dilemma, the possible prospects, and methods of improvement. It is only regrettable that with all their frankness and utter innocence, they are not admitted to "higher circles," and that it is even more difficult for them to have their voices heard by members of the highest decisionmaking organs. It is truly as expressed in the saying: "Unheeded are the sincere pleas by common people but only the noise of beating around the bush"!

This situation is enough to fill one with grief and bitterness!

**2. Authority must rely on knowledge and not on power, success must rely on reason and not on preconceived ideas.**

Nobody, I believe, denies that the intellectuals of a society are the most knowledgeable stratum of that society—which sounds almost like a synonymous repetition.

There is also no one, I believe, who denies that knowledge helps human society to make correct choices, just as it is absolutely true that ignorance has brought mankind much suffering and led to many mistakes.

There is even less likelihood, I believe, that anyone will deny that during the last 10 years the CPC has repeatedly proclaimed that it will respect knowledge. That is a much more forthright attitude than during the previous 30 years, and much more so than during the 10 years of the Cultural Revolution.

But even though we have made huge progress since the "anti-rightist movement" and the Cultural Revolution, the low position of the intellectuals is still a serious problem.

I am not speaking here of a low economic position, although this too is a serious problem, but I am speaking here of the fact that the right of intellectuals to speak on political issues is still not given serious attention, and even the right to speak on academic subjects—that is like the right for a man to walk with both feet—is also subjected to many restrictions.

If the intellectuals become overcautious and withdraw in fear and trepidation, the party that is suffering most is not the intellectuals, although their suffering must not be ignored, but the one who suffers most is China itself and its reform and modernization projects. Because, by rejecting broad and free participation of the intellectuals, the policy decisions on China's reform are left without full reassurance in reason, and without guidance by theory. Although much disagreeable talk and annoying concerns are thereby eliminated, what is left are merely subjective ideas and ideologies, full of prejudice and bias that have not been validated through debate, making it less likely to bring about any breakthrough. The reform cannot succeed by rigidly adhering to outdated prejudices and disallowing critical reasoning. We should really study the beliefs of the ancient Greeks: A correct policy must most certainly undergo, and can most certainly survive, undergoing debate and scrutiny by all knowledgeable men of society; otherwise, no one can guarantee that the policy decision will be correct, and under such circumstances implementation of it would be irresponsible toward society and toward the people!

If policy decisions are not based on broad participation by intellectuals, the decisionmakers themselves will suffer from it, because without a guarantee in reason it will be an erroneous policy decision, and because of the error, authority will decline and be lost. If those in power are wise, they will see clearly that authority comes from knowledge and not from power. Power without knowledge will collapse, power with knowledge will live and grow. That has been proved repeatedly throughout history. Of course, relying on the suppression and degradation of intellectuals is even less apt to conceal the absence of knowledge and thereby to strengthen authority. Relying on the expediency of power cannot really degrade the intellectuals and cannot conceal ignorance.

**3. It is only a powerful regime that allows its intellectuals to criticize. The only valuable intellectuals are those who can criticize the regime.**

The right of the intellectuals to criticize is not only a symbol of justice, not only in conformity with what is felt to be right and reasonable, but is also what constitutes their value.

If we say that state power is the head of society, and that society will not work without it, then how can a head unaided by a well of knowledge direct society's conduct? There can only be chaos. The well of knowledge of a

society is in fact its intelligentsia. The value of the intelligentsia is its helping the head to guide and direct society's conduct and to promote its progress.

If we say that the only sound head is one that has knowledge, then the only powerful regime is the one that maintains close contact with its intellectuals. On the other hand, if a regime rejects or even fears the criticism of its intellectuals, it is most certainly a weak or declining regime.

We call on the powers of the state to recognize the value of its intellectuals, and we call even more emphatically on the intellectuals to consciously fight to assert their value.

The leadership stratum, the intellectuals, and the people at large must all recognize that the intelligentsia is only valuable if it can criticize the political regime, and the intellectuals must recognize even more distinctly that a mature intelligentsia is only one that dares criticize the political regime.

China's intelligentsia has not yet matured; it has not yet realized its value. This is regrettable for the world and for China.

How is China's intelligentsia to gain the right to criticize? I believe, the most realistic and effective method is to utilize every opportunity to engage in criticism, sincerely publish independent opinions, and fully demonstrate the power of reason and knowledge. Right now, the problem is that it is not that conditions are not yet ripe, but rather that we do not exert ourselves to create the proper conditions.

The leadership stratum has no reason not to welcome the critical participation of the intellectuals, and there are even fewer grounds to fear that the sky will fall. In history, governments have been brought down by the criticism of intellectuals, but no regime has fallen because it could consciously accept and absorb criticism by its intelligentsia.

**Direct Mail Service Promoted Between Taiwan, Mainland**

40050316 Hong Kong LIAOWANG OVERSEAS  
EDITION in Chinese No 6-7, 6, 13 Feb 89 pp 32-33

[Article by Chang Chung-shu 1728 1813 1859: "Build A Green Mail Route Together; Promote Direct Mail Between the Two Shores"]

[Text] There are new developments in postal communication on both sides of the Strait now. The present situation indicates that postal communication on both shores has been one-way from the mainland, kind of "hush-hush style," to the present two-way, open, and even indirect exchange of correspondence between Taiwan and the mainland.

By the end of 1988, about 1.4 million letters had been mailed from Taiwan to the mainland, and about 2 million letters had been mailed from the mainland to Taiwan. At New Year's and in the spring, New Year's greeting-type mail also increased. Because of the efforts of postal departments on both shores, contact that had been cut off for nearly 40 years between both shores was restored and relatives were able to discuss family matters.

**Hard Work by Postal Workers on Both Shores**

After the 1 January 1979 "Letter to Fellow Countrymen on Taiwan" from the Standing Committee of the National People's Congress that first mentioned visitation of relatives and the "three communications," the mainland postal and telegraph departments responded positively and took the lead in starting up mail, telegraph, and telephone service to Taiwan. But the Taiwan authorities, disregarding the wishes of the people, refused to exchange mail, so that for the past nine years, mainland postal and telecommunications departments have been maintaining the roundabout channels unilaterally. After the Taiwan authorities relaxed restrictions on going home to visit relatives in November 1987, cries from the Taiwan people and the media demanding postal communication became more intense, and at the same time, letters, telegrams, and phone calls from the mainland to Taiwan increased considerably. Under these circumstances, the Taiwan authorities had to readjust their policy. They proposed the "exchange of letters, but no postal communication" policy, adopting the Taiwan Red Cross's method of forwarding letters. This method is not much, but at least it is a step forward, so there is a bidirectional, open exchange of letters on both shores.

After the PRC and Taiwan implemented the two-way exchange of letters in mid-April of 1988, the mainland postal workers, faced with a large upsurge in the number of letters from Taiwan, put in a lot of hard work delivering the letters accurately and promptly. Because of the lack of communication for nearly 40 years, some of the letters from Taiwan still carried the old addresses, old street names, old house numbers, even the former provincial names of administrative divisions that had

been changed long ago, such as "Jehol Province," "Chahar Province," "Suiyuan Province," "Xikang Province," and "Liaobei Province." As for the old city, county, and street names, they were even more numerous, and there were even some addresses for the old "bao jia" system, which was abolished long before the communists took over. These letters gave mainland postal departments, especially young postal workers, a great deal of trouble, but they never sent letters back willingly. Many post offices set up "problem letter processing centers" and compiled a "comparative table of old and new place names." To deliver the problem letters, many postal employees crossed mountain after mountain and walked streets and alleys asking about old addresses and searching in all ways possible, including asking at public security stations, neighborhood offices, residents' committees, and even old retired letter carriers, and the very few which could not be delivered were announced in the paper or by other public means. One could say that there was a mobilization of social forces to link relatives on both shores, and the overwhelming majority of letters from Taiwan could be delivered to the addressees. Within 2 months after 18 April 1988, Shanghai received more than 20,000 letters from Taiwan, of which about 20 percent were problem letters, addressed only to so-and-so, "Shanghai, Ching-an Temple," to so-and-so, "Shanghai Teahouse," to so-and-so, "Boat on the Suzhou River." After letter carriers traveled far and wide to deliver these letters, some elderly people went to the post office with the help of their children to express their thanks. After a teacher received a letter from Taiwan from an elder brother lost for 40 years, and filled with gratitude, he wrote a poem to the letter carrier. The poem read:

*"The chaos of war has parted brothers  
Separated at both ends of the earth  
It is difficult to stop thinking of life and death  
A letter from family is worth ten thousand in gold  
There have been great changes in the world  
How can I find the thatched cottage  
Fortunately there is one in green  
Brings good news to the people."*

This poem should be seen as an expression of gratitude to "one in green" on both shores because the business of communication by letter must be carried out by units on both shores. It is not hard to imagine that among the innumerable letters from the mainland to Taiwan, there are some problem letters where names and addresses do not match, and the "ones in green" on Taiwan have also delivered them, sparing no effort and no matter how much trouble.

**What Are the Obstacles Keeping the Road Between the Shores Closed?**

Correspondence on both sides of the Taiwan Strait is really an encouraging change, but is still far from the direct postal communication demanded by the people. To achieve the goal of "exchange of letters, but no postal communication," the Taiwan authorities stipulated

complex letter-mailing procedures. Trivial nuisances and layer upon layer of restrictions were set up, such as special Red Cross mailboxes, letters to the mainland have to be in two envelopes with inside and outside envelopes differently addressed, the inside envelope cannot have the Taiwan address on it, but must have written on it "mailed from Hong Kong"; one stamp has to be attached and the other enclosed, and only letters can be mailed, not small parcels, etc., etc. Thus, 40 Taiwan "legislative members" jointly proposed that "PRC and Taiwan mail should be handled by the Post Office," and in June 1988 the Taiwan Red Cross also sent an official letter to the Taiwan Ministry of Communications proposing that mail to the mainland go directly to the Post Office, and no longer be forwarded by the Red Cross. Many people have written to newspapers demanding that mail go directly to the mainland, but the Taiwan authorities still hesitate and will not go forward.

What is more, in some areas of Taiwan they have adopted such practices as obliterating stamps and postmarks and covering up political slogans on letters from the mainland, which violate postal conventions, are unpopular, and also add unnecessary work to postal departments. According to the 11 January 1988 Taiwan LIEN HO PAO, not long ago a letter from the mainland to Taiwan University Professor Kao Chun [7559 0402] came on the first day of issuance of a stamp commemorating the 100th birthday of his grandfather, the astronomer Kao P'ing-tzu [7559 1627 1311]. The commemorative stamp bearing the portrait of his grandfather on the envelope was obliterated and was seized. So, he went to the Taipei district court and filed suit, charging that the postmaster general of the Post Office had insulted his ancestor and destroyed the commemorative nature of the stamp, on its first day of issuance, and had seized the commemorative stamp. Whatever the outcome of the suit by the court, it is evident what is right and what is wrong in the case. As a reader of LIEN HE PAO said in a letter to the paper on 18 January: "Now people are assigned the task of obliterating stamps on letters from the mainland, over 10,000 letters a day, and even the picture of the astronomer Kao P'ing-tzu was made unrecognizable—can't this manpower be put to more meaningful work?"

The above concerns issues of postal communication, so what is the situation in terms of telecommunications? So far, it is still a one-way street, with the mainland unilaterally trying to communicate with Taiwan by telephone and telegraph. As visits to relatives and contacts between the two shores increases, related business for Taiwan's telecommunications will also increase. Taiwan's press has repeatedly called for direct communication by post and telecommunications, and the people have long looked forward to this with eager expectations and have actually been in contact. Why not just open up? They have already opened up to the communist countries of Eastern Europe, why can't the same be done for their

fellow countrymen? Since these modern means of communication cannot be used, it is very inconvenient for people and is not favorable to the economic interests of Taiwan's telecommunications departments.

#### **Opening Avenues of Postal Communication Between the PRC and Taiwan Is Basically for the Convenience of the People**

The peaceful unification of Taiwan and the ancestral mainland is the tide of the times and the common wish of the Chinese people both in China and abroad. Posts and telecommunications should become a bridge to unite the ancestral country and an important instrument for channels of contact between relatives on both shores. Since opening up to visits to relatives, several hundred thousand Taiwan compatriots have returned to the mainland to visit relatives and travel, and mainland compatriots have gone to Taiwan to visit the sick and attend funerals. Taiwan reporters, scholars, artists, writers, and stars have come to the mainland for interviews and exchanges. Publishers in both the PRC and Taiwan have reprinted a great number of each other's books. Industrialists and businessmen have negotiated trade investments and have participated in trade fairs, and even educational exchanges between PRC and Taiwan. Both need modern means of communications to conduct their communications and contacts directly. Now, both internationally and domestically, the posts and telecommunications networks are so advanced in technology, in all directions. Giving the above-described circumstances, it is unwise and out of step with the times to continue the self-imposed obstacles that block the road of direct posts and telecommunication or which result in meaningless, petty practices.

Direct posts and telecommunications between both shores of the Taiwan Strait is an objective necessity of the development process and all postal and telecommunications departments have the responsibility to provide postal and telecommunications service to the people without distinctions. But an important organizing principle of posts and telecommunications is to select the most direct and fastest mail route and circuit, avoiding or reducing as much as possible ineffective and circular routes and providing the maximum convenience to the people. However, it is said that the relevant departments on Taiwan do not have this in mind, and recently were still making plans to send "letters to other Asian countries and have them forwarded to the mainland" to "avoid direct contact." This approach from the very beginning is an unwise act that goes against normal practice. Those engaged in posts and telecommunications on both sides of the Taiwan Strait should have as their aim public utilities that serve the people. Before the peaceful unification of the ancestral country, we mutually explore normal channels for compatriots on both shores to begin direct posts and telecommunications and together open a green mail route across the Taiwan Strait.



**'Free Lunch' No Antidote to Emigration Problem**  
40050299 Hong Kong CHIUSHIH NIENTAI  
(NINETIES) in Chinese No 229, 1 Feb 89 pp 41-42

[Article by Huang Ch'u-ch'u 7806 2806 2806: "The Emigration Tide and 'Free Lunch'"]

[Text] In the past six months, I have participated in many discussions concerning Hong Kong's brain drain and have observed that the arguments of the representatives have gradually become divorced from entanglement in the crisis in confidence, and have begun to involve the economic factors of emigration. Some middle-class people have bluntly stated that to resolve Hong Kong's current severe brain drain, society will have to consider the "free lunch."

Actually, Hong Kong's tide of emigration is a "complication"; the most obvious symptom, of course, is anxiety about China taking control, but the overall form of the symptoms is extremely complicated. If the speaker always equates "brain drain" and "1997" and treats all emigration as a vote of no confidence in China, this is not completely accurate. It is essential to explain this to the silent majority of the middle class that has no interest in politics and no organization, because its views may lead public opinion to break away from some old questions which are endlessly discussed and may give the public a more comprehensive understanding of the emigration situation.

The issue of a "free lunch" is raised because some in the middle class are dissatisfied with Hong Kong's current social benefits system and this dissatisfaction is one of the factors causing them to consider emigration.

Hong Kong has always viewed a free economy as its standard, offering a "free lunch" refers to extensive social benefits which are incompatible with the creed of the free economy. Economic critics generally use "free lunch" as a figure of speech for robbing the rich to help the poor. They think that a welfare society, in order to maintain excessive guarantees, heavily taxes the wealthy and companies that earn a profit. They believe that such a social system is unfair and further inhibits the desire of investors while nurturing the dependence and inertia of the salaried class. According to their theory, a society with a low level of welfare should have the most economic vigor—low taxation encourages capitalists to invest actively; without "generous" guarantees, the salaried class can only work hard and, thus, both capital and labor "are in their element." This economic environment is cited by members of this school of thought as testimony to Hong Kong's economic miracle. They also frequently issue warnings that society's demands and expectations for welfare should be repressed, and point out that if there are designs on the profits of the capitalists or attempts to induce the working class to demand more welfare, then manufacturers and overseas investors will slip away and take their capital with them. This is because in the sixties and seventies, Hong Kong

had a labor-intensive economic system. The cheap labor, low taxes, free system, and stable relationship between labor and capital were attractive to capital, and Hong Kong took advantage of this environment to become an industrial city, it spurred the economic take off, and successfully entered the mature stage of subsequent constant economic growth.

However, the "free lunch" rules were too deeply ingrained and while Hong Kong is not now worrying about the loss of capital, it is facing the brain drain, and not many people dare to raise the issue of social welfare.

Most people have probably not carefully chewed the arguments of the "anti-free lunch" school and have forgotten to compare them to the current situation, but only remember well the formula, "any movement to expand social welfare can only cause loss to the economic system." In fact, the increasing calls for a "free lunch" that have appeared in society also reveal a necessary phenomena in Hong Kong's economic shift. In an economic system which relies primarily on information and service, the specialist executives are in the dominant position. They not only have the most influence on society, but they are also the biggest "economic resource." The approach of the "information society" has caused Hong Kong to make the transition from a "capital-intensive" to a "knowledge-intensive" mode of production, and Hong Kong has begun to become an information and banking center. However, specialized talent in this area is disappearing and may reduce investors' interest in Hong Kong's growth, and now many foreign investment companies are sending out warning signals.

Will expanding social welfare make talented persons change their minds? In exploring this question it might be a good idea first to understand the background of Hong Kong's middle class.

This elite group, between the ages of 25 and 40, is the second generation born and raised in Hong Kong. They should have a strong sense of belonging with regard to Hong Kong, especially the large number who came from lower middle-class homes and who demonstrated their abilities by getting through the selection and competition of the pyramid education system by dint of hard work (over half the students in Hong Kong's two universities come from families who live in public housing). However, after they have struggled bitterly for "social promotion" they find the situation is not so very wonderful. A great many people pay the standard 16.5 percent tax (the tax rate on interest is the highest), but the social benefits they receive in return are simply insignificant. There are no guarantees of unemployment relief or pensions, and they cannot enjoy the government's greatest achievement in benefits—housing—because the tax limit is so high. With the pressure of price increases for private apartments, it takes an average of nearly 40 percent of one's income to take care of

housing (according to the Huifeng Bank's monthly economic report for June 1988, for a household with a monthly income of \$15,000 to buy a 600-square-meter unit requires a monthly payment of \$6,000). In addition, there is a "bottleneck" in Hong Kong's educational system, and the middle class feels that neither they themselves nor their children have received decent treatment.

Unlike the older generation that restrained its demands for benefits, people feel that social guarantees are not "grants," but necessities. Thus, a moderate "free lunch" is no longer disapproved of by society nor is it necessary to demand that the "benefits" of the capitalists always be maintained. In the past it was the grassroots level that struggled for benefits, but each time they were shouted down by economic authorities and the public opinion of the upper strata of society. Now the anger is coming from the middle class that has power and it will be harder to completely convince them by using past arguments.

This is because the emigration tide is a complex "complication." The middle class's dissatisfaction with the social benefits systems has primarily come about because of the problem of 1997. As far as this middle class is concerned, "fear of communism" may only be a "sheep mentality," another nightmare that is not entirely a fear of the approaching 1997 political transition, but a fear that, having gone through repeated domestic and foreign economic shocks, Hong Kong may have consequences sequelae that can lead to the retreat of the economy. Hong Kong's economic low tide of 1983-84 is a case in point of political attack. In the transition to 1997, just when Hong Kong is constantly rolling up the hidden political waves, the Sino-British confrontation is slightly relaxed, society will again be highly politicized and the debate of the "pro-Chinese faction" and the "democratic faction" will appear. Just as everyone is a loser in war, for the time being whether or not the Chinese can let Hong Kong have true freedom after 1997, in the transition period the Hong Kong economy may not be able to endure political assault. If another high tide or two comes along, no specialist or manager can sustain its damage.

In the low-benefits society of Hong Kong, no class has any minimum guarantees. For this reason, many of the specialists who have the ability to fly far and high have chosen to emigrate to countries which have political and social guarantees rather than stand next to a wall which may fall. So, 45,000 people, including many specialists, left Hong Kong last year.

The above are the economic or benefits causes of emigration. If we proceed purely from economics, people who plan to emigrate must balance the opportunity costs of leaving Hong Kong. However, when Professor Ch'en K'un-yao [7115 0981 5069], director of the Center for Asian Studies at the University of Hong Kong, and I discussed this issue, he felt that matters of politics and confidence have been the crux of the problem of emigration. He does not believe that the middle class views the

issue of benefits as this important, because the middle class worldwide are all the same—in the middle. Furthermore, China's national nature has always advocated earning one's own living, and if Hong Kong uses expansion of social benefits as a way to resolve the brain drain, it is bound to fail. Yet, Ch'en K'un-yao thinks that, for the time being, as the economy and society change, whether or not there is a brain drain, social benefits must be gradually improved; this should, however, be completely consonant with the normal demands of growth. A major company may increase employee benefits to retain talent, but for an entire society this would be extremely complex and we cannot promote "free lunch" in this way.

Indeed, "free lunch" can be discussed and examined, but actually it cannot be used as an "antidote" for the emigration problem. So, how should we treat this message from the middle class? Since some people will combine social benefits with the emigration problem and discuss it side by side with the brain drain, what enlightenment can the Hong Kong Government gain from this? I think that in Hong Kong, which is becoming more politicized daily, any forceful cry will ultimately be reflected at the political level and some perceptive political figures may look in the direction of the source of the noise, look for more connections, and in this way keep it from being divorced from reality.

In summary, Hong Kong's emigration action is not simply an expression of lack of confidence in China, but is a lack of confidence in Chinese, English, and even popular political bodies (including the "pro-China faction" and the "democratic faction"), because the aspirations of most of the people who climbed to the middle class through hard work are very realistic. They are extremely sensitive to politics, because they have not adapted to and cannot tolerate the negative influence of political activity on the economy. What the middle class cares about is whether the quality of life will change, and only then considers such questions as the future, prices, and political ideals. Forcing them to take a broad view of 1997 and the subsequent 50 years without change is absolutely meaningless. What is more, some who are overly enthusiastic about politics believe that the indifference and silence of the masses is wrong and think that they can be awakened by "major action" in political activity, but the result will only worsen the situation. In fact, for the past year, Hong Kong political figures have been entangled in such big issues as the form of government, and almost everyone pointed the spearhead of politics at China and squandered their energies in refusing to give in to China. But Hong Kong still has many practical problems that must be discussed, and some need even more to be acted on now, and the political and economic issues raised by the benefits system is one example. The problem of Hong Kong cannot be completely resolved by winning a true democratic political system from the Chinese. If those in government think that they are now too busy to consider more than one thing, and want to concentrate only on major issues of politics, then society needs another group of government

people to handle other issues, otherwise future developments are bound to be missed. Yet if society is tending more to missing chances, then the brain drain also is more serious.

**Political Party Formation 'Complex Issue'**

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[Article by Yu Chi-wen 0151 7162 2429: "Another 'Political Party Low-Grade Fever'"]

[Text] Apart from the confusion about the Basic Law, another hot topic recently in Hong Kong political circles is organizing political parties. Some people in political circles are not only talking about it but are also taking some specific action. Even Chinese officials and the Hong Kong Government are beginning to discuss the trends in party politics. These situations reveal that Hong Kong has contracted a "political party low-grade fever." Whether the fever will get higher or cool down depends on the attitude of the Chinese and the English and on developments in the political situation in Hong Kong.

Actually, there have been ups and downs during the past few years on the issue of forming political parties. During the Sino-English negotiations, it was discussed whether party politics would appear in Hong Kong in the future. Some people felt that 1997 would be a turning point for democracy, and if Hong Kong were to move toward democratization, the formation of political parties would be a natural trend; others, however, think that China will not let Hong Kong pursue party politics.

After the signing of the Joint Sino-English Declaration, some people, probably encouraged by the prospect of "Hong Kong people governing Hong Kong," immediately began earnestly to try to form political parties. At the time, Li P'eng-fei [2621 7720 7378], member of the Executive and Legislative Councils, raised the banner, enlisted persons of outstanding talent and announced that he wanted to establish a political party, which was called the "Talent Party." However, by the end of 1985, Hsu Chia-t'un [6079 1367 1470], a Chinese official and head of the Hong Kong branch of XINHUA, issued a warning that "some people are not doing things by the book," thereby causing political pressure in Hong Kong. Soon, Li P'eng-fei announced that he was abandoning party formation because he understood the Chinese would not really let Hong Kong people govern Hong Kong. So, the "Talent Party" died in the womb after this fuss and other "determined persons" also hung back in the face of difficulties.

The present political situation is slightly different from a few years ago. At that time, China and England were still vying for the right to guide Hong Kong's future political system and Hong Kong and England hoped to take advantage of the self-criticism of the political system to begin implementing direct elections of part of the Legislative Council in 1988, but the Chinese brought vigorous

pressure to bear on them. Under the circumstances of that time, beginning to organize political parties was clearly against China's wishes. When the dust settled after the self-criticism of the political system, direct elections for 1988 were shelved until 1991. Since then, discussants have felt that direct elections would promote political parties. Now we are not far away from 1991, and whether political parties can emerge as the times require them is noted.

Not long ago, Li P'eng-fei and Chang Chian-ch'uan [1728 7003 3123], commercial and political representatives of the Legislative Council, were regarded as wishing to form a political party (called the "Industrial and Commercial Party" by some). The Hong Kong Economic Research Center, supported and established by the two men, is thought to be the "brain trust" organization for industrial and commercial circles to discuss politics. This center recently mobilized manpower in a big way and said they had raised \$20 million. Later, Li and Zhang indicated they were forming an organization to participate in politics (Li P'eng-fei later said that because he was chairman of the Legislative Council misunderstandings might be easy, and he definitely would no longer be involved) and a relevant political platform was drafted to pave the way for direct elections to the Legislative Council in 1991 to prepare for people from industrial and commercial circles to participate in government through direct elections.

The "Democratic Faction," which put more emphasis on grassroots level participation in government, originally had three participating groups: Convergence, the T'ai-p'ing-shan Society and the Democratic Livelihood Promotion Society. Recently, the three groups have begun studying combining forces. Then, Li Chu-ming [2621 2691 6900], who comes from legal circles and is the general of the "Democratic Faction," indicated that it is preparing to form a political organization; in 6 months it will make public its platform and organizational framework and the first goal will be direct elections in 1991.

Although all these organizations that are being put together have not yet been called "parties," they are being organized as "political parties" to create the form of an "organized party."

What attitude will the Chinese and the English, especially the Chinese, adopt toward formation of parties by Hong Kong people?

On the surface, the Hong Kong and the British think they should let nature take its course. But actually, they think this cannot be a better idea. In a television interview last month, Hong Kong Superintendent Wei Yi-hsin [5898 1150 0207] looked back on developments in Hong Kong during the past year and raised the issue of political party formation. When asked whether direct elections in 1991 would lead to the appearance of political parties, he said that it is natural for various types of organizations to

come into being in a political organization which is in part elected by direct election or any other type of election. But these organizations in Hong Kong are not necessarily political parties. He continued that, although he could not confirm whether these organizations might be political parties with specific political intentions as in foreign countries, he agreed that they might appear.

What gives more food for thought is the attitude of the Chinese. In the past, Chinese officials have issued repeated warnings about Hong Kong developing party government.

Over two years ago, Li Hou [2621 0683], a high-ranking official of the State Council's Hong Kong and Macao Affairs Office, said that the Chinese Communist Party would not operate openly in Hong Kong as a party after 1997, but if Hong Kong implemented party government, it is "hard to say" whether the Communist Party would be active.

Lu P'ing [7627 1627], another high-ranking official of the Hong Kong and Macao Affairs Office, also said: "The matter of political parties should be studied in depth. Would the appearance of political parties be beneficial to Hong Kong? Does Hong Kong have the conditions for establishing political parties?" He also said that the issue of political parties involves many aspects and is unusually complex.

In fact, one can see from the views expressed by Chinese officials that Beijing is very unwilling to see Hong Kong people form political parties and is even more unwilling to see Hong Kong people negotiate prices with Beijing in an organized fashion.

However, statements by some Chinese officials in the past month have created the impression of more "relaxation" with regard to party formation by Hong Kong people. Earlier, Li Hou, deputy director of the Hong Kong and Macao Affairs Office, said that engaging in politics or discussing political organizations is a natural development. In early January, when discussing Hong Kong people forming political parties, Hsu Chia-t'un, chief of the Hong Kong branch of XINHUA, said that the Basic Law already stipulates freedom of association and, if Hong Kong people want to form political parties, no other provision is needed in the Basic Law. Hsu Chia-t'un also said that both political participation organizations and political discussion organizations, in fact, already exist. The issue is the number of members, how many people are represented, and if it will have an impact on Hong Kong's stability. He said "forming an association" includes forming parties and no new provisions are necessary. He dismissed with a laugh the question of whether the term "party" can be used.

Will the Chinese give the "green light" to the issue of party formation? Before the 8th plenum of the Basic Law Drafting Committee in January, Chinese official Li Hou told Hong Kong reporters: The formation of political

organizations is permitted, but the issue of political parties is complex because Hong Kong is not an independent country. There are other political parties in China, such as the Communist Party and the Kuomintang, as well as other democratic parties, but the issue of whether or not they can be active in Hong Kong is complex. Li Hou indicated that it would be best if Hong Kong continued the participation of political organizations in government, and should not necessarily form political parties. As to what difference there is between political parties and political organizations, he replied that he "couldn't explain."

From this it is clear that Chinese officials are still giving the "red light" to Hong Kong people who attempt to form political parties and who basically maintain a negative attitude. However, some officials have avoided saying that discussion is dead and failed to maintain a little "flexibility" and to relax somewhat the tense relationship between Hong Kong people and Chinese officials, especially in the past few months. This is because the conservative orientation of the proposal for the political system from the Basic Law Draft has become "animosity" of Hong Kong's "democratic faction" directed against the Chinese.

Since the difference between political parties and political organizations cannot be explained, is it only the absence of the term "party"?

From talks by Chinese officials it seems that on the surface, the issue in whether Hong Kong people can form parties is only in the word "party"—political organizations can be formed, but political parties cannot (i.e., "the issue is complex").

Actually, it is not too difficult to explain: apart from the term "party," the key also lies in the word "power." The establishment and use of a political party is the formation of rivalry for political power. Any political party that is in the position of "daughter-in-law" dreams of becoming the party in power and wants to "wield power." People in Hong Kong who desire to form political parties and participate in government might also consider the question of whether they can become the party in power. A few years ago, before giving up the idea of the "Talent Party," Li P'eng-fei also said that his goal was to be the party in power. The people from industrial and commercial circles and people of the "democratic faction" who are deliberating "party formation" now hope to seize more seats in the legislature (Legislative Council) to create a political force, though of course the "long-range" goal is to become the "Hong Kong people" "governing Hong Kong" after 1997.

According to statements by Chinese officials, the so-called keeping the present way of political groups participating in Hong Kong politics is actually referring to the various political groups, whether participating in or just discussing politics, whose style of participation in politics in the past few years has been small scale and low

keyed. This kind of political participation is not considered as ultimately being in power or exercising control. This kind of political participation is not considered as political influence that is out of control or difficult to control, thereby making the Central Committee anxious lest it lose "control" over it. However, a political party which develops to the point of wanting to wield power is not the same thing. Therefore, if Hong Kong implements party government, it is "hard to say" whether the Communist Party will be active.

Actually, what has appeared in Hong Kong recently is only a "low-grade political party fever." Hong Kong people generally are rather sensitive to and even afraid of the term "political party." People who want "organized parties" to participate in government should also think carefully before raising the signboard of political parties. People who are now full of zest about "party formation," whatever their prospects for the political future, should approach things from a different angle.