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GENERAL

East Asian Economic Circle 'Not Necessarily Bad Thing'

40050381 Shanghai SHIJIE JINGJI DAobao in Chinese 20 Feb 89 p 4

[Article by Chen Hongbin 7115 7703 2430: "We Should Make Best of Situation, Take Advantage of Unfolding Regional Economic Cooperation, Actively Participate, Rather than Merely Getting Hung Up on Whether China is Excluded"]

[Text] After reading your 30 January article, "Questions about Formation of East Asian Economic Circle," I had some different opinions that I would sincerely like to take up with the author.

I feel that the formation of an East Asian economic circle is not necessarily a bad thing, and that China cannot be excluded. My main reasons are:

One, an East Asian economic circle is an outcome of the regionalism of the world economy. Its basic tendencies are further opening to the outside world and liberalization. Although the U.S.-Canadian free trade area and the proposed integrated European market objectively have protectionist and exclusivist tendencies, still, fundamentally speaking, economic coordination between countries and regions is continuously expanding to a certain extent, compelling global economic trade to grow at an even higher level. It is the same with the East Asian economic circle. Although there is the negative aspect of Japan's use of economic and technical superiority to consolidate its sphere of influence, nevertheless, the basic characteristic of the East Asian economic circle's formation is the opening of Japan's domestic markets to surrounding countries. In 1987 Asia's "four little dragons" increased exports of manufactured goods to Japan by 59.7 percent, and by 58.1 percent in 1988. The eastern block's manufactured goods exports to Japan grew by 71.9 percent in 1988. This was unheard of before. If the Asian "four little dragons" and the eastern block can send troops into the Japanese market to seize investments, why can't China do the same? Regional economic cooperation is also a form of competition. Waiting for someone to come and "ask" us will never happen.

Two, Japan's attitude toward China is extremely complex in terms of bilateral relations and multilateral cooperation. Although it wants to let China become a little stronger, maneuvering among various political groups and fishing for chances to create material benefits within the important trilateral Chinese-U.S.-Soviet strategy, Japan does not want to let China become too strong as to pose a threat thereby impeding it from using its great economic nation status to become a great political nation. Japan's basic policies toward China are "steady containment" and "constraint." I feel that the present trend right now is one of "steady containment." It may

be said that Japan's fundamental advantage lies in using an East Asian economic circle and other regional economic cooperation patterns to make bilateral relations even more intimate. This is evidenced in Japanese scholars' present concentration of a huge amount of effort on studying China's coastal development strategy and rural enterprises. They feel that these are contact points by which the Chinese economy can enter the East Asian economic circle. In reality, attempting to appear together with the East Asian economic circle are the Japan Sea economic circle, the Indo-China continental development plan, etc.

Three, even if Japan had thought of excluding China, Asia's "four little dragons" and the eastern block would not necessarily approve. Whether it is Asia's "four little dragons" or the eastern block, while hoping to receive additional Japanese investment, technology, and markets, each one is very much on guard against a Japanese plot to bring them on its track. South Korea actively sought relations with China in this manner. One reason was its desire to share China's status and influence in contending with Japan.

Four, creation of an East Asian economic circle would bring China an even better international environment for reform and opening to the outside world. It would give more channels for introducing capital. A characteristic of East Asian economy is its competitive mechanism of mutual overtaking on many levels. Those concerned are both interdependent in one respect but also independent in another respect. As Japan expands exports of funds and technology to develop markets, Asia's "four little dragons" have also begun to invest abroad, relocate plants, and import labor-intensive products. This creates advantageous conditions for China's implementation of overall opening to the outside world through multichannel introduction of foreign investment.

In sum, regarding the East Asian economic circle issue, in order to make the Chinese economy truly turn toward the world, we should make the best of the situation, take advantage of the unfolding regional economic cooperation, and actively participate, rather than merely getting hung up on whether China is excluded.

Rong Ming 2837 2494, a reader in Shanghai

WEST EUROPE

Austria's Longtime Neutrality Brings Security, Influence

40050380 Shanghai SHIJIE JINGJI DAobao in Chinese 27 Feb 89 p 5

[Article by Hu Houfa 5170 0683 3127: "Austria's Foreign Policy Since End of War Has Been Consistently One of Peace and Cooperation; Their Slogan: Bring World into Austria"]

[Text] Austria falls into the crack between the two great military alliances of NATO and the Warsaw Pact. It has an area of 800,000 sq km, with a population of 7 million,

but only 200,000 troops. If a major war were to break out, it would be difficult for such a small country as Austria with its weak military forces to withstand the calamity, even if it exhausts its entire personnel, material, and financial resources. Given these national conditions, Austria has chosen a unique and most economical way of maintaining the existing peace: using diplomatic influence to offset its "inherent deficiencies" in defense matters and security.

Austria's postwar diplomacy has been consistently infused with the aims of peace and cooperation. Seeking peace through diplomacy has been an important, unswerving Austrian national policy. Austria has steadfastly upheld its long-time diplomatic policies of reducing international contradictions and of improving international understanding during times when the slogan "detente" has not become fashionable. As early as the 1960s, while minister for foreign affairs and later as prime minister, former Austrian socialist party Chairman Kautsky, eulogized as one of the three great leaders of the international social democracy movement, spent his energy advocating North-South cooperation and promoting East-West detente. He had left a rich "legacy" in Austrian diplomacy.

Attention to substantive results is an important Austrian characteristic of developing matters of diplomacy. Their slogan is: bring the world into Austria. In 1979, a group of buildings, 180,000 sq m in size, rose along the banks of the Danube River in the northeast suburbs of Vienna. The same year, Austria gave these buildings, on which nearly 10 billion schillings had been spent, with each schilling symbolizing a year's rent, to pertinent organs of the U.N. Since then, Vienna has become the third center for the UN, following New York and Geneva. At present, more than 10 UN organizations, such as the International Energy Resources Organization and the UN World Development Organization, "have happily settled" in Vienna. More than 4,000 international personnel from countries around the world work here. Various kinds of international conferences are held here continuously each year. The Austrian government believes that the diplomatic influence and "security benefit" brought to the country by the creation of this international center far exceed the results that could be obtained by using the same amount of money to purchase aircraft artillery.

Scrupulously abiding by permanent neutrality and practice of a foreign policy of peace have won for Austria a broad international trust. They have also made the capital of Vienna become an important global political stage. The United States and the USSR twice held historically important summit conferences here. Protracted European balanced disarmament negotiations, the third round of the European Security Conference, and other international political negotiations have been held here. It was here at OPEC headquarters in Vienna that they deliberated on bringing out "petroleum weapons" which shocked the world. In addition, another important effect of Austria's expanding influence in

foreign policy and developing matters of diplomacy is its dispatch of high level international bureaucrats to various international organs and organizations. For many years now, a group of honored Austrian diplomats leap across the stages of international affairs, holding important posts in many international organizations.

At present, the trend of detente in international relations continues to develop in depth. Although Austrian foreign policy faces new tasks, the positive role it played in postwar international affairs has already brought to this tiny country international stature, political influence, and security returns that will be hard to erase.

EAST EUROPE

Political Pluralism Seen Way To Strengthen Hungary's Communist Party

40050395 Shanghai SHIJIE JINGJI DAOBAO in Chinese 20 Feb 89 p 3

[Article by Hu Houfa 5170 0683 3127, Vienna correspondent of SHIJIE JINGJI DAOBAO: "Observers Believe the Multiparty System Will Revitalize Hungarian Society"]

[Text] High Hungarian party leaders are studying socialist party government experiences and ideas on political policies in Austria.

Implementing political pluralism may outwardly seem weakening to the position of the Communist Party, but in the long run, the Communist Party can demonstrate correctness of its policy only by competing with other parties; it will thereby gain increased confidence among the citizenry and further consolidate its own position.

Reform is bound to lead to redistribution of interests and powers. Economic reform must follow political restructuring. This is verified by the important experiences made in the reform practice of socialist countries. But pluralism of powers is always regarded as regression by many communist parties in power. Pluralism is therefore regarded by most communist parties in power as a "mine field" which they do not dare cross. It is perhaps precisely for this reason that the Hungarian Socialist Workers Party's [MSZMP] recent proposal of a multiparty system has attracted so much attention in the West, and has become a topic which has had the uninterrupted interest of the international news media since the start of this year. It is considered an important event of historical significance, which will have broad repercussions throughout the entire international communist movement.

In economic reforms, Hungary has always been ahead of the other socialist countries. Today, in the political democratization movement, which is just unfolding, the MSZMP is also showing very great courage and resourcefulness, much in advance of many other communist countries. Among the socialist countries, Hungary was

first with the slogan of political pluralism. Many Hungarian theorists advocating reform have stated very early that a correct political line and policy could only be arrived at through pluralism. They believed, furthermore, that the method of stifling dissident opinions will create feelings of political oppression among parts of the population, which may cause concealed political instability, which may then even intensify and lead to ruinous consequences.

Practice has shown that deepening the reform, on the one hand, gives socioeconomic vitality an unprecedented boost, and, on the other hand, brings greater clarity to the borderlines between the interests of the various strata of society. Different interests require different organizations to represent these interests. With the progressive deepening of the reform, difficulties have increased. Some parts of the reform measures conflicted with the interests of certain social strata, in which case it was necessary for the different interest groups to engage in well organized negotiations and argumentation, to finally arrive at a fair equilibrium of interests. This is actually the effective way in which social democratic parties in the West in longtime practice did resolve social contradictions.

There are indications that the MSZMP is actively emulating the socialdemocratic policies and ideas of the West, and in order to achieve the grand objectives of the reform, is breaking down one by one the political barriers created throughout past history.

Several weeks ago, Berecz, Nyers, members of the politburo of the MSZMP, and other top policymakers, held here high-level discussions with the Austrian Socialist Party in order to gain detailed information on the Austrian Socialist Party's postwar administration of the country and the evolution of its policy, in order to learn from the many correct policy ideas of the Western socialist parties. At the end of the discussions, the two sides put forward a significant political concept: Without perfect democracy, it is not possible to have perfect markets.

In the actual political life of Hungary, democratization is now initially being put into practice on a broad scale. Politically, methods of ordering people about, and, in ideological-theoretical respects, the forcible oppression of the people, is now being denounced as incompatible

with a communist party, and as backward tyrannic behavior, showing a lack of self-confidence. Even within the party, there has recently appeared the new phenomenon of a multiplicity of voices and a pluralism of ideas.

In a broadcast speech the last week of January, Pozsgay, MSZMP Politburo member and concurrent premier, referred to the Hungarian incident of 1956 as a "national uprising," which immediately raised great waves both domestically and abroad, and about which many important party members at once expressed differing views. A few Western observers, still wearing the tinted glasses of the past, expressed in their analysis of this affair the opinion that this man, a personage of the reform party, famous for being always far ahead of others in his open-mindedness, would possibly be demoted at the enlarged meeting of the Central Committee in February. But the facts have shown that the MSZMP Central Committee not only did not censure him, but on the contrary assessed the 1956 incident in a similar way as Pozsgay had done.

Not long ago, Beck, the newly appointed minister of commerce, suggested that Hungary join the European Free Trade Association, which again evoked great surprise domestically and abroad. Obviously, this is only the personal view of this minister of commerce, and cannot possibly be realized presently. Later, only a short explanation was given by the official spokesman. These outwardly not very important phenomena actually are one after the other footsteps on Hungary's road to political pluralism.

Recently, various Hungarian political parties have announced their establishment and have resumed activities, such as the Social Democratic Party, the Democratic Association of Youth, and others. Observers believe that the idea of a multiparty system put forward by the Hungarian Communist Party, which has been the ruling party for several decades, has injected new vitality into Hungarian society, and is a manifestation of an abundant vitality in the MSZMP and a sign of its growing to maturity. By outward appearance, political pluralism seems to weaken the position of the Communist Party, but in the long run it is only through competition with other parties that the Communist Party can demonstrate the correctness of its policies and gain greater confidence among the citizenry, and as a consequence achieve a consolidation of its own position.

Statements by Minister of Supervision Refuted
40050320a Shanghai SHIJIE JINGJI DAOBAO in Chinese 6 Feb 89 p 14

[Article by Shi Qingye 4258 7230 6851: "Supervising' the Minister of Supervision"]

[Text] The following news item was read on 12 January: "People outside the Party are to participate in making policies." Wen Zhong, the Minister of the PRC Ministry of Supervision, said that the Ministry would invite people outside the Party to become special supervisory personnel in supervisory organizations at all levels and to participate in administrative supervision work. Supervisory work is very important in fully carrying out the CPC's consistent proposals for the mass line. It will be necessary to organize and mobilize the social forces so a good job can be done in the supervision field. The decision by the Ministry to adopt the above-mentioned measures are correct and good, but the statements made by the Minister of Supervision regarding this matter still causes astonishment in some people.

Everyone knows that the supervision departments are departments of the government, not of the Party; administrative supervisory work is the work of the government, not the Party; Minister of Supervision is a government job, not a party person. The differences in these two areas are very clear.

"Persons outside the Party" is a common usage applied by the Party departments and Party members to anything that is outside of the the Party stance and Party perspective. From a governmental point of view, there is no difference between inside and outside of the Party. The government is neither inside nor outside of the Party, it is a government of the people.

Therefore, to have an acting Minister in the government proclaiming that he will have persons outside the Party participate in certain governmental work, although his sincerity and zeal are praiseworthy, still sounds quite strange. It makes it seem like there is no difference between a department in the government and a department in the Party. The consequence will be that when asking nonparty members to participate in administrative supervision, because of the manner of speaking is used by the department of the Party, either by definition or by practice, the Party will "invite" them. It also seems that the work of the government's supervisory organization should be handled only by the Party members, therefore when mobilizing powerful people outside the department to participate, the Party has to invite them.

If this type of thinking exists or if this habitual way of speaking is not changed, many departments in the government will announce that they plan to invite persons outside the Party to participate in the work handled by their departments. What kind of political situation will this create?

If the heads of certain government departments are not even Party members themselves, what are they going to say?

An important part of China's political system reform is the separation of Party and government, but what kind of relationship between the Party and government would it be with the kind of things the Minister of Supervision had been saying? I hope this is just a misuse of phraseology. Supervisory work should be improved, and I guess there is nothing wrong to provide this little "supervision" to the Minister of Supervision.

Interview With Political Scientist Yan Jiaqi
40050349 Hong Kong MING PAO in Chinese 25 Feb 89 p 9

[By Li Gucheng 2621 4474 1004]

[Text] Chinese political scientist Yan Jiaqi [0917 1367 0366] was interviewed recently by a reporter from the Japanese newspaper YOMIURI SHIMBUN when he stopped in Tokyo en route to the United States for an international conference, and discussed the present status of political reform in China and some of its problems.

Yan Jiaqi and his wife Gao Gao [7559 4108] co-authored a book *History of the Ten-Year Cultural Revolution*, which brought them recognition. At present, Yan is touring the United States while his wife, who is in Beijing, just added her signature to a petition requesting amnesty for political prisoners two days ago. Following are the highlights of his interview with YOMIURI SHIMBUN:

YOMIURI SHIMBUN: What is the present status of political reform in China now?

Yan: China is in the process of modernization, where economic reform must go hand in hand with political reform. At present, economic reform is not going well, because there is no bold political reform. Furthermore, problems such as inflation, unequal distribution, bureaucratic corruption, low level of education, etc., which cause the people, on a large scale, to lose confidence in reform. To resolve these problems, part of the market economy must temporarily move back into a planned economy.

YOMIURI SHIMBUN: Isn't this a sign of reform regressing?

Yan: To promote a market economy, three preconditions are necessary: clarification of property rights, establishing a mechanism of fair competition, and establishing some order in the contract process. Since China does not have any of these conditions at present, it is

muddling a market economy, the result of which is confusion, causing people much unhappiness. To put the minds of the people at ease, it is necessary to partially restore a planned economy.

YOMIURI SHIMBUN: What obstacles have political reform encountered so far?

Yan: Two obstacles can be mentioned. One is a problem of the political system. Many in leadership positions do not feel a responsibility to their work and to society. Instead, they are more concerned about protecting their own positions in the power struggle, and expanding their power. The basic cause for this is found in the collective leadership, where everything depends on the collective, and individual responsibility is not spelled out.

The second obstacle is an ideological problem, which makes it impossible to cast off old concepts to face reality. Deng Xiaoping is the only exception—the only one who dared to express his views.

In the practice of collective leadership where the party and government are inseparable, power struggles are inevitable. Even now, power struggles are still hindering socialist development. If another power struggle like the Cultural Revolution should occur again, it will set China back to becoming the most backward nation in Asia.

YOMIURI SHIMBUN: What form do you think the separation of party and government should take?

[Yan:] For the government to have another government—that is, the Communist Party—over it, is not acceptable. Quite simply, this political bureau (the Central Committee of the Chinese Communist Party), which

has even greater decisionmaking power than the government itself, must be eliminated. Moreover, Party cadres assume political office at the same time, they must do so from the viewpoint of a political official.

YOMIURI SHIMBUN: Is there any possibility for a multiparty system?

Yan: Before we reach the stage where we can allow an opposition party to be formed, the Communist Party must be more democratic within itself.

YOMIURI SHIMBUN: What do you think should be done to help reforms proceed smoothly?

Yan: A formal clarification stipulating the right to property in the constitution. Whenever the right to property is mentioned, concept problems between capitalism and socialism arise, though there is nothing more important than this in protecting one's civil rights. Property in China is divided into three types: private property, public property, and unclarified property. An individual operating a business that realizes a profit dares not believe the profit to be his personal property, but considers the danger it poses if kept by his side, and tries to spend it or sell it.

Public property has been improperly raided by "anti-official" officials. Not only are officials involved, but some lower echelon workers are also lining their pockets with raids into the public till.

In the third type of "property with unclarified property rights," if a private enterprise makes a profit (profit minus workers' wages and workers' benefits), who does it belong to? Managing it is a headache. These three types of property cannot be used for investment and further production, the result of which ultimately prevents economic development. If the existence of private property is widely recognized, but there is also concern about the consequences—the wide contrast between the rich and the poor—the government must establish some policy, with particular reference to some adjustment in the taxing system, which may resolve this problem.

NATIONAL AFFAIRS, POLICY

Thoughts, Proposals on Macroeconomic Policy
40060307 Beijing JINRONG SHIBAO in Chinese
18 Jan 88 p 3

[Article by Wang Songqi 3769 2646 1142: "Thoughts and Reflections on a Decade of Reform Number Two—Thoughts and Reflections on Macroeconomic Policy"]

[Text] *Summary: An obvious feature of China's macroeconomic policy is that our money was tightened three times from 1984 to 1988. These three periods of tightening money spanned a 5-year period during which enormous changes occurred in our economic climate, the most notable being the formation and putting into operation of a dual system. It has been impossible under these new conditions to rely on a long-term tight monetary policy to try to curb demand, restructure, and improve results. Thus, it has become necessary to think about certain basic issues involved in macroeconomic policy choices in order to make the right decisions and provide a basis on which to make macroeconomic policy choices.*

China has now been carrying out economic reforms for a decade. When summing up the enormous social changes that have occurred and the economic lessons that we have learned, thoughts and reflections on macroeconomic policy must be considered an extremely important subject of study.

I. Macroeconomic Policy Has Gone Through Three Cycles of Change

No matter what key elements of the old system may have temporarily been "revived" in the process of reforming our economic system from a basically product economy with a basically centralized and planned form of management, all of our reforms have essentially tended to bring us closer to a market economy.

The process of developing toward a market economy has actually also been one of constantly improving the regulatory function of money. Not only can this improvement be seen in the change of the managers of microeconomic activity from trying to fulfill or overfulfill plans to trying to make the most money, but it is also reflected in the state's choice of means to implement its macroeconomic regulation and control policy. Thus, we can also rationally assume that the changes in our macroeconomic policy over the last decade have generally represented changes in our monetary policy.

China's monetary policy went through three cycles of easing and tightening from 1979 to 1989. These three macroeconomic policy cycles of the last decade were marked by the first tightening in 1982, the second in 1985, and the third that began in the fourth quarter of 1987 and was still in effect by the end of 1988. The following peculiarities can also be seen in these three

tightenings. The policy operations in the nominal tightening that was carried out in the first half of 1988 were actually still rather flexible. A severe tightening plan actually began to be put into effect only after panic buying of consumer goods, a rapid decrease in savings deposits, and a worsening of the price situation occurred throughout China in August 1988. It is worth pointing out that the time lag between the changes in the money supply that represents all credit and the nominal changes in national income has been becoming more evident since 1984. Our experience and data since 1985 show that it takes about 5 months for China's tight monetary policies to be transmitted down to and put into effect on the level of industrial production.

It should be pointed out that since public revenue has been accounting for a lower percentage of our gross social product and our public financial distribution has been cut back, our financial policy has certainly not been playing a leading role in our macroeconomic regulation and control in the last few years. Since 1982, the fluctuation in our annual rate of increase of public expenditure has not tallied with our cycles of tight money.

II. How the Three Tightenings of Money Should Be Evaluated

Many economists who favor maintaining a severely tight monetary policy use the situation in 1983 after the first tightening to illustrate that a tight monetary policy actually has the effect of creating a buyer's market in which supply is slightly greater than demand. The problem lies in the following peculiarities of the situation in 1983: 1. In 1983, when agricultural labor productivity had not yet been completely freed, the rapid improvement in agricultural conditions provided a material base for stabilizing the domestic market that could not be easily overlooked; 2. In 1983, enterprise and local expansion excitement was still relatively restricted by the general background of planned management of the prices of the means of production and, thus, it was very hard for a chain reaction of cost-promoted price increases to occur; 3. In 1983, buying and reselling at a profit had not yet appeared in the field of circulation because there was still no institutional basis for using the dual system of prices for the means of production to simply try to make circulation profits; 4. Excessive demand pressure caused by credit inflation in the fourth quarter of 1984 had longlasting effects. These peculiarities had obviously not yet been encountered prior to 1983.

In summary, we should not ignore the enormous difference between the economic climate after the dual system developed in 1984 and before it had developed in 1983. It has become impossible under the dual system to rely on a long-term tight monetary policy to try to curb demand, restructure, and improve results. In the particular economic climate in which China still does not have a perfect money market in the true sense of the word and expansion of enterprise production still depends mainly

on outside financial help from bank loans, changing the rate of increase of the money supply can still effectively affect the level of output within certain limits. Thus, we can and should see that changing the rate of increase of the money supply is a powerful way to curb an overheated economy or increase effective demand. Our tight monetary policy that was put into effect in the spring of 1985 can be said to have occurred at an opportune time because of the particular backdrop of credit inflation in the fourth quarter of 1984. But we were unable to anticipate the following three effects: 1. the powerful effect of the 1985 tight monetary policy on industrial production; 2. the difficulty in realizing an ideal restructuring function because it was hard to avoid "indiscriminate application" in tightening our money supply; 3. the relationships between tight money and the drop in industrial output, the increase in the losses sustained by enterprises, and the decrease in public revenue. The central government's decision to ease monetary control in 1986 was absolutely correct. If it had not been eased and a severely tight monetary policy had continued to be enforced, it would be hard to estimate the potential economic growth losses that we might have sustained.

In 1987, a clearly rising trend appeared in our consumer price index. The response of our monetary policy to this was the beginning of tight money in the fourth quarter of 1987. The third tightening cycle of China's macroeconomic policy can be said to have actually begun only after panic buying occurred in May 1988 and panic buying and a rapid decrease in savings deposits occurred in August 1988.

Only after a considerable period of time has passed can the pros and cons of the regulatory effectiveness of a macroeconomic policy generally be compared and analyzed. The present tight monetary policy is roughly the same as the second tightening that occurred in 1985. Thus, we can use our past experience to predict that if the third tightening continues for too long, it will surely have consequences, such as a decrease in industrial production, a too-rapid increase in enterprise product stocks, sluggish money circulation, a decrease in the growth rate of state profit and tax income, and a weak price response (because tight money cannot curb consumer demand).

III. Issues Involved in Macroeconomic Policy Choices

We recognize that the frequent changes in China's macroeconomic policy in the last few years could be interpreted at times as being "compulsory." But in order to make the needed improvements in our macroeconomic policy decisions and operations, we must first answer the following theoretical questions.

1. What Is the Actual Relationship Between Money Supply and Output?

In our economic system in which a money market has not yet developed and banking is still a state monopoly, the money supply directly determines nominal income

changes while also affecting the rate of increase of actual output within the limits of production possibility. We oppose the money supply being too tight for too long. The principles that we stand for are avoiding as much as possible potential losses to our GNP, using a guaranteed economic growth rate to increase effective supply, and using a moderate currency expansion rate to initiate a guaranteed economic growth rate. But we often incur a certain amount of baffling censure. It seems that we are in an illogical position in which we have "gotten into a puzzling trap of monetary hallucination and the only plan we can come up with is to increase the money supply" and even in which "the basic knowledge of our economics is that economic growth requires, and is based on, a fixed capital investment."

2. How Should We Understand the Cyclical Fluctuations in Our Socialist Economy?

We should creatively relate our analysis of the issues involved in macroeconomic policy choices to the cyclical fluctuations in our socialist economy that are demanding a prompt investigation. Decisions on macroeconomic policy swings must be based on theories of the stage, fluctuation, stability, and regulation and control of economic growth and not simply on a long-range qualitative analysis with no clear time limits that "our socialist economy is subject to resource limitations." In a certain sense, the issues involved in macroeconomic policy choices are a matter of evaluating and countering short-term imbalance tendencies. Furthermore, this short-term imbalance is certainly a particular stage of economic growth fluctuation. In other words, short-term imbalance is characteristic of certain cyclical fluctuations in our economy.

3. What Were the Characteristics of China's Monetary Demand in the Last Few Years?

If decisions on the rate of increase of the money supply are the primary issue in macroeconomic policy choices, the right macroeconomic policy aim is obviously to balance monetary supply and demand. But within the setting of China's particular national conditions, a simple overall increase in monetary demand by the managers of microeconomic activity is certainly not a reasonable monetary demand. The characteristics of China's monetary demand in the last few years seem to include a gradual increase and not enough stability, which have obviously increased the many difficulties in proving theories on macroeconomic policy choices.

4. Is Money Supply an Internal or External Variable?

All economists who favor sticking to a long-range policy of severely tight money make an implied assumption that money supply is an external variable that can be determined by the policies of the monetary authorities alone. We prefer the view that money supply is determined by a combination of actions, such as the policy variables of the monetary authorities, money management by families or individuals, enterprise monetary

needs, and the activities of financial institutions, such as specialized banks. It is precisely for this reason that we must emphasize monetary policy operations while not being too critical of or incorrectly blaming certain abnormalities in our economic operations on our monetary policy.

5. Does the Price Index Put Limitations on Macroeconomic Decisions?

It is a well-known fact that the unprecedented increases in consumer prices in 1988 posed a fairly great potential threat to China's reforms and social stability and that the third macroeconomic tightening that was aimed at stabilizing prices was caused mainly by the particular economic setting of too fast price increases. I think that we should not try to use theories of reasonable expectations alone to explain the panic buying among China's urban population in 1988. Panic buying is a basic capital option of the urban population. But why did this panic buying occur not in the past or present, but only in a particular period in 1988? I think it was the result to a great extent of a certain mood that was caused by our poor timing in publicizing exactly when we expected certain of our reform measures to take effect. If this kind of buying power inflation caused by mass expectations reoccurs within a short period of time in our system which already has too much demand pressure, price fluctuations will naturally worsen.

6. Is Mild Inflation Likely To Worsen?

Economists who favor a sustained tight macroeconomic monetary policy are most concerned about whether mild inflation is likely to worsen if it is not curbed. This honest concern is quite understandable. I can only emphasize the following points: A) All economic systems have a set of self-regulators which can curb any amount of inflation if used correctly; B) China still does not have a spontaneous mechanism that would cause a rising spiral of inflation; C) Since the mild inflation tendency is hard to even reverse, stubbornly trying to eliminate it completely could be suspected of being a violation of objective law; D) Since economists clearly define inflation as a steady increase in overall prices, they should distinguish macroeconomic policy that is used to curb existing price increases from inflation policy that uses currency expansion measures to deliberately increase overall prices; E) Since mild inflation still exists, an appropriate easing of monetary control to increase effective supply will not necessarily worsen the relationship between supply and demand.

IV. Countermeasures That We Should Take

The accuracy of China's macroeconomic policy choices directly affects the course of development of our whole national economy. After analyzing the experiences that we have undergone and the lessons that we have learned from our many past macroeconomic policy choices, I can offer the following countermeasures for reference:

1. The major issue for China's macroeconomic policy choices in the immediate future is not how to persist in continued tightening, but how and to what extent the tightening should be eased. I suggest easing control of the money supply after the spring, i.e., in the last third of February 1989. The original tightening plan can be revised to an estimated increase of 10 percent in nominal national income and an increase of 14 percent in overall credit, for a proportional coefficient of 1:1.4. At the same time, we should come up with a plan for making a major readjustment of savings and loan interest rates. We should raise interest rates to curb monetary demand and ease quantitative control to ensure good production operations and increase output faster.

2. We should use the next 2 to 3 years to draw up and try out the following tentative plan for a complete set of policy adjustments: 1) using monetary policy to ensure a stable and rapid growth rate; 2) using financial policy to resolve major issues, such as inadequate key construction investment and runaway group consumption; 3) discontinuing the policy of income indexation and encouraging people to develop second sources of income to counteract the erosion of income by inflation; 4) formulating a graded industrial policy to encourage exporting and eliminate bottlenecks; the People's Bank of China might be allowed to set the percentages of industrial credit distribution for all specialized banks and use administrative measures to strengthen the regulation of money investment orientation; 5) formulating a consumer guidance policy favorable to curbing premature waves of consumption; 6) adhering to the principle of giving priority to agricultural growth and using diversified methods to ensure a supply of the agricultural means of production.

3. Consideration should also be given to the following long-range plans: 1) speeding up the processes of reforming the enterprise property rights system and correspondingly liberalizing financing, test-reforming the rural land system, and training the managers of microeconomic activity to constantly concentrate on investment; 2) reforming the procedure, organization, and system of macroeconomic policymaking and letting specialists run the country by eliminating all "central" and "research office" type organs that have too many personnel and expenses and selecting outstanding economists to form a highly trained "prime ministerial economic advisory commission." Key macroeconomic policy choices should be made by the supervision or debate commissions of the Standing Committee of the National People's Congress so as to avoid possible mistakes due to empirical decisionmaking by a few leaders.

Balanced Investment, Consumption Keys to Macroeconomic Reforms

40060384 Beijing GUANGMING RIBAO in Chinese
25 Feb 89 p 3

[Article by Wang Zhuo 3769 3820: "Reform's Difficulties and Reform's Way Out"]

[Text] At present, our reforms have encountered difficulties. What difficulties? The difficulties are that reform of the system promotes economic growth, so in reform

the system not only cannot restrict overzealous investing, but it intensifies the need for expanded investment as well; expanded investment brings with it expanded consumption of funds, with inflation being the final outcome. I base this opinion on the following: During the 10 years of reform, we have had three expansions and three adjustments. Now it is proposed that we improve the economic environment, which will be the third regulatory retrenchment. If there is no retrenchment, no regulation, then inflation cannot be brought under control, market prices cannot be stabilized, and the economy cannot develop smoothly.

The Reason Why There Is Intensified Expansionary Demand During Reform Is That a Macroeconomic Management System Was Not Established Prior to the Problems Occurring

Expansionary demand mechanisms existed in the old system, promoting further demand for expansion. This is the essence of the "shortage economy." Its roots lie in the state opening a big kitchen and then inviting everyone to eat from the "big iron pot." Everyone naturally wants to eat, but no one wants to be held responsible, or assume any risks. This creates expansionary demand mechanisms.

The reform system does not correct this flaw of the old system; on the contrary, it exacerbates it. It appears in the state continuing to open a big kitchen, and allowing everyone to eat from the state's "big iron pot." At the same time, it also increases pluralization of the bulk of investment, pluralization of policy making and pluralization of fund consumption allocations. Pluralization of the old, dead, traditional system is, of course, a step forward. But this kind of pluralization is still based upon the state's opening the "big kitchen," and letting everyone eat from the state's "big iron pot," so it has to exacerbate the demand for expansion. With this situation, the system under the reforms is more serious than it was under the old system. Therefore I do not approve of the expansionary demand and inflation touched off by the current runaway macroeconomy; it is absolutely more at fault than the old system.

First, if we say that the "unity" in the macromanagement model has basically collapsed, then what grounds do we have for blaming this kind of collapsed, old macromanagement system? Actually, our error in handling the old system lay in not setting up the means of handling it. The critical point here is that it was not set up. Of course, it was a mistake to not do it at an early stage, but today's retrenchment again is a correction of this kind of mistake, and will again apply certain "unity" methods from the old system, helping out by "treating the swelling." It seems as if, through 10 years of reform, we are always applying the out-of-control indebtedness of the old system that is inappropriate to the present situation, as well as lacking a basis in theory. Second, if we say that the source of the expansionary demand lies in the sluggishness that comes after reform of the macromanagement

system, this conforms to the situation. The problem is, why is there a sluggishness after reform of the macromanagement system? This is, of course, a historical process which cannot be avoided in the replacement of a new system with an old one; even less is it an error in the reform, nor is it due to an inappropriate choice of reform strategy.

Reform of the Macroeconomic System Provides the Impetus for Reform's Overall "Ox's Nose"

Reform in socialist countries, whatever the pattern for breakthroughs in the commodity economy system, has resulted in the commodity economy's market mechanisms being flooded with expansionary demands. These change the originally hidden and slight inflationary expansion into an open, and relatively high, inflationary expansion. Basically, this is a phenomenon which can be avoided; why does it keep happening? It has to derive from an inappropriate choice of reform strategy.

There are, in all, three reform strategies which I can offer as choices: the first is to make enterprise reform the impetus for reform's overall "ox's nose." I consider enterprise reform to be fundamental. It can enhance benefits and increase supplies. But enterprise reform cannot be substituted for reform of the macrosystem, it cannot resolve the contradiction of demand for expansion, and it cannot be used to get around the barrier of price reform. Therefore, while it is correct to stress enterprise reform, to expect that this will provide the impetus for overall reform is asking for the impossible.

Another strategy choice is to make price reform the impetus for reform's overall "ox's nose." Some hold the position of "stressing the middle to bring along both ends," so they take price reform to be the window of opportunity. Specifically, they attempt to intensify the reduction of expansionary demands through administrative means. Practice has shown that stopgap measures are not the way to get at the root of a problem. It always results in a reduced demand, and an easing of price controls; after a few years, there will again be pressures to expand, so once more there will be price controls, with price ceilings, and even a freeze on the prices of certain commodities. Therefore, price reform cannot accomplish reform of the whole pricing system, nor can it be substituted for that macroeconomic system reform which will bring expansionary demands under permanent control. For this reason, using price reform as the strategy of "stressing the middle to bring along both ends" is not the reform strategy of leading by the "ox's nose."

The third choice of a reform strategy is to make reform of the macrosystem the impetus for reform's overall "ox nose." The object of reforming the macrosystem is to consider the mechanisms of the total macrostructure, as well as to regulate demand, manage demand, and curb the demand for expansion, ensuring a balance between total demand and total supply, and even do all that is

possible to make total supply a bit more than total demand, so that the traditional seller's market becomes a buyer's market to an appropriate degree. If this is done, there can be a letup in the prices of most commodities, and equality of competition will progressively appear. The commodity economy's market mechanisms and enterprise mechanisms will also then progressively emerge. I believe that this is the reform strategy of "leading the ox by the nose."

During its 10 years of reform, China has all along fluctuated between the first and second reform strategies. This has been the flaw in China's choice of reform strategies, and to think counter to this kind of flaw is a requirement for the great undertaking of reform, and is a requirement for promoting the cause of socialism.

The Way of Reform Lies in Striking a Balance Between the Total Macroeconomy and the Proportional Macroeconomy

How to reform the macrosystem?

First, rectify three theoretical errors. The first of these is to do away with the theory of indirect macroeconomic control. In macroregulation there is indirect regulation, but direct regulation must also be maintained. Governmental regulation of enterprises should have the indirect approach at its center; in balancing revenue and expenditures, issuing currency, balancing credit, and balancing foreign exchange, as well as foreign debt and import-export management, there should be a persistence in keeping direct macroeconomic regulation at the center, applying economic measures as a supplement. Next, get rid of the traditional theory of market economy movement. It exaggerates the function of market regulation, and magnifies the invisible, mystical function of the "hand," and negates the important visible function of the "hand." Establish a modern theory of market economy movement, while simultaneously retaining the functions of both the visible and invisible "hands," and coordinate them appropriately. Third, discard Keynesianism and establish theories which balance finance and credit in a positive way. Adhere to the state power theory which holds that the state has the power to control the model and pace of national construction.

Second, in the macrosystem, seek a balance of power between planning, public finance, and banking. Planning departments have the responsibility to formulate plans for development, and to arrange construction projects. However, there must be controls which will balance the amounts invested from public financing, credit funding, and funding from foreign exchange. There must be no allowance for erroneous methods which can unbalance the funding equilibrium and expand the funding model, leading to expansionary demands and inflation.

Third, persist in striking a balance of power between public financing and banking in the macrosystem. If deficit financing is not to be overdrawn on state banks, there must be reliance only on issuing national debt; issuance of bonds cannot be apportioned among banks.

Fourth, when state banks issue currency, they should seek to strike a balance in the macrosystem between the separate powers of the government and the legislature. Authorization to issue currency must come from the National People's Congress. At the same time, there should be a balance of power struck in the macrosystem between the amount of currency and the scale of repayment, so that the amount of currency issued in a particular year will be restricted according to that year's scale of repayment, and not the opposite.

Since 1984, there has been an imbalance, particularly in credit. If the credit loophole is not plugged up, there can be no permanent cure for our chronic expansionary demand and inflation. To close the credit loophole, there must be both rigidity and flexibility. There cannot be "one knife cut," nor can there be an undistributed object of totally "cut one knife." Mobile financing should be allowed to flow, getting different administrative levels together for exchange of funds, so that those who have less can be put in balance with those who have more. At the same time, this will control stored deposits. As for investment loans, there should be planned controls on the total volume or a proportion thereof, not permitting this limit to be exceeded.

Fifth, between the central government and local governments, as well as various levels of local governments, promote macrosystem balance of power, management at different levels, and a balance of responsibilities. Push for the selection of a multilayered macro contract system which has a variety of forms.

Sixth, in the proportional industrial structure, promote a dual adjustable macrosystem. Dual here means regulation by administrative measures and dual use. At present, the most urgent problem is that agricultural development is in a state of fluctuation and stagnation. The chief contradiction is the tendency of food prices to be low. The key to resolving this problem lies in eliminating expansionary demands, vigorously mustering financial strength, raising food prices rationally, changing the law of value's contrary regulation, and making fullest use of the law's positive regulation. This will result in similar small-town agricultural food producers deriving the same profits, by supplementing their food production with an appropriate degree of management.

To sum up, reform the macrosystem, structuring it so that the balancing mechanisms for the total macrosystem and for the proportional macrosystems are the one road for China to take for successful reform. With an overall balance, enterprises will come alive, prices can be allowed to rise, market mechanisms will take shape, and

the national economy can grow stably. If there is proportional coordination, benefits will rise, and good circulation of the national economy will be assured.

Selling State Assets May Cause, Not Cure, Inflation

40060385 Beijing GUANGMING RIBAO in Chinese
25 Feb 89 p 3

[Article by Li Yan 2621 3543: "Selling State Assets Must Be Handled Carefully If Inflation Is Not To Be Stimulated"]

[Text] As part of the current effort to control inflation, many comrades have proposed selling state assets such as a number of small and mid-sized enterprises and urban housing projects in order to influence gross social demand and supply and perhaps get rid of inflation by eliminating the gap between the two. On the surface, selling state assets seems a good way to cure inflation. Under certain conditions, however, what is intended to check inflation may actually fuel it.

Certain preconditions must exist before the selling of state assets can work to alter the ownership rights system and restrain inflation. The auctioning of state assets must be on a sufficiently large scale to create a competitive market where participants have the opportunity for development as well as face the risk of being eliminated. This kind of environment will not appear any time soon. In fact, only small and mid-sized enterprises in limited numbers are on the block these days. The commercialization of housing too is still in its infancy. They hardly constitute a real market environment, capable of checking microeconomic demand expansion. In the foreseeable future, at least, we should not pin our hopes on the selling of state assets as a way to control inflation. On the contrary, at a time when laws, regulations, and coordinated measures are not fully in place, we should consider the potential of selling state assets for stimulating demand at the microeconomic level.

To make the selling of state assets work as a dampener of gross demand and hence inflation, the state must impose central control on the cash income derived therefrom and firmly refuse to spend them. Other things being equal, this move will really reduce social demand backed by cash purchasing power.

Actually it is unlikely that revenues from sales can remain unspent. In the real economic world, if the units and departments holding the assets will not benefit personally from their sale, they have little incentive to put them on the block. If the state lets the units keep the money, there is no guarantee that they will put them aside and not spend them. As a matter of policy, it is better to plow revenues from sales back into production than to just let them sit idle. That way, we can solve the problem of the scarcity of production funds without

pumping more money into circulation. Therefore, the hope that selling state assets would dampen gross social demand is not likely to be fulfilled.

In that case, would the utilization of sale revenues only affect the demand structure without changing the total volume of such demand? As we all know, if the buyer is an enterprise, particularly one in production, the question of changing consumption funds into production funds will not arise and the only change will be one of the internal structure of production funds. If the buyer is an individual citizen, the transaction may result in the conversion of consumption funds into production funds, leading to a change in the demand structure. But this change is certain to be accompanied by an increase in the total volume of demand, an increase in effective social demand.

Whether the buyer is an enterprise or private individual, the money used to purchase the asset is usually idle money. Such money is part of the money supply and, although it constitutes social demand backed by monetary purchasing power, it is merely a kind of potential demand, with only a potential effect on the supply-demand relations on the commodity market and on commodity prices. But once this part of the money supply is activated through a sale and invested in production, potential purchasing power is converted into effective purchasing power. Thus, even though the act of selling a state asset and the disposal of the sale revenue do not influence the total volume of money supply and gross social demand backed by purchasing power, they would certainly increase effective social demand, which explains why a change in effective social demand would directly lead to a change in commodity prices.

On closer examination, we will also discover that even if the money used to purchase a state asset comes entirely from a private citizen and is totally reinvested in production, the increase in production funds will not necessarily equal the decrease in consumption funds. In the end, part of the revenues derived from the sale will make its way back into consumption funds. The reason is quite obvious—the money invested in production will in part be distributed as wages and bonuses. At a time when various relations have not been straightened out and enterprises still behave in a myopic way, the possibility still exists for the seller to further boost consumption funds. Thus we cannot be overly optimistic about being able to sell state assets to alter the demand structure and to relieve pressure on the consumer goods market.

Certainly, if the expansion in demand is accompanied by an equally strong or even stronger expansion in supply, then the gap between supply and demand will narrow gradually until it disappears. Prices will also stabilize. Under these circumstances, expanding social demand is not a terrible thing. But if we want social supply to grow faster than social demand, the improvement of profitability will be a key concern. Otherwise, we will only revive the old pattern of economic growth in which high

outputs are based on high inputs. In that scenario, supply cannot possibly outgrow demand. Clearly, improving profitability is a tricky problem that has long plagued China's economy. No reform measures, no matter how sound, have been able to improve profitability significantly in a short period of time. In short, the effect of selling state assets depends mostly on how sale revenues are disposed of. If they are not spent, we can reduce social demand, but the possibility of that happening is minimal. Most likely, the revenues are reinvested in production, the consequence of which is an increase in effective social demand and a corresponding decrease in social supply. Given the unlikelihood of major improvements in profitability in the near term, a rapid increase in effective social demand will only exacerbate price increases.

If we must sell state assets in the interest of reform as a whole, we should handle the revenues thus generated properly and set the volume of money supply at an appropriate level in order to prevent the gap between gross social supply and demand from widening and inflation from worsening.

On Establishing Open Market for Production Materials

40060357 Beijing JINGJIXUE ZHOUBAO in Chinese
12 Feb 89 p 3

[Article by Song Shuguang 1345 2562 0342: "Basic Thoughts on Establishing Open Sales Markets for Production Materials"]

[Text] Background Analysis

At present, China employs a dual-track pricing system for important production materials. When resources are scarce, the use of a dual-track system for a steadily expanding production materials market progressively increases the regulating function of market mechanisms, and starts to bring them into definite positive use. However, there is no denying the fact that at the same time the dual-track system really provides the foundation for illegal deals. Along with the steady decline in that proportion of society's resources that are allocated by the state for goods and materials, the abuses accompanying this dual-track system are daily becoming more evident. It should be noted that although China's market for production materials is still in a growth phase, a unified, national market has yet to emerge. Obviously, under the tremendous pressures of severe shortages and inflation, it would be unrealistic to eliminate dual-track pricing and allow totally spontaneous regulation of the market. However, if the present dual-track setup is continued, and we do not adopt effective improvements which will permit it to develop freely, there will inevitably be exacerbation of contradictions and friction for prices within the plan and outside of the plan. This will result in rampant black marketeering and, in turn, a sharp increase in the price of production materials. For this reason, under the present circumstances, we find

ourselves in a dilemma—the price of production materials cannot be opened up completely, while at the same time the present situation cannot continue.

We know that the greatest problem in China's circulation of goods and materials is that the prices of goods and materials within the plan is too rigid, while those outside the plan drift. There is no effective regulatory mechanism. Because of this, the method for resolving the problem can only assume maintenance of the dual-track system, which on one hand progressively improves within-plan allocation of goods and materials, so that it can only reflect the demands of the law of value, embodying the principle of material benefits. On the other hand, it strengthens state control of the circulation of goods and materials outside of the plan. And, the establishment of open markets for important production materials is a more feasible way of strengthening state regulatory control. To establish such markets, the state can concentrate the majority of the production materials outside of the plan, and carry out business according to the regulations set by the state, so that macroeconomic regulation policies will be embodied in the business activities of enterprises. Doing it this way will not only be in keeping with the laws and regulations concerning market activities, but will also be beneficial to the sound development of production materials markets in China.

Basic Thought

To design open-sales markets for production materials in China, it is essential that there be thorough research on China's specific economic situation, so that the open-sales market will be controllable, but at the same time cannot change into a market that cannot be totally controlled administratively. Keeping to these principles, I propose the following tentative ideas:

1. Make those large-scale, backbone enterprises which produce important production materials and those enterprises which manage important goods and materials for production the nucleus of the open market. The products of these enterprises, in addition to the direct allocation for national plans, will be totally given over to the open market. Japan's experience has been that the open market products outside of the plan consistently take up more than 80 percent of the total resources for products outside of the plan throughout society.
2. Scarcer goods and materials for production, such as steel, nonferrous metals, coal, wood, and coke, should be the objective of the open market. There can be open sales of a variety of goods in accordance with changes in market supply and demand, and these can be promptly adjusted as needed.
3. Establish a fixed arena for open trading. At present, all of the various central cities and central economic zones have markets for production materials; these markets can be converted to open-sales markets, or made a part of the arena for open trading, based on the needs of

dissimilar areas. Doing it this way will permit complete utilization of China's present market trading conditions. There will be several open-sales market trading arenas in existence, but only because of variations in geographic location, and not because of differences in administrative levels.

4. Establish one committee on open-sales market policy and another on market management. The principal mission of the policy committee will be to study the regulations on open-sales markets, and make recommendations on adjustment of regulations on market management and programs that guide policy. The management committee's mission will be to carry out the day-to-day management, consultation, coordination, and service work for open-sales markets. The management committee must see that management accords with the state's unified provisions for management of markets, so that the various levels of government do not receive policies especially formulated for their areas. If a service agency, out of dedication to the nation, feels it to be genuinely necessary, then relevant departments will carry out unified examination and approval. If the market management committee acts as the organizing and regulation mechanism on a daily basis, then it cannot deal with management activities.

5. After the entry into the open-sales market of production enterprises and enterprises that supply goods and materials, the resultant sales activity should create a model for materials in quantity, prices of goods, marketing objectives and settling accounts. Regardless of whether prices change in the market, accounts will be settled according to the market price at the time of sale. A product in the same market at a particular time can be sold to consumers only at the same price; it will not be permissible to treat sales targets differently and to have varying prices for the same commodity. Within the market, the variety, specifications, quantity, and prices of what an enterprise is buying and selling, as well as the direction in which the enterprise is going, must be published on schedule and be made public knowledge.

6. Implement a system for announcing publicly the quantity and prices of commodities available for sale. Mandate that production enterprises and goods and materials enterprises in open markets must, at set times, report to goods and materials departments and price management departments their quarterly sales volume and sale prices. Departments that deal with goods and materials and those that deal with prices will, according to the overall national situation of marketing supply and demand, submit specific guidelines concerning enterprises' production activities and market prices (the production materials outside of the plan are unified nationally by the temporary management of highest price cap).

Contracting Enterprises Not Meeting Tax Responsibilities

40060379 Beijing JINGJI RIBAO in Chinese
24 Feb 89 p 1

[Article by Wang Xingyi 3076 5281 4135: "Profits of Contracting Enterprises Increased by 21.3 Percent While Tax Revenue for the State Decreased by 9.5 Percent"]

[Text] The industrial enterprise contracting responsibility system that has shown great vitality has also caused anxiety among some people. This current management mechanism, even though enabling enterprise to acquire more profits, it still cannot guarantee more revenue for the state. Statistics show that for 1988 the local budgets of state-operated enterprises and contracting enterprises realized an increase in profits of 21.3 percent over the previous year, while taxes turned over to the state not only didn't increase, but fell by 9.5 percent. Based on analysis, the major factor in the creation of the phenomenon of cost exceeding selling price is that the quota of profits contracted to be turned over to the state by enterprises are lower than the quotas before there was contracting. According to incomplete statistics, contracting goals of enterprises of 10 provinces and cities throughout the country are 6 percent lower than the actual amount of profits turned over to the state the previous year. When signing contract agreements, some contracting enterprises want the state to assume responsibility for factors that cut profits but want to be given a break on factors that increase profits.

Contracting enterprises that surpass their contracted goals don't want to pay out one cent of this excess profit, while many enterprises that don't reach their contracted goals have no way to make up the amount of profits they should turn in. The state is the only one who ends up losing. Last year the local internal budgets of state-operated industrial contracting enterprises gained 2.5 billion yuan in profits from surpluses of their contracted goals and these enterprises grew by 32.6 percent. Very few of those that couldn't reach their goal took from their own funds to make up the difference in what they should have turned over to the state. In addition, there has been a large increase of using profits to repay loans. Last year this amount increased by 4.4 billion yuan over the 1987 level, with the rate of increase reaching 25 percent. One refrigerator factory realized a profit of 42.3 million yuan for 1988, but turned over only 7.8 million yuan to the state, the remainder was kept as profit or used to repay loans.

A point worth noting is that after contracting began, the portion that enterprises turn over to the state was nailed fast. This way the state has no way to recover extra profit caused by increases in product prices. On the other hand, when enterprises incur losses due to cost rises in raw materials they want subsidies from the state. Last year subsidies for losses incurred by industrial enterprises nationwide increased by 1.73 billion yuan. A certain television factory's goal was to turn over 5 million to the

state, when negotiating its contract for 1987, since it realized a profit of 10 million yuan. Last year this same factory made a profit of 76 million yuan, of which 40 million was due to product price increases, but its goal was to turn over only 8.4 million to the state. The factory kept all the income from the increases in product prices, with the state not getting one cent in benefit.

According to statistics, last year the economic indexes of 31,551 locally budgeted state-operated industrial enterprises throughout the nation were comparable with those of 1987, the output value increased by 14 percent, income from sales increased by 26.4 percent, the scope of these increases far surpassed the average for the entire country. In light of the above situation, the present problem that must be solved with enterprises that carry out contracting is that, along with increases in the economic benefits of enterprises, the state benefits must also be guaranteed. The quotas for turning over profits to the state for all enterprises that carry out contracting must not be less than the amount turned over the previous year and should be raised along with increases in the output value and income from sales. Profits from increases in product prices, except for necessary compensation for price increases in raw materials, should for the most part be turned over to the state.

FINANCE, BANKING

How To Perfect the Present Tax System

40060389 Beijing JINGJIXUE ZHOUBAI in Chinese
26 Feb 89 p 3

[Article by Wang Ailan 3769 1947 5695: "A Preliminary Inquiry Into Perfecting the Tax System"]

[Text] China's tax revenue system is a complex one that has been pushed forward by the wave of economic system reforms and has gone from the two-step of 1983 and 1984 of turning taxes into profits to a system that is basically characterized by numerous categories of taxes and multiple levies. Although tax system reforms have been victorious in the first battle, when compared with the continual development of economic system reforms, we can see that the task of reforming and perfecting the tax system is far from complete. Practice over the past few years has consistently shown us that the new tax system itself is full of flaws and this is reflected most prominently in the problem of how to vitalize the state-run enterprise.

With the continual deepening of reforms in the economic system, state-run enterprises have gradually come to act as independent commodity producers. If we are to vitalize the state-run enterprise, we must give it the ability to assume sole responsibility for its own profits and losses, to control itself, and to carry out its own development, and all three of these items are bound up with a tax system with a definite structure. From the experiences of the past few years with the new tax system, we can see that there are many aspects of the new

tax system that are not suitable to meeting the needs of economic development and enterprise vitalization. Below are specific points that demonstrate this:

1. *The tax burden on the enterprise is too heavy, the enterprise is allowed to retain too few profits and the enterprise has insufficient capital to update equipment and develop production.*

On the basis of study involving 69 large and medium-size enterprises in Anyang, we find that circulation taxes accounted for 53 percent of all profit taxes paid out by the enterprises, income taxes accounted for 17 percent of all profit taxes paid out, and the two taxes combined accounted for 70 percent of profit taxes paid. If we add such things as construction taxes, the energy fund, educational surcharges, and bonus taxes, we find that the enterprises paid about 80 percent of their income in taxes. This is to say, after first taking away 80 percent of their net income in the form of taxes, and then taking away another chunk in the form of contract costs, leases, and payments of profits to higher bodies, the result is that the enterprise has retained profits that represent only 10 percent of its profit tax. This hardly helps to vitalize the enterprise.

2. *There are too many reductions and exemptions and this weakens the unity and integrity of the tax laws.*

During the study of turning profits into taxes in 1983, financial demands made it necessary to adopt a policy of using taxes to squeeze out profits. Thus, tax rates for the circulation tax were set fairly high. A considerable portion of the enterprises were unable to shoulder such a burden, particularly those located in economically undeveloped areas, and thus it was necessary to carry out a widespread policy of allowing tax reductions and exemptions. This had the contrary effect of weakening the unity and integrity of the tax laws, confusing the taxpayers, and, in the end, destroying the stability of the tax laws.

3. *There are too many categories of taxes and this makes it difficult for our tax collectors.*

Before turning profits into taxes, enterprises generally had to pay only one or two kinds of taxes. After the two-step turning of profit into taxes was put into effect, what was originally one tax on industry and commerce became four, and a succession of special categories of taxes were added, such as income tax on state-run enterprises, regulatory tax, construction tax, and others. Enterprises which generally only paid two or three kinds of taxes in the past suddenly found themselves paying seven, eight, or even 10 different kinds of taxes. This was a nightmare for these enterprises. The special assessors from the tax bureaus felt that too much accounting work was required in order to collect such small amounts of taxes. And there was a widespread feeling that "taxes are too complicated."

4. There are too many temporary modifications to tax policy and this makes people feel that the tax system is not sufficiently stable.

In the course of tax system reform, we can gradually come to realize what areas of reform the people are finding difficult to understand. In practice it is difficult to fully anticipate all of the fortuitous factors that may emerge. For this reason it is unavoidable that we will have to implement temporary modifications to tax policy. However, it is not desirable to make too many modifications, for this will tend to destroy stability in the tax system, weaken the confidence of the people in the system, and, at the same time, it will foster short-term behavior by the enterprises and be of no assistance to stable economic development. There are two points to be made with regard to the current over-proliferation of modifications in tax policy: (1) The overall design of the tax system has not been thought out, and in the context of specific practice this leads to system overload, insufficient integrity in the tax laws, and such things as loopholes. (2) Economic forecasts are not playing a part in the formulation of tax reform programs.

5. The current tax system relies too heavily on the circulation tax and the tax categories are lopsided in their effect which hinders execution of the system of separate taxes.

Currently, the circulation tax accounts for the greatest proportion of tax revenues—57 percent. Income tax accounts for 35 percent, and other categories of taxes account for 8 percent. Because the circulation tax is too heavily relied on, it is unsuited for use in individual instances where the budget calls for a fixed income. And the various local taxes aren't applied to the extent they should be thus making it impossible for the local financial departments to meet their daily expenses. Under these conditions, our only choice is to turn the circulation tax into a community luxury tax. But this will make it difficult to achieve the system of separate taxes required by the central government and arouse the enthusiasm of the local governments to manage their financial affairs.

From the five points made above we can see that the focal point of the current tax system is the circulation tax and only by cutting back and lowering the rates on the circulation tax can we hope, in the end, to lower the tax burden on the enterprises, stiffen up the rules on reductions and exemptions, provide for a more stable and less changeable tax administration, and achieve a system of separate taxes. However, there are currently many financial deficits and lowering the circulation tax will cut back on state revenue, which is something we cannot do. So, we must find another kind of tax to bring in revenue, such as a local income tax and a differential land earnings tax. These two types of taxes are different from a circulation tax. The rates for these taxes are very

flexible, they can make great allowances to regulate disproportionate incomes, and ultimately they will allow for a more rational distribution of the tax burden.

In view of the five areas that were noted for consideration in reforming and perfecting the system of taxation, it is vital that the following principles be clearly understood:

1. The new tax system must be forward-looking and must meet the need for economic development in the future. Only by anticipating changing developments in future economic system reform and the inevitable factors that will arise in economic development, and then going from this to consideration of how to set up the various categories of taxes, what weight each will be given, and leaving room for flexibility, can we ensure that the new tax system suits the conditions of economic development in the future.

2. The new tax system should suit the actual situation in China. The fundamental reality in China is that economic development is extremely imbalanced. This economic imbalance is reflected in the distribution of tax burdens. Thus, under a similar tax rate enterprises in developed regions will have a moderate tax burden, advanced individual enterprises will have a somewhat lighter tax burden but the tax burden on economically underdeveloped regions will be excessively heavy. As for enterprises within the same line of business, although large and medium-size state-run enterprises have a fairly heavy tax burden, it hasn't a serious effect on them. However, looking at small neighborhood factories in similar lines of business, most township enterprises have a tough time unless they can get a tax reduction or exemption. This is particularly true now with the rising prices in production materials.

3. The tax categories should be rationally distributed and should facilitate execution of the system of separate taxes. Under the current tax system, the circulation tax plays too great a role, the various local taxes are not given enough weight, and, thus, there is no way to meet the requirements of the system of separate taxes. In perfecting the current tax system we must make the appropriate adjustments to the current tax categories, cut back on the effect of the circulation tax, place greater reliance on local taxes, and achieve a somewhat rational distribution of tax categories so as to meet the requirements of the system of separate taxes.

4. We must adopt democratic decisionmaking and science in constructing the tax system. If we are to formulate a tax system that is scientifically sound, that is appropriate to all places, and that is suitable to the actual situation as it exists in China, then we must incorporate democratic decisionmaking and science and we must encourage both theoreticians and persons engaged in actual departmental practice to air their ideas about the tax system and carry forward with penetrating discussion and demonstration of their ideas.

The author feels that the new tax system should mainly rely on a circulation tax and an income tax, and should supplement this with other special categories of taxes like a differential land earnings tax and various small local taxes. The total number of tax categories should be kept to about 20. The various tax categories should account for the following proportions of the enterprise profit tax: circulation tax should account for about 25-30 percent; income tax, around 30 percent; the differential land earnings tax and the several small taxes, around 15 percent; and the total should account for about 70-75 percent of the total profit tax. The remaining 25-30 percent should be the enterprise's aftertax profit.

Under the new tax system, the state could take about 70 percent of the net income of an enterprise in the form of a tax, and the remaining 30 percent or so could be partially taken in the form of contract responsibility or management. This would help to ensure that the state gets the greater benefit and would also help solve government deficit problems. As for the enterprises, under the new tax system, its aftertax profit would amount to between 40 and 50 percent of its realized profit. This proportion could be increased somewhat from where it is today, but we must keep in mind that lowered circulation tax rates will act to invisibly raise total enterprise profits and, with similar proportions of retained earnings, the absolute amounts will greatly increase and this will help to vitalize the enterprise.

Under the new tax system, large and medium-size enterprises in economically developed areas should prepay an income tax of about 35 percent. Their local income tax would be 15 percent and their differential land earnings tax would be a maximum of 20 percent. Their total tax burden would be: $35 + 15 + 20 = 70$ percent. This would be the maximum tax burden, but the actual tax burden of most enterprises would be roughly 60 percent.

Under the new tax system, the greatest feature would be that it allows us to properly deal with widely disparate levels of economic development, it allows us great flexibility in regulating enterprise income levels, it is suitable for all different locations and it accords with the actual situation in China. In China there are a wide variety of factors that lead to differential incomes and these lead to enormous gaps in income levels between regions and enterprises. By designing a local income tax and a differential land earnings tax to regulate this, we can rationally distribute tax burdens among the enterprises, achieve fair tax burdens, encourage competition and allow enterprises to embark upon competition under objectively equal conditions.

Reform of Personal Income Tax System Urged
40060366 Beijing JINGJI CANKAO in Chinese
15 Feb 89 p 4

[Article by Zhu Kaibing 2612 0418 0365: "Reform of the Personal Income Tax System Will Promote Honesty in Government Organs"]

[Text] The financial revenue and expenditure system that evolved under China's old system caused the government to lack proper accountability for its economic

activities. Since the government deducted taxes and profits directly from enterprises to obtain its revenue, the people who were the real taxpayers did not understand the true source of state revenue. Thus, taxpayers could not protect their own rights and interests, take the initiative to exercise their democratic rights, or exercise effective supervision over the economic activities of their government and its personnel to prevent corruption in government organs.

Thus, reform of the present personal income tax system to increase as much as possible the government's accountability for its economic activities, such as financial revenue and expenditure, and to heighten the sense of initiative of every citizen as a direct taxpayer to supervise the economic activities of their government and its personnel, has become necessary to promote honesty in government organs.

China's state revenue comes mainly from various taxes and profits paid by enterprises. After the substitution of taxes for profits, some of the profits that enterprises paid into state revenue were changed to regulatory taxes (actually income taxes). China has had a personal income tax law since 1980. But except for a very few people who have high incomes from wages, most of those whose income comes mainly from wages do not basically pay personal income taxes directly. The advantages of the state collecting income taxes directly from enterprises are that the method is simple and convenient and state revenue is relatively stable.

But the following resultant tangible problems could not be avoided:

1. Although people do not have the burden of paying personal income taxes per se, personal income taxes are actually paid for them collectively by their enterprises. This makes it impossible, on the one hand, to clearly reflect the contribution that is made to society by every worker and, on the other hand, for the people who are the real taxpayers to realize that they have the right to supervise their government and its personnel.
2. Since direct collection from enterprises obscures the true source of state revenue, it is very easy for government organs and their personnel to evade democratic supervision by the vast numbers of taxpayers and it is impossible to prevent decisionmaking mistakes that might result from the government's economic activities being centralized and mysterious.
3. Economic measures, such as collection of personal income taxes, must be used to appropriately regulate and prevent the class divisions and the resulting social conflict and unrest that would be caused by a wide income gap between the rich and the poor. But in the present personal income tax collection system, most people do not perform the duty of paying income taxes directly.

The following tasks must be accomplished to reform the personal income tax system:

1. The method of collecting personal income taxes must be changed to better publicize the fact that state revenue is "taken from the people." Personal income tax system reform should be coordinated with wage reform, and reasonable personal income tax collection guidelines must be set. Personal income tax collection guidelines should exclude in principle those who receive special incomes, such as pensions, relief funds, and disability benefits. A graduated tax rate should be used to collect personal income taxes from all of the majority of people who have lawfully earned incomes and are able to pay. After production enterprises pay their business taxes, all of their profits should be divided into two parts, one as enterprise income and the other as staff and worker bonus and welfare funds. Enterprise income taxes should be paid according to law on the first part, and the second part should be pooled separately with the wage income of each staff member and worker, from which the enterprise will deduct and turn over to the state personal income taxes monthly before paying wages and settle accounts in one lump sum at the end of the year. Units, such as institutions, organizations, and schools, will deduct the personal income taxes that each person should pay monthly before paying wages and settle accounts at the end of the year. Personal income taxes on individual income will be paid monthly by the individuals on their profits and income. Government finance departments at all levels should regularly publish detailed reports on public revenue, including personal income taxes, to enable every taxpayer to clearly understand the true source of state revenue. Thus, taxpayers will be able to take the initiative and show an interest in protecting their vital interests from being infringed upon and in supervising the economic activities of their government and its personnel.

2. Economic legislation must be correspondingly amplified and economic judicial work by tax collection departments must be improved. On one hand, legislation should legalize the income of every citizen, rationalize the burden of paying taxes, and ensure that all taxpayers can fully exercise their right of democratic supervision of the government's economic activities. On the other hand, legislation should ensure that personal income taxes are collected according to law and that those who collect them illegally are punished by law.

3. People's congresses at all levels must fully represent the will of the vast numbers of taxpayers and improve their economic supervision of the government. All of the government's particular expenditures must be made known to the taxpayers. Taxpayers should have the right to offer advice on and examine all economic activities of their government and its personnel, expose and criticize in the press unreasonable government expenditures, and propose impeachment, demand recall, and even investigate and affix the legal responsibility of government personnel who cause economic losses by making poor decisions and

committing economic misdeeds. This will put government personnel under the supervision of the vast numbers of taxpayers and eliminate government bureaucracy and all kinds of extravagance and corruption.

4. Reform of the personal income tax system must be well publicized in order to clear up doubts that it might engender. It must be explained that reform of the personal income tax collection method will only change that part of the profits that enterprises paid in the past for their employees into income taxes that are now paid personally by everyone. It will absolutely not affect the regular income and improvements in living standards of the vast majority of people. On the contrary, it will help to implement the principle of social justice. The major significance of reform of the personal income tax system is that it will completely expose the secret that every taxpayer is the true source of state revenue, guide the people to boldly supervise their government according to objective conditions, promote honesty in government organs, and help to build a better socialist democratic government.

Society 'Awash' With Idle Cash

*40060408 Beijing JINRONG SHIBAO in Chinese
25 Feb 89 p 1*

[Articles by JINRONG SHIBAO reporters: "Put Idle Funds in Society To Better Use"]

[Text] **The Money-Laden Train Passengers by Zhao Fuli**
[6392 4395 0448]

Belt-tightening at the macroeconomic level has widened the gap between fund supply and demand and has swollen the flow of funds circulating "outside of banks."

Eager to track down this undercurrent of capital, people have found it in the "little treasuries" of tens of thousands of enterprises, in the wallets of self-employed people, and in the safety boxes of trading companies, warehouses, and trade centers. However, it probably does not occur to the public that the undercurrent is also on board the trains crisscrossing the country.

One day in late 1988, the Beijing railway station was jammed with travelers. In the sea of humanity were two travelers limping along, burdened with three leather suitcases. Upon inspection, the suitcases were found to be full of bundles of renminbi to the tune of 320,000 yuan. Of course this huge sum of money was being transported legally. After inspection by public security personnel, it was taken aboard the train with no restrictions.

Similar discoveries have been made at several of Beijing's railroad stations. Yet who has a clear idea as to how much funds are being carried on board the trains? With this query in mind, this reporter conducted a round of interviews.

Comrades at the Passenger Transport Office of the Beijing Railway Bureau said that a strict ban was imposed on the transport of flammable and explosive materials this spring. To enforce the ban, open-bag searches were carried out, which have turned up a large number of cases in which travelers carried significant sums of money, ranging from 1,000 to 10,000 yuan, even tens of thousands. A few years ago those who had 1,000 yuan on them were regarded as objects of protection. In the last 2 years, uncountable travelers were laden with cash, creating difficulties for transport security. According to comrades in the Investigation Department of the Beijing Railroad Public Security Bureau, there has been a string of train robberies involving over 10,000 yuan. Between June and December 1988 alone, 25 such cases were cracked, involving a total of 480,000 yuan in money stolen, snatched, or robbed. As for thefts involving less than 1,000 yuan, they are too numerous to count.

Not long ago railroad departments did some statistics on train passenger volume and found that the volume this year increased tremendously over last year, with a daily passenger load exceeding 4 million. Among these passengers, how many are carrying 10,000 yuan with them? This reporter has made a rough calculation. Suppose every traveler has 100 yuan on hand in addition to petty cash for food, clothing, and sundry daily items. Then the amount of idle funds on board our trains every day amounts to 400 million yuan. The actual figure is much higher than this since people who carry 10,000 yuan are not unique at all.

Reportedly most travelers with large sums of money are self-employed people. Others are purchasing agents for enterprises. They travel vast distances, burdened with cash. Would it not be better to deposit the money in a bank and use such financial tools as money orders, checks, and credit cards to settle accounts? No good, according to the self-employed. They have two major concerns—they would rather hide their wealth and are worried that they may not be able to withdraw money when they need cash in a hurry. Purchasing agents too prefer carrying cash with them. Their concern is that they would be short of cash when it is needed and that "sending gifts" would be regarded as part of the quota. Also, in these days of economic retrenchment, over-the-counter trading has become the most straightforward and profitable form of economic transaction. And these transactions require cash.

According to press reports, the money supply in society today has reached 210 billion yuan. How much of this is accounted for by funds circulating "outside of banks"? Money found on trains during the spring traveling season reflects only one aspect of the situation, but it raises a profound and thought-provoking question: What are the effects of this unbridled flood of cash on economic construction?

This is an issue worthy of our serious consideration and thought.

800 Million Yuan in Cash "Outside of Banks" by Huang Yimin [7806 5030 2404]

When traveling on business, I often hear people say, "The people of Shenzhen are rich." Quite true. Statistics show that total personal savings in Shenzhen amounted to 3 billion yuan late last year. In addition, data from the departments concerned show that the Shenzhen Special Economic Zone [SEZ] (including Poan County) boasted 13,000 township individual households as of late 1988. Even conservative estimates put their combined cash holdings at more than 800 million yuan. However, the total balance of special accounts of individual households in banks amounts to only tens of millions of yuan. Where has the rest of the money gone? Why is it not in banks? To answer these questions, I talked to a number of individual householders.

Mr Zhang, an individual householder who does not want to reveal his true name, runs a store in town that sells mainly clothes and food. He also owns a restaurant, a joint venture with Hong Kong investors. He told reporters that to ensure his supply of merchandise and meet the daily expenses of the restaurant, he must have some 100,000 yuan in cash on hand. He explained that since his suppliers all demanded to be paid in cash, he could avoid the trouble of going to the bank to withdraw money if he had a substantial amount of cash on hand. He also expressed a reluctance to deposit money in a special individual household account, preferring instead to put it in a personal savings account because withdrawing money from the personal account is easier, usually without any restrictions or supervision. If he deposits money in a fixed deposit account, he can even collect higher interest.

The reporter has learned that some individual householders arm themselves with a large amount of cash to engage in illegal Hong Kong currency transactions on the black market.

In my interviews, I have heard numerous complaints about banks. An individual householder surnamed Li said, "The bank is too slow in settling accounts. Even an in-town bank takes several days. If the bank is out of town, the delay is even longer. The procedures are too cumbersome. Particularly in these days of tight money, some banks hold up a customer's money order or refuse to honor it or pay over a minor thing. Last October I received a number of money orders from outside the province. They were payments for goods. Because the other side omitted one character from the name of the payee, payment was delayed for a long time. The bank did not inform me and almost returned the money orders, causing me economic losses."

In Shenzhen, not only township individual households but also peasants are awash with cash. As the SEZ's economy developed steadily, many peasants switched to trade and commerce, either part or full time, instead of working the land all the time as they did in the past.

Besides, many peasants have relatives in Hong Kong and Macao. How much money do Shenzhen peasants really have? That remains a mystery today.

Not long ago this reporter conducted a family cash holdings survey on 18 peasant households in the outskirts. They might be tight-lipped about how much cash they had on hand, but they confided their worries to the reporter, which can be summed up as follows:

- Lack of understanding of account settlement by banks. Almost half of the 18 households could not explain clearly the accounts-settlement business of a bank and expressed concern that they might suffer if the banks in the nation erred in their accounts settlement. So they still prefer hanging on to their vast sums of money.
- Reluctance to let others know that they have large sums of money. A considerable number of peasants said that somebody was bound to find out in the end if they put money in a bank, which would lead to trouble.
- Dissatisfaction with bank service attitudes. They said that some banks treated them differently when they made deposits and when they made withdrawals. They are all smiles when you deposit money. But when you make a withdrawal, they give you a stern, unfriendly look.
- Fearing that a change in policy will lead to trouble later when they withdraw money, some peasants would rather purchase high-yield enterprise stocks and wait for yearend dividends.

It is thus clear that Shenzhen peasants are flush with cash.

This reporter believes that a top priority for banks is to think of ways to pool the idle funds in society to finance construction in the SEZ.

The Worries of a Bank President by Zhou Huashan [0719 5478 1472] and Guo Yixian [6753 0001 0341]

Fund circulation "outside of banks" has lately become the central concern of people in the economic and banking communities. How did it come about? What are its signs? How should we respond to it? Reporters recently interviewed President Wang Dezhen [3769 1795 2182] of the Agricultural Bank of Hunan Province and asked for his opinions.

Wang Dezhen said, "Fund circulation 'outside of banks' has been around for sometime but has been escalating since last year. From my own experience, such circulation takes three major forms. First, private borrowing. According to a survey our bank did on peasant households last year, private borrowing has been very active

since last year. Preliminary statistics on private borrowing in Hunan show that such borrowing amounts to over 800 million yuan. Second, inter-enterprise accounts settlement relies heavily on cash payments and sales earnings are not deposited in banks. For the province as a whole, the above-quota cash reserves of enterprises which have an account with the Agricultural Bank reach 200 million yuan. Third, enterprise fundraising has exploded. Last year enterprises which maintain an account with us alone raised as much as 600 million yuan. These days private borrowing, above-quota cash reserves, and fund-raising between them account for 12 percent of total lending by the Agricultural Bank and credit cooperatives, exerting a huge impact on the credit funds of the banking system."

Fund circulation "outside of banks" on this vast scale has serious consequences. First of all, it militates against macroeconomic control by the government. In particular, it undercuts the government's effort to cool down an overheated economy and trim the scale of capital construction. Enterprises nowadays commonly resort to fundraising to finance a large number of projects and extensive capital construction. Today a substantial share of funds raised by enterprises on their own comes from fundraising. They rely on banks to finance national priority projects and raise funds themselves to pay for non-priority projects. As a result, projects that should be saved are not saved, while those that should be scrapped are not scrapped. Second, it has boosted consumption funds and lowered enterprise profitability. In raising funds on their own, enterprises may ease the capital squeeze somewhat but at too high a price. Often they have to pay high interest, sometimes as high as 20 percent, more than double the bank interest rate. Third, fund circulation "outside of banks" reduces the sources of credit funds for banks and increases the difficulty of attracting deposits. Hunan's banking system saw its assorted deposits drop 2.05 billion yuan between September and November last year. The decline was particularly steep in enterprise deposits. The outflow of a large amount of funds created cash flow problems for the banks and affected their credit standing.

Discussing the reasons for fund circulation "outside of banks," President Wang said, "Fund circulation 'outside of banks' occurs when enterprises seek to avoid banks going after their debtors at a time when the economy is overheated, when the demand for funds is huge, when the supply-demand gap is widening, and when the government tightens credit. When funds are in short supply, special banks are slow to adapt. To recover their loans, the banks impose policies across the board, regardless of individual circumstances, making enterprises reluctant to deposit their sales earnings in banks. The lack of coordination among various banking reforms and the unsound account settlement system have also exacerbated fund circulation. These days delays in payment are becoming worse and worse. Not only are enterprises behind in payment, but so are banks. The inability of special banks to settle accounts promptly has disrupted enterprises' normal account settlement procedures. Add

the failure of cash management to keep up with other aspects of banking, and fund circulation 'outside of banks' becomes all but inevitable."

From his own practical experience, President Wang Dezhen realizes that fund circulation "outside of banks" is an insidious and extensive problem that cannot be solved by any one bank alone. What is needed is cooperation between various departments to carry out comprehensive treatment. He called on the State Council to formulate regulations governing enterprise fundraising as soon as possible. Such regulations should stipulate which projects should be so funded and the amount to be raised in order to put an end to the current unregulated situation. In demanding loan repayment from enterprises, banks should allow the latter to keep a certain balance in their accounts so that enterprises can make routine payments and avoid cash flow problems. If banks impose policies in a rigid way regardless of the actual conditions of a particular case, it will be difficult to check fund circulation "outside of banks."

President Wang Dezhen finally emphasized, "To check fund circulation 'outside of banks,' we must make a massive effort to improve banking order and shorten the transition time for funds. The People's Bank must urge and assist special banks to settle accounts expeditiously and tighten account settlement discipline. Otherwise, not only will enterprises continue to circulate funds 'outside of banks,' but banks themselves may have to do likewise."

FOREIGN TRADE, INVESTMENT

Restructuring of Foreign Trade Administration Advocated

40060370 Beijing GUOJI SHANGBAO in Chinese
18 Feb 89 p 3

[Article by Zhang Jiren 1728 4949 0088: "Some Thoughts on the Establishment of a New Order for Foreign Trade Administration"]

[Text] I. Problems in the Current Contract Management Responsibility System

Last year, contract management responsibility was implemented throughout China's foreign trade administration system. This development doubtless represents a tremendous step toward smashing the "big-pot" practice that has long prevailed in foreign trade operations, in which the central government assumes responsibility for all profits and losses, and toward overcoming the problems of stifling overcentralization and of government-enterprise overlap. Nevertheless, the form of contract responsibility that has been adopted retains strong administrative overtones and has failed fundamentally to reorder the natural economic ties between foreign trade economy and domestic markets, to free exporting from constraint by state budgetary payment capability, and to thoroughly unleash the energy of foreign trade

economy within the entire national economy. This state of affairs is very incompatible with the objective requirements of the foreign trade economy posed by the effort to establish a new order for market economy and is concretely manifested as excessive administrative interference, much command planning, little vigor on the part of foreign trade enterprises, and the absence of regulatory and incentive mechanisms rooted in economic law. After the central authorities signed contracts with localities, compulsory double-track and regional contracts were adopted across the country; that is, the contracts were effected through command planning, and contract base figures were forced on localities and enterprises, imperceptibly thrusting enterprises back into the shackles of the old product economy. This approach, which employs administrative measures to force enterprises to export rather than inducing firms to export by working through the law of value, cannot give enterprises incentive for exporting. And, especially important, following the promulgation and implementation of the Enterprise Law that further established the legal status of enterprises as independent economic entities, enterprises are to decide for themselves whether to orient their operations domestically or externally; there is no legal basis for any resort to administrative measures to restrain enterprises. In addition, failure to operate as an enterprise makes things even more difficult for foreign trade firms.

The domestic inflation index fluctuates from morning to night, the reverse gap between the prices at which commodities are purchased domestically and sold abroad continues to widen and will continue to do so as price reform advances, yet state foreign exchange rates are rigidly cast in stone. Foreign trade enterprises thus find it very difficult to operate in this environment, in which they have little room to maneuver. The fundamental cause of this malady is to be found in the fact that the previous foreign trade administrative system severed the intrinsic links between domestic and external markets, ignored the workings of the law of value, and employed administrative pressure, rather than guidance through pricing, to induce enterprises to export. The state has failed to create external conditions for external operation that are in line with conditions on both international and domestic markets, and the foreign trade operational mechanism has functioned in an environment in which domestic and external market systems are divorced from each other.

II. As a Principal Motivational Device, the Foreign Exchange Retention Policy Has Less and Less Effect on Enterprises and Is Beginning To Evidence More and More Shortcomings Under the New System

China's current foreign exchange retention system originated in the old system, in which the central government assumed responsibility for all profits and losses, and is evidencing more and more defects under the new system, because the foreign exchange retention system provides for retention of nominal amounts of foreign exchange not of actual foreign exchange, and these

nominal amounts actually carry a cost, which is computed as follows: Cost of nominal foreign exchange holding = market price for foreign exchange - state price for foreign exchange. This formula shows that the state has arbitrarily separated the price of foreign exchange into two components, causing the price of much foreign exchange to deviate from the value thereof. This state of affairs has created obstacles to measuring the implementation of circulation for foreign exchange and, even more importantly, evidenced many defects under the new foreign trade operational mechanism, as follows: (1) This has engendered an external environment in which enterprises compete on unequal footing. This shortcoming is manifest foremost in the fact that the regional disparity in retention ratios penalizes or benefits enterprises unequally. The difference in retention ratios enjoyed by open coastal regions and the interior creates manmade "congenital deficiencies" among foreign trade enterprises in various parts of the country. Second, the same holds for production enterprises. The government's share of foreign exchange retention basically is used without compensation, and whichever enterprise is able to obtain this foreign exchange will enjoy lower production costs, so that firm's products will be competitive, which will cause the market's control function to lose some of its effectiveness. (2) This has induced enterprises to seek from afar what lies close at hand and to operate crosswise, has caused export commodities to flow abnormally. Since nominal foreign exchange holdings carry a cost and are shared by the government and by enterprises, many foreign trade firms, in an effort to obtain supplies of commodities from other provinces, have adopted the competitive tactic of returning all of the retained foreign exchange of the governments and of the enterprises of those provinces to the enterprises producing the commodities. This inevitably induces enterprises to seek from afar what lies close at hand and causes commodities to circulate in the wrong direction and foreign trade enterprises to compete with each other; the outflow of wealth has not fundamentally been staunched. (3) Administrative interference separates ownership from the right to use retained foreign exchange, which is a component of enterprise profits and a form in which enterprise profits exist, enterprises should have the right to dispose of their foreign exchange as they wish. But in fact, when enterprises go to use their retained foreign exchange, they commonly encounter demands by departments and localities for equality, and governments effect uncompensated transfers or underpriced readjustments of enterprise retained foreign exchange. This causes demand for foreign exchange to mushroom and depresses foreign exchange readjustment markets. (4) The visibility of nominal foreign exchange holdings is very low and the turnaround cycle is long, which makes this type of holding unattractive to producer enterprises. For such firms it takes at least 100 days from the time of delivery, sometimes as long as a year, to receive their share of foreign exchange, and enterprises producing small lots for export, especially, have to spend a much longer time building up foreign exchange holdings for use, which makes returns even

worse. For society as a whole, this indirectly ties up large quantities of renminbi. A survey of a number of producer enterprises found that more than 80 percent wanted payment in renminbi, not foreign exchange. This demonstrates that the true motive of producer enterprises to produce for export is not to obtain foreign exchange but the law of average profit margin. That is to say, when the price of nominal foreign exchange holdings, plus bonuses, plus the foreign trade procurement price is greater than or equal to the production price (production cost + average profit), enterprises will have an incentive to produce for export; otherwise, they do not.

III. Seize Advantageous Opportunities, Improve the Market System for Foreign Exchange, Establish a New Order for Foreign Trade Operations, and Enable Foreign Trade Operations To Move About in an Environment in Which Domestic and External Markets Are Organically Mixed

Foreign trade is a component of the national economy and an element among market economic cells, and they permeate and condition each other. China's current effort to reorder prices and to establish a new order for market economy objectively requires a commensurate new order for foreign trade operations, and the establishment of a new order for market economy provides a unique opportunity for the creation of a new order for foreign trade operations. Thus we must seize this fleeting opportunity to effect fundamental change in the foreign trade operations system so as to meet the objective needs associated with the establishment of a new order for market economy.

A key issue in establishing a new order for foreign trade operations is to perfect the foreign exchange market system, which should be used as a basis for the establishment of a series of commensurate control mechanisms. This will involve intricate systems engineering and must be carried out in step with the establishment of the new order for the entire market economy and make a smooth transition. We must use careful planning and complete testing and not proceed rashly. Here I should like to discuss some ideas regarding key elements of this new order for foreign trade operations.

1. Establish a foreign exchange taxation system and let foreign trade enterprises bear full responsibility for their profits and losses and to operate freely. This will enable the state to meet its need for foreign exchange from three sources. The first source is through the appropriate establishment by the state of a foreign exchange taxation system, under which commodities would be regulated through differentiated tax rates and the state would share foreign exchange tax receipts with localities. The second source is the situation in which the central authorities, when in need of foreign exchange, would, like all enterprises, go to foreign exchange markets to buy what they need, thus enabling markets truly to reflect the relationship between supply and demand for foreign exchange and creating the conditions for exchange of foreign

currency on equal footing. In addition, in participating for budgetary purposes, in market exchange of foreign currency, the state can control prices and guide markets. The third source is the foreign exchange earned from the commodities (which are few in number) that must be handled by the central authorities in a unified fashion and jointly transacted, such as petroleum, coal, and cotton. Once the foreign exchange taxation system is established, all enterprises engaging in foreign trade would, upon approval by the state, take full responsibility for profits and losses, be allowed to operate freely, compete on equal footing, and face possible weeding out. With the exception of the amounts paid to the state as tax, all foreign exchange earned by foreign trade enterprises would be controlled and used by the enterprises themselves, and the enterprises would have to balance their foreign exchange holdings themselves. There are three advantages to adopting this system. First, the system would smash the "big pot" practice that has long plagued foreign trade operations and place the development of foreign trade under the constraints of fiscal capacity. Second, the state's needs for foreign exchange would be assured through legal and economic, not administrative, measures. Third, the system would create the external conditions for the organization of foreign trade as an enterprise-type operation.

2. Abolish the foreign exchange retention system and strengthen the regulatory function of prices. Once the foreign exchange retention system is abolished, foreign trade enterprises would be able to use the original value of their nominal foreign exchange retention holdings as price subsidies with which to procure commodities, which development would enable the firms to compete on money markets on equal footing with all other types of enterprises and enable prices to stimulate and guide export production. Handling the various economic interest relationships that obtain between foreign trade and producer enterprises in accordance with the requirements of the law of value would enable us fundamentally to free ourselves from administrative interference from various quarters. Once the foreign exchange retention system is abolished, producer enterprises needing to import advanced technology or equipment, raw materials, or accessories could go to markets to purchase foreign exchange and commission foreign trade companies to import on their behalf or order from foreign trade companies, which would then do the importing.

3. Establish a foreign exchange market system and fully decontrol foreign exchange markets. China's foreign currency exchange markets have already emerged in embryonic form, but there remains a series of tasks that must be done to erect a complete foreign exchange market system centered on foreign currency exchange markets. First of all, we must change the current exchange of nominal holdings to an exchange of real foreign currency, restore the original state of affairs in which foreign exchange was circulated at full value, and permit enterprises to open foreign exchange accounts at specialized banks designated by the state, and permit

enterprises to make deposits and withdrawals freely. Second, we must smash the fetters of sectoral and regional autarky that plague foreign exchange readjustment markets and permit foreign exchange to flow the length and breadth of the nation and to be sold on markets designated by the state. Third, we should expand the range of goods that are domestically purchased with foreign exchange and encourage enterprises to use foreign exchange to buy domestic substitutes for imported equipment, raw materials, and accessories. Fourth, the state must develop its function of guiding foreign exchange markets and use foreign exchange credit and purchases and sale of foreign exchange to stabilize and control markets. Fifth, foreign exchange credit should be increased, and short-term foreign exchange lending should be invigorated.

4. Readjust foreign exchange rates.

5. Perfect laws and regulations governing foreign exchange, and strengthen auditing and supervision.

Official Reveals 1988 Trade With U.S. Reached New High

*40060367a Beijing GUOJI SHANGBAO in Chinese
25 Feb 89 p 1*

[Article by He Lun 0149 0178: "Development of Sino-U.S. Trade Requires Strong Cooperative Effort by Both Sides; Ministry of Foreign Economic Relations and Trade Official Discusses Sino-U.S. Trade Relations"]

[Text] On the eve of U.S. President Bush's visit to China, reporters interviewed Liu Zepu [0491 3419 0944], Director of the Ministry of Foreign Economic Relations and Trade's Third Regional Affairs Department, concerning issues in Sino-U.S. trade relations.

Director Liu Zepu, whose responsibility is Sino-U.S. economic and trade relations, stated at the outset that last year trade between the two countries reached an all-time high. Chinese statistics indicate that Chinese exports to the United States totaled \$3.377 billion, an 11.18-percent increase over 1987. Chinese imports from the United States totaled \$6.629 billion, a 37.23 percent increase. The Sino-U.S. Joint Economic and Trade Commission, which convened its intermediate phase conference at the outset of this year, acknowledged that 1988 was one of major significance for economic and trade relations between the two nations. In the area of joint investments, direct U.S. investments in China amounted last year to \$3.3 billion, keeping it in first place among all nations investing in China. Chinese investment in the United States also moved forward, as the China National Chemical Import and Export Corp. purchased part of the shares in the Occidental Oil Company's California refineries, further strengthening Sino-U.S. cooperation in the petroleum industry and trade.

When discussing prospects for Sino-U.S. foreign trade, Liu Zepu noted that the economies of the two nations are not at the same level of development, so there are a great many areas in which they can complement one another. In comparison to others, the present trade volume between the two nations is still quite small, with its potential still far from being fully realized. The potential for economic cooperation is also not yet maximized. There only needs to be a strong effort by the two sides, and prospects for economic and trade cooperation are excellent. Viewed from the present situation, the first step must be to eliminate artificial barriers.

What is meant by "artificial barriers"? Liu Zepu explained that the Chinese government wishes to develop a long-term, stable, economic relationship with the United States, with no discriminatory regulations on products coming from or exported to that country. However, the United States has placed different types of restrictions on Chinese textiles, iron and steel products, and tungsten products, and in the matter of "antidumping," has been unfair to China. As for U.S. exports, high-technology exports to China are tightly controlled. Placing restrictions on Chinese export products weakens China's ability to make payments, which in turn could affect Chinese imports.

As for the "intellectual property rights" issue raised by the United States, Liu Zepu stated that the Chinese government has been especially serious about protecting these rights. There now are relevant laws and measures where there previously were none, and there is now a process. Regardless of whether it is intellectual property rights or some other issue, the two sides should respect one another's differing economic and legislative systems, and try to comprehend each other's national characteristics. Consequently, the question of "intellectual property rights" ought not become a barrier to Sino-U.S. economic cooperation.

Beijing Expanded Foreign Trade, Investment in 1988

*40060392B Beijing JINRONG SHIBAO in Chinese
21 Feb 89 p 2*

[Article by Yang Ling 2799 3781: "148 Foreign-Funded Enterprises Approved in 1988"]

[Text] Taking advantage of its position as the capital and firmly supporting the development of an external economy, Beijing's foreign economic trade saw new developments in 1988. Agreements totaling \$425 million in 148 foreign-funded enterprises in Beijing received approval. They attracted \$146 million in foreign funds, a record high.

The newly approved foreign-funded enterprises exhibit four clear characteristics: 1) more investment projects, 1.06 times that of 1987; 2) more projects of a productive nature, 83.1 percent of all projects; 3) more regional and

county projects, 98 of them; and 4) more wholly foreign-funded projects. Six wholly foreign-funded enterprises were approved, in contrast to only one such enterprise during the previous 9 years. From the beginning of the opening up to the outside world until now, the municipality of Beijing has approved a total of 409 foreign-funded enterprises with \$3.878 billion agreed on, and has attracted \$1.796 billion, approximately \$900 million of which has been used. The investors originate from more than 20 countries and regions.

Beijing has also taken a big step in its use of foreign government loans. In 1988, 36 new projects were approved. New agreements for loans totaling \$260 million were signed, mainly for use in municipal infrastructure projects. So far, foreign government loans involving 11 countries are being used for 63 projects throughout Beijing at a total of nearly \$600 million.

In 1988, exports from Beijing struck the \$1 billion mark, a new record. According to preliminary statistics, exports for the entire year reached \$1.17 billion, a 15.25-percent increase over 1987. Drawnwork, machinery, and automobile exports exceeded their plans by more than 50 percent. Foreign invested enterprises [FIEs] exported \$14.14 million, 3.5 times the original plan. Exports of machinery and electronics products clearly rose, to \$210 million. Technology exports showed a return for the first time, earning \$3.03 million in foreign exchange, 10 times the 1987 figure. More than \$6.8 million was transacted. Foreign trade sales were 4.1 billion RMB, 18.4 percent higher than in 1987.

Beijing united foreign investment with the development of foreign trade. In 1988, 328 foreign technology transfer agreements were signed, valued at more than \$132 million. The direction of technology transfer investments is focused on exports from the light and textile industries, which account for 44.5 percent of the total invested. More than 300 projects have digested, absorbed, and brought forth advanced techniques. Enterprises have enhanced their productivity, developed a large group of new and competitive products, and initiated exports. Right now, more than 400 other technology transfer projects are being digested and absorbed.

Beijing is emphasizing improving the investment environment. It has thought of myriad ways to create advantageous conditions to attract foreign investment and has made initial headway in its utilization. The municipal government established a foreign investment control committee responsible for investigating and making decisions on important foreign investment issues. It is gradually opening a window to the outside world. Beijing also strengthened its controls over foreign-funded enterprises. In 1988, one pertinent government department after another carried out major investigations of the 76 enterprises belonging to FIEs. They discovered that the enterprises face 243 problems in production management. Welcomed by the enterprises, leaders from various levels penetrated the enterprises to work on site. They

had the final say on problems that could be solved. The municipal government further perfected district regulations, coming out with a group of policy regulations to attract foreign investment. It issued eight new regulations to encourage foreign investment, including simplification of the examination process for investment projects and of bank lending and customs inspection procedures, enactment of joint-venture autonomy, and simplification of country exit application and approval procedures for joint-venture personnel. Beijing also transferred to lower levels jurisdiction over foreign investment project examination and approval. Now, districts, counties, and bureaus all have jurisdiction over projects worth less than \$5.0 million. They can receive approval certificates within one week of submission of reports to superiors.

Beginning in 1988, for foreign-trade enterprises and producer enterprises, Beijing commenced a dual-track contract (i.e., foreign-trade enterprises contract for export and exchange-earning quotas; producer enterprises contract for product-supply quotas). It also inspired enterprises and workers to export more by formulating policies to encourage more exports and more exchange earnings. Six foreign trade companies in the light, handicraft, and clothing industries improved their administration and management, assuming full responsibility for profits and losses. They exported a total of \$485 million, 19.42 percent more than in 1987, surpassing their export quota. Based on the principle of easing administration, Beijing has handed down import-export management authority, allowing medium- and large-size producer firms who have the conditions to do so to export directly the products they themselves produce. At present, 34 enterprises or enterprise groups including the Huanyu Electronics Co, the First Machine Tool Co, and the head plant of the People's Electrical Appliance Co have this authority. Likewise, control over district and county foreign-trade companies has been passed down to district and county governments. A group of united exporters has developed, strengthening links between industry and trade, and promoting export production. The Jewelry Import-Export Branch Co, together with 52 state factories nationwide, formed the "Beijing Jewelry United Export Group." The Beijing Electronics Import-Export Co and other units formed the "Peony United Group" of leading TV products under the "Peony" brand. Beijing also energetically developed processing of imported materials, raising the proportion of products produced with "both ends abroad." In 1988, imported materials processors in foreign trade spent approximately \$200 million. Products processed with imported materials accounted for approximately 45 percent of total exports.

Chongqing Achieves Increases in Silk, Electronics Exports

40060367c Beijing GUOJI SHANGBAO in Chinese
16 Feb 89 p 1

[Article by Zheng Zhiming 6774 1807 2494: "Chongqing Developing Expanded Exports of Silk and Electronic Products"]

[Text] In the 6 years that Chongqing has been managing its own exports, foreign exchanged earned from exports

has amounted to \$8.4 billion, of which \$2.68 billion was realized in 1988. This is a 20.2-percent increase over 1987. There have been 171 contracted projects utilizing foreign capital amounting to more than \$695 million. Some 42 enterprises that were started with foreign investment are carrying out 71 projects using foreign funding contracts worth \$544 million. Another 18 enterprises were started up with foreign investment. These account for 71 percent of the enterprises, a 3.6-fold increase in projects, and 75 percent of the income, of the 5-year total. There have been more than 70 projects and labor service contracts started with foreign enterprises, and the contracts for these have been worth in excess of \$150 million. The number of technical personnel sent abroad to serve has been more than 3,500. At present, Chongqing has established economic and trade relations with more than 120 nations and regions.

In order to expand the amount of foreign exchange from exports, Chongqing has been taking advantage of the city's industrial superiority by formulating and putting into practice a unified commercial strategy based on "soft" (which mainly means silk products) and "hard" (which mainly means electronic products) goods. The guiding system behind their taking the lead in the silk industry has been some bold reforms. Since January, 1986, silk businesses reporting to municipal textile enterprise departments have officially been under the direct control of the municipal economic trade commission. This thoroughly changed the former corrupt system whereby enterprises in the silk industry had fixed production quotas and blindly pursued profits, etc. What took shape was an excellent situation in which production quotas were eliminated and international markets were taken as the guide. Industrial relationships were also changed from the former loose alliance to a true whole. Also, they have put tight, unified controls on the management, production, and marketing of silkworms and silk products. Thus, the overall development of the silk industry was advanced. The foreign exchange realized from exports and the profits were increased accordingly. The foreign exchange earned from exports in 1988 was \$43.52 million, making it Chongqing's largest industry which is oriented to the outside.

Chongqing, in order to fully exploit its basically rich, full range, technologically strong electronic industry's potential, has all along made expansion of electronic products for export the main direction of attack relentlessly promoted. In such areas as raw materials, energy resources, funding, transport, imported technical transformation, utilization of foreign exchange reserves, staff benefits and awards, etc., they have drawn up a series of favorable policies designed to encourage imports. These have been clearly successful. Exports of electronic products amounted to \$46.72 million in 1988, vaulting these to first place in foreign exchange earned from all the municipality's exports. These products proportion of Chongqing's exports increased from 1987's 11.4 percent to 18 percent.

Shanghai Enterprises Use Foreign Trade Agency System

40060392A Shanghai JIEFANG RIBAO in Chinese
12 Feb 89 p 1

[Article by Wang Chengfeng 3769 2110 0023 and Zhang Zhiyuan 1728 1807 6678: "Actively Trying Out Export Agency System and Strengthening Foreign Business, Seven Foreign Trade Units Independently Contract To Earn \$38 Million This Year"]

[Text] Shanghai's machinery and electronics enterprises, which were the first to implement the export agency system, are now producing and distributing to the European and U.S. markets a group of popular products, such as BBC electrical appliances, SW micro-bearings, SMTW precision grinders, V1000 large-scale lathes, S drill bits, etc. The world-famous BBC and (?Olympia) companies of West Germany, and the Peer Bearing Co, one of the top 10 U.S. bearing firms, all want to distribute these Shanghai machinery and electrical products. Some even suggest technical or trade cooperation. The famous U.S. GM and GM Parts Corporations both ordered large-scale precision grinders exported from Shanghai.

The Shanghai Machine Tool Co is both an example of an independent developer of global markets within the municipality's machinery and electronics industry, and China's first large-scale enterprise to engage in the foreign trade agency system. The firm's former export-product procurement system has become an agent system. It has the right to negotiate, quote prices, and sign foreign trade agreements, and is beginning to have the right to initiate exports. In October 1984, the firm set up a company called "Yikao Taike" in Atlanta, Georgia, under a joint venture with the Hong Kong/Shanghai Industrial Co and a West German firm in order to enter the United States, the world's largest machine tool trading market. The company specializes in promoting sales of medium- and high-quality grinders exported from the Shanghai Machine Tool Co. By organizing 22 component-parts retailers and 125 salesmen knowledgeable about the U.S. market for grinders, it has made a start with a sales network covering the 40 states comprising the main industrial area of the United States. Both the famous GM and GM Parts Corps have ordered and are using the firm's exported SMTW grinder.

At present, enterprise groups and enterprises such as the Shanghai Machine Tool Co, the Standard Parts Co, the Shanghai Micro Bearing Plant, the Shanghai Tool Co, the Shanghai Diesel Engine Works, the No 1 and No 2 Petroleum Machinery Plant, and the Shanghai Electromagnetic Wire Plant are using the foreign trade agent system. These enterprises are attempting to learn from the experience of the Shanghai Machine Tool Co. When exporting, they stress the role of information on products for the global market, putting their full force behind establishing and expanding sales networks. At the same

time, they further strengthen cooperation between industries and trade. The enterprises send their own people to foreign trade import and export companies to learn about industry conditions. Foreign trade units transmit information on their own about international markets so they can develop foreign sales channels in a timely way. This allows exporting enterprises to improve their designs and technical levels, and to continuously upgrade their products' capabilities by learning of the kinds and varieties, quality demands, and technical specifications on exports for the global market as soon as possible. For example, the Shanghai Great Leap Electrical Appliance Plant heard that the national standards of many industrially developed countries and those of famous companies are now commonly higher than those in general use internationally, so it further improved the designs and techniques for its products from their original basis on International Electronics Council (IEC) specifications. As a result, the enterprise's exported electrical appliances not only meet the standards of DIN of West Germany, but even meet those of the famous West German company, BBC. Consequently, many long-standing customers of BBC electrical appliances cannot distinguish the Shanghai Great Leap Electrical Appliance Plant's products from those of BBC. The plant's electrical appliances, totaling \$15.5 million, are now exported to 17 industrially developed countries and regions including Japan, West Germany, Britain, and the Netherlands. After digesting and altering the specifications of ANSI of the United States and DIN of West Germany to make its own in-house standards, the Shanghai Standard Parts Co's exports can now enter the European and U.S. markets without hindrance. Each year, it earns more than \$10 million in foreign exchange.

Use of the foreign trade agent system and pushing producing enterprises and enterprise groups to the front line of global markets has matured their foreign business mechanisms. Many have changed their former orientation mainly concerned with domestic sales to a foreign outlook. This has created a backbone force of enterprises that are knowledgeable about production technology as well as cognizant of foreign trade. They are a model for management which produces according to international practices. At present, many enterprises in the Shanghai machinery and electronics industry can quote prices within two days in response to inquiries from foreign businessmen and have sample products out in two months. Use of the foreign trade agent system has given enterprises and enterprise groups the ability to export independently. Now, pertinent departments have granted permission to five enterprises and two enterprise groups within the Shanghai machinery and electronics industry to be independent exporting units. They have the status of legal entities just like foreign trade companies. These seven units contracted to earn \$38 million in foreign exchange this year, equivalent to one-quarter of the exchange earnings quota of the Machinery and Electronics Bureau.

AGRICULTURE

Reform Plan Outlined for Grain Procurement, Market System

40060361 Beijing JINGJI CANKAO in Chinese
10 Feb 89 p 4

[Article by Li Zhuqi 2621 0031 0366 and Yin Chengji 1438 2052 1015, (?Department for Overall Reform Pilot Project), State Council: "Ideas About Reform of the Grain Procurement and Marketing System"]

[Text] Strengths and Weaknesses of the Prevailing Grain Procurement and Marketing System

The prevailing grain procurement and marketing system includes both purchases and sales. After fixed procurement contracts replaced the centralized procurement of grain in 1985, both collective and individual flow channels for the sale of grain were increased. This was the result of reform of the grain procurement and marketing system during the past several years. The signal contribution of this reform was that it did away with the centralized procurement and marketing system that had endured for many years in the product economy. It took a step of major significance toward making grain a commodity, and generated very great impetus toward the development of an overall rural commodity economy. Nevertheless, practice has shown various weaknesses to exist in the prevailing grain procurement and marketing system, and numerous new anomalies have shown up in the process of implementing it.

In grain procurement, the main problems are as follows: (1) Fixed contract procurement is both a contract and a quota. This mixes commodity exchange principles with state administrative control principles. It forces the "combining of two into one" of contracts and quotas, which should be kept separate. Not only is this difficult to reconcile with legal principles, but it occasions much inconvenience in practice, and the peasants are very resentful. (2) Although the "double-track system" is an effort to resolve price problems resulting from fixed contract procurement, when instituted against a background of an ever-increasing shortage of grain, the market price is bound to be higher than the fixed price, and the trend is toward a steady widening of price differences. This forces the government to raise the fixed price year after year, yet the peasants remain reluctant to sell. At the same time, the price differential between parity and negotiated prices has two results. First, it causes peasants not to want to fulfill, or to seek to evade, fixed procurement quotas, and it provides opportunities for grain speculation. Under these circumstances, it is very difficult in practice to achieve our original purpose of "deadening one area and enlivening one area." (3) The "three linkages" policy augments the fixed contract procurement system, the state seeking to supply at parity prices some of the means of production as a way of compensating grain-producing peasants for fulfilling fixed procurement quotas. To a certain extent, this can

reduce the effect on peasants of a rise in prices of the agricultural means of production, but it also gives peasants the false notion that the state is making up the entire price differential between fixed procurement and negotiated procurement through the "three linkages"; consequently, they feel the linkages are too little. However, the state cannot make up this price differential entirely, so there is ambiguity about the portion that peasants must hand over without compensation. Furthermore, when prices of the means of production are on a "double-track system," the "three linkages" can be very easily exploited by those who abuse power for personal ends and by profiteers. Though the "three linkages" play a positive role, they are time consuming to apply, and frequently little is gained from the expenditure of much labor. Moreover, in a fundamental sense, to allow some means of agricultural production to stand alone outside markets, circulating through designated channels at designated prices, also violates the principles of commodity flow and adds new anomalies in reform of the commodity circulation system.

In the marketing of grain, the centralized sale system has remained substantially unchanged for the nonagricultural population. This "supply system" model plays a positive role in a product economy, but in a commodity economy, its shortcomings are marked. The principal ones are as follows: (1) The centralized marketing area is too broad, and the ration set for the urban population is a little high. Since 1985, there has been an "inversion" between the amount of procurement and sales, the state having no choice each year but to import grain to make up the shortfall. At the same time, extremely large amounts of grain remain in the hands of urban residents (including amounts recorded in grain account books), and this also represents a substantial latent purchasing power. (2) Centralized sale prices are too low. With the large increase in amounts sold and a rise in the procurement price, state subsidies for the price differential that results from the inversion of procurement and sales, and for losses amount to three-fourths of total price subsidies, or roughly more than 10 percent of financial expenditures, and the future trend is toward increase. (3) The low price and the large amount of centrally marketed grain not only stifles producers' initiative but, conversely, stimulates excessive consumption and even waste of grain. Specifically, the country's consumption of grain for animal food and alcoholic beverages has shot up in recent years, the increase in annual grain consumption greatly exceeding the increase in production. A shortfall between grain supply and demand has occurred for 2 consecutive years since 1985. In cities throughout the country, an abnormal situation exists in which grain shortage and grain waste exist side by side.

In short, the current grain procurement and marketing system is no longer suited to the requirements for development of a planned commodity economy. We should resolve to reform the system.

Basic Lines of Thought Regarding Reform of the Grain Procurement and Marketing System

The key to reform of the country's grain procurement and marketing system lies in proceeding from conditions as they exist in China, paying close attention to the limitations that natural and economic laws impose on grain production and consumption, and correctly bringing into play the regulatory role of state administrative intervention to ensure basic stability in grain production and grain supply. With this as a basis, the goals of reform of the country's grain procurement and marketing system should be as follows: building of a grain procurement and marketing system over which the state has the capability to exercise needed control, that is in keeping with the needs of a commodity economy, and that remains stable for a rather long period of time. On the supply side, the state should ensure sources of grain through an agricultural grain levies tax, procurement in domestic markets, and imports from the international market. On the marketing side, the state should ensure only fixed grain rations for urban residents, the armed forces, and reserves needed to regulate grain prices, needs for all other grain being satisfied through market exchange. Specific actions to be taken are as follows:

1. Appropriate readjustment of agricultural tax rates, and full implementation of an agricultural grain levies tax system. Tax rates would be readjusted at three levels. First would be a re-assessment of base figures used in the taxing of different grades of land. Since agricultural taxes are levied largely on the basis of yields, this would make the burden fair for different quality land. Second is including in the agricultural tax the voluntary service that peasants render at a low price (i.e., that portion equivalent to the differential between parity and negotiated prices), which is now included in contract fixed procurement, as a means of strengthening peasants' concept of the "state grain tax," making a distinction between the voluntary service that citizens must render to the state and market exchange at equal value. Third, once the above two measures have been implemented, a rise may occur in the real agricultural tax rate borne by peasants, but not higher than a previously set 15.5 percent, which is vastly smaller than the present fixed procurement amount.

The basis for these actions is as follows: The present method used for figuring the agricultural tax still follows the provisions of the 1958 "People's Republic of China Agricultural Tax Regulations." The agricultural tax rate set at that time averaged 15.5 percent nationwide, with individual provinces and autonomous regions instituting different tax rates. The average annual output on which the agricultural tax was levied was only 270 billion jin nationwide (converted to fine grain), which was only 78 percent of the actual 1957 output, making the tax rate 11.3 percent. Despite substantial advances in agricultural production during the more than 30 subsequent years, particularly during the last 10 years, no major readjustment of the agricultural tax has ever been made.

In 1987, the actual agricultural tax rate fell to 3.16 percent, an all-time low. With improvement in agricultural production conditions, inequities in the agricultural tax burden borne by different areas have become increasingly serious, and the difference in the burden borne by new and old commodity grain production areas is very great. Consequently, readjustment of the agricultural tax to make fullest use of the role of the tax collection lever is imperative.

Not only is an increase in agricultural taxes necessary, it is also reasonable. In 1965, China's grain output totaled 389.1 billion jin, peasants paying an agricultural tax of 28.8 billion jin. Thus, the actual tax rate was 7.4 percent, much higher than the present actual tax rate. In addition, when a peasant fulfills a fixed procurement contract today, this actually includes peasant compulsory service to the state. Since this is not made explicit, peasants mistakenly suppose this is "exchange of unequal value." We estimate preliminarily that an increase in the average annual grain output on which the agricultural tax is calculated, from the 270 billion jin of 1958 to 700 billion jin (actual output of more than 800 billion jin being reduced by more than 100 billion jin for needy areas and for an output decrease resulting from disasters), would be tantamount to reducing the agricultural tax from the 15.5 percent of 1958 to the approximately 7 percent of 1965, and the actual amount of grain used to pay the agricultural tax would be more than double the current 22.2 billion jin. This would still be less than half the fixed procurement amount of 100 billion jin. China has a 1.65-billion mu cultivated land area, between approximately 1.1 and 1.3 billion mu of which is used for growing grain after subtracting the area used for growing cash crops and the disaster-afflicted area. The average agricultural tax per mu is 40-odd jin of grain, or about 9 percent of the average yield per mu nationwide. If the agricultural tax burden for the cash-crop growing area is factored into the grain tax, the burden on grain fields is reduced somewhat. Thus, the state will be able to get between 40 and 50 billion jin of grain by levying an agricultural tax in kind on grain. Pushing forward with an agricultural tax payable in kind positively does not mean a retreat to a product economy. What is wrong with changing an unworkable money substitution system? By so doing, the country can secure a consistent source of grain, and this is of crucial importance in evening out nationwide grain supply and demand. Therefore, readjustment of the agricultural tax is inseparable from reform of the grain procurement and marketing system.

2. Opening up grain markets to allow peasants to sell grain after paying taxes, simultaneously canceling the contract fixed procurement system and the conversion of negotiated prices to parity prices. Each year, the state could buy approximately 40 billion jin of grain from the peasants in domestic grain markets. In a bumper harvest year, it could buy more for use as a reserve. In disaster years, it could buy less. The procurement method could be either spot transactions at the market price or trading

in futures. It would be best to use the futures trading method for the most part, signing futures contracts with peasants each year before the grain-producing year begins, arriving at a set price through discussion with the peasants that is based on the market price for the current year and the anticipated price for the coming year. Contracts could be signed 1 year at a time, or for several years at a time. In this way the principle of placing orders through contracts would be reflected in its true sense. The state could use order contracts to guide hundreds of million peasant households to select the optimum course in farming, while also providing peasants a sense of stability during market fluctuations.

3. *The state can import 20 billion jin of grain annually as a supplementary source of grain supply.* Annual grain imports are necessary in order to make up for the domestic shortfall between supply and demand for grain, but large-scale imports pose a problem. First of all, the country has a limited foreign exchange payment capability, and the grain supply available from international grain markets is also limited. Maintenance of annual grain imports at around 20 billion jin is about right, and the specific amount to be imported each year may be adjusted on the basis of domestic grain production and international market supply and demand. Most of the imported grain would be used to augment national reserves and to solve grain problems in the country's three major cities and in grain-short provinces.

4. *Curtailment of the amount of centrally marketed grain to enable the market price gradually to approach procurement price, and to make the grain ration to urban residents an open subsidy rather than a hidden one.* Statistics show that accompanying the gradual reduction in fixed grain procurement in recent years, sales of grain at parity prices have increased steadily. The shortfall between procurement and sale of grain at the parity price now comes to approximately 40 billion jin. This means that the country has no choice but to "convert negotiated price to parity price" and to import to make up the shortfall. It is estimated that grain sales can be held down by 40 billion jin while still supplying grain rations to urban residents, providing the armed forces with grain, and maintaining grain reserves for use in regulating prices. This includes 10 billion jin of grain used as raw materials by food plants, 10 billion jin of grain used as livestock feed, and 13 billion jin of grain bought back by rural villages (while retaining grain supplies for use during disasters and for the old, the young, people in border regions, and the impoverished), and grain used in types of urban production work. In addition, the state has to readjust in two ways the portions for which supply is guaranteed. The first such readjustment is in the 4 billion jin per year surplus in urban grain rations nationwide. Since consumption of meat, eggs, milk, and such nonstaples has increased greatly, standards for providing grain rations to urban residents should be suitably readjusted, and actions taken to recover as quickly as possible grain ration coupons that have accumulated in other hands than those to whom they were issued. The second

readjustment is a gradual rise in price of the rationed grain supply to something approaching the market price, while increasing residents' grain subsidies correspondingly, thereby making a hidden subsidy an open subsidy. Efforts should be made to eliminate grain subsidies concomitant with wage reform, urban residents' grain rations not being sold at a fixed price. This means guaranteeing city and town residents that grain will be available to buy, but freeing its price, state grain shops selling grain rations at a slightly lower price than the market price.

5. *Simultaneous with abolition of the "fixed grain procurement system," the grain price "double-track system," and the "three linkages," price restrictions on the agricultural means of production should be abolished. Either there should be no differential between parity and negotiated price, or the state should centrally designate channels for making purchases or sell them exclusively.* Since producers and dealers in the agricultural means of production are primarily state-owned enterprises, the state can easily control them through economic, legal, and administrative methods.

Feasibility and Strategic Significance of Putting the Above Ideas Into Practice

We have made a preliminary validation of the feasibility of the foregoing ideas in the following several main regards:

1. Whether state control over 100 billion jin of grain is sufficient to ensure basic grain supply. At an average rate of 30 jin per person per month in 1987, by the year 2000 the required urban grain ration will be 90 billion jin, given a normal rate of population increase and a maximum population of no more than 250 million people requiring grain rations. At the present time, the ration standard is somewhat too high, and if the monthly ration were reduced to 25 jin per person per month, only 75 billion jin of grain would be required. Approximately 10 billion jin of grain is used annually for the armed forces and for disaster relief, and this amount will remain basically stable, generally speaking. Therefore, for some time to come, state control over 100 billion jin of grain will fully ensure basic grain supply needs.

2. Financial burdens will not increase. Our preliminary estimate shows that abolition of fixed contract procurement can save more than 6 billion yuan in financial subsidies; abolition of both the "three linkages" and "conversion of negotiated prices to parity prices" can save more than 4 billion yuan in financial subsidies. In terms of the make up of prices and expenditures, reduction of the amount of grain sold at parity prices by 40 billion jin can reduce financial subsidies by 4.5 billion yuan (including 1.5 billion in business losses, 1.1 billion yuan in payments for reserves, and 1.9 billion yuan in price-differential subsidies). These items add up to a total financial saving of approximately 14.5 billion yuan. If the state purchases 400 billion-odd jin of grain in the

market (through both spot and futures transactions), even at an average price of 0.50 yuan per jin (which is somewhat higher than the average national market price of 0.448 yuan in September 1988), the financial outlay would increase by more than 10 billion yuan. According to estimates from the Hunan Provincial Agricultural Economic Commission's Research Office, were all restrictions to be removed on grain prices, the subsidy to urban residents would have to be increased by approximately 2 yuan per person per month, thereby increasing financial subsidies nationwide by between 4 and 5 billion yuan. When receipts are offset against expenditures, the treasury would not have to increase expenditures, or would have to increase them only slightly.

3. Will not cause across-the-board price rises. Once price restraints on grain have been removed, two things can happen with regard to prices of industrial manufactures that use grain as a raw material. One is that current prices that are not equitable will have to be adjusted accordingly. The other is that even when prevailing prices are equitable, prices will have to be adjusted because of a rise in the cost of products brought about by removal of restraints on grain prices. Food and beverages account for a very great percentage of processed goods that use grain as a raw material. Since there is substantial elasticity in demand for such consumer goods, consumers can decide how much of them to buy, depending on their ability to pay, and the effect on the basic standard of living will not be great. After restraints on the prices of grain used in production have been removed, enterprises can assimilate them. After restrictions on prices of grain used in the beverage industry have been removed, consumers can accept them since the percentage used in staple foods will be miniscule. Therefore, except for the above circumstances, there is no reason for the prices of other commodities to rise because of the removal of restrictions on grain prices, so there will be no major effect on the overall price level.

4. Consumers will be able to endure. The reason for the reduction in urban residents' grain consumption is the proportional increase in their consumption of edible oils, meat, fish, eggs, milk, and such high protein, high fat foods and alcoholic beverages. Generally speaking, the price paid for the production of these foods is a reduction in grain-field area or a large reduction in grain consumption. This means that despite a reduction in urban residents' grain ration consumption, their total consumption of food has increased very rapidly. Statistics show that nonagricultural population grain consumption in Beijing, Tianjin, and Shanghai during 1986 was 1,046 jin per capita, far higher than the grain ration amount. At the same time, as wage income increased, grain ration expenditures declined markedly as a percentage of total expenditures. Therefore, state reduction of fixed grain ration standards for city and town residents, and an increase in retail prices is both fair and reasonable, and also bearable. By so doing, the state can strengthen consumers' appreciation of the value of grain, and can also restrict grain consumption to a certain

extent as well as avoid waste. Because of the removal of market restraints on grain and other agricultural products, and the increase in earnings from agriculture, peasants who eat grain repurchased from the government will also be able to accept the higher prices.

5. Producers will be able to accept. Before the institution of the contract fixed procurement system in 1985, the state was able to obtain more than 20 billion jin of grain annually in agricultural taxes. If adjustments are made following our line of thinking, peasants will annually turn over more than an additional 20 billion jin of grain to the state in payment of agricultural taxes. At the same time, the market price that peasants receive for commodity grain will also increase enormously. At an average price of 0.50 yuan per jin, peasants will receive approximately 10 billion yuan less income as a result of turning over more grain to the state in payment of agricultural taxes. As a result of the abolition of fixed contract procurement and conversion of negotiated prices to parity prices, peasant sales of grain at market prices will produce additional earnings of more than 25 billion and 3.6 billion yuan, respectively, for a total income increase of approximately 28.6 billion yuan. After offsetting losses against gains, the peasants will realize a net income increase of nearly 19 billion yuan.

Implementation of the foregoing ideas will be extremely beneficial for the development of the country's grain production, and will be of important strategic significance in the following ways: First, it will eradicate the ideational barriers and inequities of contract fixed procurement, and avoid repeated annual price adjustments and the very many passive factors created by the use of administrative methods to respond to the commodity economy's inherent needs, thereby smoothing out relationships in all regards. Second, it will be possible to remedy in a fundamental way the various weaknesses that the "double-track system" occasions, eradicate the coexistence of multiple prices in the buying and selling of grain, help the market mechanism develop, and help the formation of a new grain circulation system that is in keeping with the requirements of a commodity economy. Third, it will genuinely be able to guide grain production to the commodity economy development track, stir peasant enthusiasm for growing grain, and benefit the long-term, consistent development of grain production. Fourth, it can simplify current agricultural means of production supply channels and procedures, and create favorable conditions for complete removal of price restraints on agricultural means of production.

Grain Procurement and Marketing System Reform Requires Adoption of Associated Measures

The above line of thinking on reform is targeted toward the end of the Seventh 5-Year Plan or the beginning of the Eighth 5-Year Plan. We believe that before the reform plan makes its appearance, preparatory work and associated work in the following regards should be done:

1. Preparatory Work Prior to Implementation. The first task is good publicity, letting the people of the whole country know the necessity for and the feasibility of reform of the grain procurement and marketing system, so that the peasants will be willing to render a certain amount of service to the state in a straightforward way. Consumers should also be made to understand that they too must carry a share of the burden of the cutbacks and the rise in prices. Second is the need for advance scientific determination of grain-field areas, soil fecundity, and annual yields to provide a rational basis for setting agricultural tax rates and for making breakdowns for implementation. Third is the need to perfect pertinent organization's implementation mechanisms, and to spell out the responsibilities of units and all levels of government concerned. Fourth is the need to make a rational balance between the grain-field agricultural tax and the cash crop agricultural tax, and between agricultural taxes and taxes on specialty products from economic diversification, the tax lever being used to regulate different rural industries and returns within the farming industry.

2. Establishment of a Grain Production Support System. Of paramount importance is the establishment of two different fund systems as follows: The first is for payment of public funds for surpluses following reform of the grain procurement and marketing system, each level of government being required to allocate money for use in establishing a grain risk fund to be used to compensate peasant loss of income as a result of natural disasters. Second, when they prepare fiscal budgets, governments at all levels should establish an investment fund system whereby government financial institutions at all levels seek to use 10 percent or more of the investment in capital construction for agricultural production to set up an agricultural investment fund system in which a fund for the development of grain would be paramount. This fund would be used to provide subsidies directly to grain growing peasants and other grain producers. The above two funds must be set up and operated under supervision of auditing units in order to increase reserve strength for grain production and ensure steady increase in grain.

3. Establishment of a Regulatory System for Grain Flow. First, the grain subsidies that the central government treasury saves should be used for the specific purpose of establishing a grain reserve fund that functions to hold down market prices, and to protect the interests of both consumers and producers. Whenever the market price of grain slips, this fund should guarantee that producers get a basic income, the state setting a minimum amount of procurement necessary to protect prices. When grain prices shoot up, grain can be put on the market to hold down market prices, thereby protecting the consumer's interests. Second is the gradual building at different levels throughout the country of a grain wholesaling system as follows: First is the building at principal collection and distribution centers of several nationwide grain-wholesaling centers that cut across regional and business lines to

be responsible for the economic regulation of grain procurement and marketing nationwide. Second is the building of provincial wholesale markets to provide a grain exchange for large and medium-size grain trade among provinces. Third is the building at the county level of economic entities in which producers directly take part. These entities would not be administratively subordinate to government agencies, but the government would be duty-bound to provide them support.

4. A transitional stage is necessary to go from the present grain procurement and marketing system to complete implementation of the reform model. There can be no going off half-cocked. We believe that the most sure-footed way to proceed is in two separate steps. The first step is to begin implementation during the 1989 and 1990 grain years: (1) Cutback on sales of grain at parity prices and gradual removal of restrictions on grain supply other than that destined for urban residents' grain rations and the armed forces, the market regulating the price of all grain from which restrictions have been removed. (2) Abolition of "conversion of negotiated price to parity price," with no reduction for the time being in the 100 billion jin fixed contract procurement quota. (3) Suitable increase in fixed contract procurement grain prices, the amount of price adjustment depending on the saving of government financial subsidies realized through cutbacks on sales and reduction of procurement. In principle, there should be no increase in the government's financial burdens. Implementation of the second step is to begin in 1991 as follows: (1) Abolition of fixed contract procurement. (2) Beginning to level agricultural taxes in accordance with the new method for figuring levies. (3) Hidden subsidies made open subsidies for grain used to supply urban residents' grain rations and grain used by the armed forces, as well as appropriate reduction in grain ration standards.

Because of the decrease in grain production, decrease in grain supplies, and the fairly high inflation of the period just past, country fair grain prices are currently high and show no sign of falling. Inflation is already far beyond normal bounds. This has caused people to feel and act abnormally nervously. We have taken full note of this situation; however, since this is only a problem of the special circumstances, it is not a major basis for calculations. The trial reform of the grain procurement and marketing system now underway in Xinxiang in Henan Province, and in Yulin in Guangxi Province are generally close to our line of thinking and demonstrate the realism of this line of thinking in a microeconomic way.

Superior Breeding Urged for Dairy Cattle
40060362a Beijing JINGJI RIBAO in Chinese
13 Feb 89 p 2

[Article by Tian Jijin 3944 4480 6855: "Dairy Production Should Take the Path of Improved Breeding"]

[Text] After some twists and turns the number of dairy cattle in China has reached 2.16 million head, producing 3 million tons of milk annually; the per capita amount of

fresh milk on the markets of most large and medium-sized cities is 13 kg, basically achieving a balance in supply and demand. But this year a caution light has shown up in the path of dairy cattle production: many state-operated dairies are losing money, collective dairies have gone bankrupt, and individual households that raise cattle have slaughtered them to sell the meat. Dairy cattle production may be sliding to a low point and problems in fresh milk supply may be heading toward a new peak. The cause of this danger to production is in feed. Most of China's several million dairy cattle eat feed that is bought at a negotiated price. Taking Beijing Municipality as an example, there is a fixed price on 150 million kg of feed for Beijing's 50,000 head of dairy cattle. This is the same amount that was approved for 1983; the amount of feed is not increased with the increase of cattle, so each year 300 million kg must be purchased, much of it brought in from other parts of the country. The price for 1 jin of hay shipped from the north to the south is 12 fen. Because transport facilities are tight, there is sometimes the threat of feed being cut off. The purchase of feed that must be shipped in from far away could result in a sharp rise in the price of fresh milk. The price of each kg of feed has risen to between 0.58 and 0.70 yuan, but the price of milk has remained between 0.42 and 0.60 yuan. "Negotiated feed and fair prices for milk has developed to where loans are required to keep dairy cows," each year the farms on the outskirts of Beijing must take nearly 10 million yuan of industrial profits to subsidize state operated dairies. Raising dairy cows has become a heavy burden for the state operated farms. If this is the situation in Beijing then other cities must also be in the same fix. Incurring debts raising cattle and losing money in operations is absolutely unacceptable for collective farms and individual agricultural households. The slaughter and sale of cattle is a coverup for these reasons.

How can the dairy cattle industry be extricated from this difficult position? Production departments are screaming, "raise the price of fresh milk." Based on what the market can bear, timely adjustments to the price are fully necessary to arouse the enthusiasm of producers. Looking at the present conditions in China's raising of dairy cattle, when the number of dairy cattle is increased we should also work hard to improve breeds so the average yield can be increased. In this way the price can be effectively reduced, supply increased, and the market stabilized.

Is this path suitable? The answer is yes. Still using the situation in Beijing as an example, for the last few years there has been a steady increase of about 13 to 14 percent in dairy cattle with some years being as much as 16 percent. This rapid development in reserve cattle not only consumes a large amount of feed but also uses up a lot of management funds, affects the management of milk-producing cattle, and causes an imbalance in the average yield, resulting in a serious loss. Last year the municipality adjusted the direction of its dairy cattle production toward improving the quality of cattle and

raising the average yield as its goal. It reduced the development rate of reserve cattle to 9.4 percent and improved the management of milk-producing cattle, broadened the scope of dairies, management of dairies, the rearing methods used during producing and hot weather periods, and the responsibility system for live-stock raisers. The average yield for dairy cattle was raised to an average of 6,249 kg, which is close to the advanced international level and five state-operated dairies achieved an average yield of over 8,000 kg. The average yield of collective dairies also broke through the 5,000-kg level, with four collectives having an average yield of 7,000 kg. Last year the municipality produced 180 million kg of fresh milk, an increase of 24 million kg over the previous year and the equivalent of adding 4,000 dairy cattle. This is to say that in one year they saved 70 million kg of feed and 20,000 mu of grazing land, plus a large amount in management expenses. Based on the estimated 11,000 yuan cost of raising a cow to the milk-producing stage (a 2 and 1/2 years), the savings in investment would be 44 million yuan. At the present time the nationwide average yield for dairy cattle is only 2,000 kg. If this average could be raised to 4,000 kg, the number of cattle could be reduced by one-third with a balance in supply still maintained. If the average is raised to 6,000 kg, annual production would be doubled to 6 million tons. With a reduction of 1 million head, a large amount of feed would be saved as well as more than 1 billion yuan of investment, and the price of feed would be greatly reduced. Based on analysis by experts, it would not be difficult to realize a 5,000 to 6,000 kg average just by improving the methods of raising cattle. Some advanced countries have been devoted to reducing the number of dairy cattle and have devoted effort to raising the average yield. Some of these countries have obtained a reduction of one-half in the number of cattle, and have doubled milk output. China's dairy production should draw on this experience and proceed along a path of higher quality breeding, putting an increased milk supply on course by having as its foundation the raising of the average yield.

Raising the average yield of dairy cattle is based on the quality of cattle. "Three parts breeding, seven parts rearing" is a principle known in the dairy business. China has a low dairy output, a major reason for this is its inferior-quality cattle. Throughout the country there are more than 70 bull-breeding centers with over 570 breeds, but they are short on superior varieties and some have been intermixed, repeatedly marring their purity. There are some places that utilize a large amount of foreign exchange to import dairy cattle, but there are few imported bulls. Buying dairy cattle as a product is a "short-sighted" type of import and basically does not help raise the level of China's dairy yield. The development of China's dairy cattle does not only lie in bringing in superior breeds, but also in learning from advanced management experiences abroad, especially in the areas of selecting breeding bulls and of management. If a nationwide management and assistance system for superior quality breeds were established, then the quality of

China's dairy cattle would be universally improved, thereby building a good foundation for effective broadening of superior breeding technology and for raising the level of the average yield. Among meat, eggs, milk, and fish, milk is an element that cannot be omitted from the food basket. To ensure basic stability in milk supply and demand, in addition to stipulated aid for dairy cattle feed and fresh milk processing policies, we must also liberate our thinking, adjust the direction of development, and, within a certain scope, make it inadvisable for large and medium-size cities to blindly go after quantity but rather to work from top to bottom for superior breeding. Agricultural departments should concentrate their personnel and materials to strengthen a nationwide management organization for dairy cattle production and to propel dairy cattle production toward the development of superior breeds.

Ways To Increase Agricultural Investment

40060368c Beijing JINGJI RIBAO in Chinese
20 Feb 89 p 2

[Article by Qin Yucai 4440 3768 2088: "Ideas and Measures With Which To Increase Agricultural Investment"]

[Text] There are many reasons why problems have appeared in agriculture, and insufficient investment is an important factor. The problem of insufficient investment is not limited to the decline in state investment in agricultural infrastructure relative to total investment in capital construction. Rather, insufficient investment is a societal problem that has arisen as economic restructuring advances:

Changes in the composition of capital construction investment. Major changes have occurred in capital construction investment composition as economic restructuring has advanced. From the First to the Fifth 5-Year plans, state capital construction investment was monolithic, and investment directly arranged within the state plan always comprised 80-90 percent of all capital construction investment. But after 1980, in line with the "eating in separate kitchens" concept adopted in the financial administrative system, the share of directly arranged investment relative to total capital construction investment fell to 40-50 percent and slid further, to 30.7 percent in 1988, whereas extraplan investment (including that funded with bank loans, foreign capital, and money raised by units themselves) greatly increased, thus diversifying the channels through which state capital construction investment is funded.

As a result of this diversification, the share of planned investment relative to total capital construction investment continues to shrink, the state is having a hard time shifting funds from other sectors and from enterprises into agricultural investment (bonds, for example, cannot be used for agriculture), and few of the funds raised by enterprises and departments have been applied to agriculture. Thus the share of investment in agricultural and

infrastructural capital construction relative to total capital construction investment is declining, with agriculture's share falling from an average of 11.4 percent during the First 5-Year Plan, to 6.3 percent during the Sixth 5-Year Plan, and to 4.6 percent in 1986, whereas agriculture's share of planned investment remains around 10 percent, basically the same level as from the First to the Fifth 5-Year plans.

Changes in the entities undertaking capital construction investment. Since the 3d plenum of the 11th CPC Central Committee, a number of reforms have been made in China's fixed capital investment administrative system, which have put an end to the overcentralization of the past, initiated investor diversification, and broadened investment activity beyond the monolithic state channel to include investment by departments, localities, enterprises belonging to different types of economy, individuals, and a variety of other actors. Local governments, after obtaining greater investment authority, have displayed pronounced short-sighted horizons in their investment behavior. To maximize immediate returns, local governments at all levels have gone in for profitable investment in a big way, undertaken little investment yielding small returns, totally spurned unprofitable investment, and thus tended to ignore agricultural and infrastructural investment and to scramble for projects in processing and manufacturing or for the construction of office buildings, large halls, and guest houses. Thus it is the human factor that is responsible for the insufficient investment in agriculture and infrastructural construction.

Peasants' short-sighted horizons. From 1978 to 1986, per capita peasant incomes increased from 134 to 424 yuan, or 2.2-fold. This improvement, however, has failed to induce peasants to increase their investment in agriculture; instead, peasant investment in nonagricultural sectors has surged. In 1987, for example, fixed capital investment by rural collectives and individuals reached 106.1 billion yuan (whereas the 1983 level was only 35.5 billion yuan), equal to the state's total investment in capital construction. Most of the former was used for home or township enterprise construction; only 12.698 billion yuan, or 11.9 percent, was invested in agricultural development. The chief factor behind this phenomenon is systemic: Peasants are unenthusiastic about increasing inputs in the land. Over the past several years, the prices of all agricultural means of production have risen, some doubling and redoubling, thus increasing the costs of farm produce and offsetting not only the benefits peasants receive from price hikes for their produce but also the returns peasants ought to obtain from increasing inputs; so the comparative earnings from agricultural production have declined. Therefore, peasants doubtless prefer to invest large quantities of funds and other factors of production in nonagricultural sectors rather than in farming, which yields much lower returns than do nonagricultural sectors.

To increase agricultural investment, we must resolve the problem of where funds will come from. During the final

2 years of the Seventh 5-Year Plan and throughout the Eighth 5-Year Plan funds held by society will continue to increase, whereas the state cannot substantially increase its planned investment. During the remainder of the Seventh 5-Year Plan, the best that we can do is to maintain the current level of investment and to do everything possible to increase the share investment when and if the budget situation improves; yet even this will not satisfy the requirement. The basic way to resolve the problem of fund shortage lies in reform.

In the future, there must be an appropriate, rational division of labor in investment activity between the central government and the localities. Agricultural capital construction investment should primarily be borne by the localities, with central investment being limited mainly to key river control projects, development of large agricultural commodity bases, shelter forest planting, development of the deep-sea fishing industry, and establishment of research agencies and institutions of higher education serving the entire nation. Other types of development projects should be borne by the localities; the central government should not undertake too much.

Work relief, compulsory or semicompsulsory labor, and other approaches should be used to carry out agricultural development and infrastructural construction.

We should actively but prudently obtain funds from abroad and make special efforts to obtain medium- and long-term concessional loans from the World Bank, the Asian Bank, and other foreign financial institutions or assistance organizations. Hebei, Liaoning, Shandong, Henan, Anhui, Jiangsu, and Sichuan Provinces are now actively trying to obtain funds from abroad to finance the development of agricultural commodity bases, the building of irrigation facilities, and the improvement of medium- and low-yield fields. This approach, under which the province undertakes the borrowing and repayment in a unified way, appears to work.

There must be a rational division of labor between the central government and the localities in the development of industry serving agriculture (including industries that produce chemical fertilizers, insecticides, and plastic film). The central government should undertake only the development of mines and oil-gas resources and the expansion of polyvinyl chloride production capacity, whereas localities should assume responsibility for the construction of chemical fertilizer plants and other facilities, for which stocks and bonds may be employed so as to attract funds from urban and rural collectives and from individuals.

Once a system of financing capital construction is established, we should set up state agricultural and forestry investment companies to administer state fixed capital investment in agricultural operations projects (including capital construction and technological improvement projects); this would constitute a major reform of the

investment administrative system. Nevertheless, even with the establishment of such companies, the key to ensuring the necessary flow of investment funds into agriculture lies in improving returns on investment, accelerating fund turnaround, and ensuring that the value of the funds is preserved and appreciates, so that investment will "snowball."

Provinces Improve Spring Agricultural Preparations

40060403A Beijing *NONGMIN RIBAO* in Chinese
15 Feb 89 p 1

[Article by Zhong Zhi 5883 1807: "The Situation in Farmland Preparation Nationwide Is Better Than Last Year, There Have Been Good Results in Irrigation and Water Conservation and a Marked Increase in Agricultural Investment; Worth Noting Is That Investment Interest of Peasants Has Abated, and the Requirements for Chemical Fertilizer and Plastic Sheeting Have Been Reduced"]

[Text] According to survey results from agricultural survey teams of 27 provinces, regions, and municipalities nationwide (excluding the Provinces of Gansu and Hainan, and the Tibet Autonomous Region) concerning the situation of spring cultivation preparations for this year, since last winter all levels of the government and concerned departments have earnestly carried out the spirit of the National Rural Work Conference and the decisions by the CPC Central Committee and State Council concerning striving for a bumper harvest in agriculture. The various forces of society have been mobilized to do a good job in preparing for spring cultivation work this year. Last winter good results were obtained in farmland irrigation, there has been a marked increase in investment planned for use in agricultural production this year, and the tight situation in the supply of capital goods for agricultural will also be relaxed. All of this has created a beneficial environment for attaining a bumper harvest in agriculture.

Based on preliminary statistics from a total of 24 provinces, regions, and municipalities (excluding Shanghai, Guangdong, Tibet, Gansu, Qinghai, and Hainan), the amount of actual investment used for building irrigation projects last winter totaled 1.8 billion yuan, this is an increase of 380 million yuan and a growth of 26.8 percent; work was completed on 2.55 billion cubic meters of earth, an increase of 310 million cubic meters over last year and a growth rate of 13.8 percent; the growth rate of completed small irrigation projects was 4.7 percent; total irrigated land rose to 7.917 million mu, an increase of 1.483 million mu and a growth of 23 percent.

The estimated financial investment for agricultural production in Hebei, Liaoning, and 18 other provinces, regions, and municipalities for this year totals 2.92 billion yuan, this is an increase of 420 million yuan and shows a growth rate of 16.8 percent. Those having the

greatest increases are Jiangsu with 114.8 million yuan, Anhui with 75.03 million yuan, and Hebei with 67.49 million yuan. Henan, Jilin, Shanghai, Guangxi, and Hunan also each had increases of more than 20 million yuan. Investments of commodity grain bases in 12 provinces, regions, and municipalities totalled 250 million yuan, which is an increase of 39.73 million yuan and a growth of 19.1 percent.

While increasing financial investment, agricultural loans will also be increased by a large amount. Agricultural loans of Jiangsu and 17 other provinces, regions, and municipalities may total 73.12 billion yuan, an increase of 10.56 billion yuan over last year and a growth of 16.9 percent, among these, Guizhou, Guangxi, Jiangsu, and Yunnan each had increases of between 1.5 billion and 2.35 billion yuan. The most needed area for agricultural loans is in support of grain and other crop industry production. There are 10 provinces, regions, and municipalities that plan to use 21.63 billion yuan in agricultural loans in the crop industry, this is an increase of 2.49 billion over last year and a growth of 11.5 percent.

Looking at the situation from what these agricultural survey teams have collected, there are some aspects in the preparation work for spring plowing this year that still have not gone far enough; farmland irrigation development of some areas has been slow, with results not as good as in former years. At the present time, some areas have not solved the problem of damage caused by drought, with the work of using spring irrigation to prevent drought still being very difficult. Another trend worth noting is the investment interest of peasants abating. According to a rural household survey, the amount of floating capital invested by agricultural households in production has dropped 3.3 percent in comparison to last year. The need for chemical fertilizer has dropped by 42.3 percent, and plastic sheeting for agriculture has also been reduced by 16.8 percent. The main reasons for this has been the sudden rise in prices of agricultural production materials, the increased cost of producing agricultural products, and the fall in benefits from planting grain.

Per Capita Income of Anhui Peasants Grows 13.1 Percent

40060403B Hefei ANHUI RIBAO in Chinese
12 Feb 89 p 1

[Article by Li Jiayi 2621 1367 0308: "Last Year Anhui's Peasant Per Capita Income Was 485.53 Yuan"]

[Text] According to data collected by the Provincial Rural Survey Team, the net per capita income for peasants last year was 485.53 yuan. This is an increase of 56.27 yuan compared with the previous year, and a growth rate of 13.1 percent. This income consisted of a collective income of 22.98 yuan, a 23.3-percent growth; household-managed net income of 432.55 yuan, a

growth of 12.8 percent; and nonproduction income of 28.27 yuan, a growth of 13.1 percent. But the majority of the increased income was offset by rises in material costs.

The main characteristics of the peasant income increase last year are, first, overall development of the 3 main industries operated by households; second, an increased proportion of income from the 3 industries. Last year peasants received a per capita income of 354.90 yuan from the number-one industry, a growth rate of 11 percent over the year before; the average income from the number-two industry was 15.66 yuan, a growth rate of 27.2 percent; and per capita income from the number-three industry was 61.99 yuan, a growth of 20.5 percent. The ratio of income from the number-two and number-three industries in household-managed income grew from 16.6 percent last year to 18 percent. Second, there was rapid expansion in nonagricultural production industries. Last year the income obtained by peasants from nonagricultural production was 96.20 yuan, a growth of 21.4 percent, while during the same period the income derived from agriculture, forestry, livestock, fish-raising, handicrafts, and gathering, trapping, and hunting endeavors grew by only 11 percent. Third, commodity production was further developed, with cash income increasing a great deal. Last year the peasants' net income contained 304.29 yuan in cash income, a 25.4 percent growth compared to the year before. The ratio of cash income to net income grew from 56.5 percent the previous year, to 62.7 percent last year. Fourth, high-income households increased and low-income households decreased. Rural households with per capita incomes in excess of 1,000 yuan grew from 0.8 percent the year before to 2 percent last year; households earning less than 200 yuan fell from 4.6 percent to 2.9 percent.

The rather large increase in peasant incomes was due mainly to an increase in the price of sideline agriculture products, losses due to natural disasters being made good, rapid development of the livestock industry and poultry raising, and a rather large increase in production jobs and nonproduction income. At the present time there are many factors that restrict the stable growth of peasant incomes. The main ones are the chaotic prices of production materials, the supply not meeting demand, and the larger production costs that have affected the peasants' interest in production investment. Confusion in the economic system and resistance to agricultural affairs continually occurring have also had an effect on the enthusiasm of peasants towards developing production.

Survey Reveals Rising Hebei Agricultural Employment

40060362c Beijing JINGJI CANKAO in Chinese
17 Feb 89 p 2

[Article by Zhang Xicang 1728 0823 0221 and Wang Cunge 3769 1317 7041: "The Trend in Hebei Rural Work Has Taken a Contrary Turn"]

[Text] According to survey figures from the statistical bureau of Hebei, a change occurred during 1988 in the situation of rural labor employment in the province,

with the emergence of the phenomenon of the labor force reversing its trend. There was an increase in the agricultural employment force and a slowdown in the rate of new employment shifting to nonagricultural industries.

Labor employment in the primary industries is rising. For 1988 provincewide, the number of people in rural labor employed in the primary industries totaled 16,445,000. Not only was this overwhelmingly the highest level of the past 5 years, but the rate of employment figures went from a decline to an increase. The labor force engaged in primary industries increased by 1.2 percent over last year, with crop labor increasing by 1.2 percent, and forestry, livestock, sideline, and fish-raising labor increasing by 1.9 percent.

The scope of labor turning to nonagricultural industries has fallen to a low point. According to statistics, in 1988, 418,500 people in the labor force shifted to secondary and third-line industries, a reduction of 283,500 compared with the year before, and roughly equivalent to the average of 30.7 percent that shifted during the years from 1984 to 1987. The rate of the shift dropped from the 15 percent of last year to 7.8 percent.

The amount of existing labor force that is shifting is less than the newborn labor force and the problems of excess labor in agriculture are intensifying. The new labor force for the province in 1988 was 619,100 people; of these, 210,100 shifted to secondary industries and 208,400 to tertiary industries. The total number of people who shifted to these two types of industries was 67.7 percent of the new labor force. The labor force that is retained in the crop industry continues to grow and the problems of this additional labor force finding employment are becoming more acute.

'Concerted Effort' Needed To Redevelop Jiangxi Tobacco Industry

40060362b Nanchang JIANGXI RIBAO in Chinese
1 Feb 89 p 2

[Article by Tan Jinlai 6223 0093 0171: "Broad Prospects for Development in Jiangxi's Tobacco Industry"]

[Text] For the last 2 years, Jiangxi's tobacco business has had fairly good growth, especially the cigarette industry, which has become the major industrial backbone of Jiangxi. Profits and taxes for 1988 totaled 200 million yuan, which accounted for one-tenth of the financial income of the entire province. It is an important mainstay in Jiangxi's finances. However, as for the strategic problems in the growing tobacco industry, if the province hesitates to go forward and doesn't grab its opportunities it will cause the cigarette industry and the rest of the province to lag behind. Taking Jiangxi's neighboring Hunan Province in comparison, in 1965 the cigarette output of Hunan and Jiangxi were about equal, but, by 1986 Hunan's cigarette output had reached 2 million cartons a year, an increase of more than 26-fold. Jiangxi's cigarette output, although also increasing, was

extremely slow and only 300,000 cartons a year were being produced in 1986, it had grown to 380,000 cartons by 1988 but still lagged far behind.

At the present time, in the very intense competitive situation of the cigarette market nationwide, Jiangxi's cigarette production definitely has some problems. But if we can further strengthen concentrated and unified management, get a firm grasp on technological reform, improve our product structure, and create the necessary conditions to raise the level of management and improve product quality, the outlook for growth in Jiangxi's cigarette industry will be very optimistic. In order for this to occur a good job must be done in the following work.

Give priority to the development of raw materials for the cigarette industry. Trying to develop the cigarette industry without tobacco leaves is like cooking a meal without rice. There is a long history of tobacco-growing in Jiangxi, with some varieties being renowned at home and abroad, such as Guangfeng's sun-dried "Zilao" and "Jinbaihuang." As early as 1917, output had exceeded 150,000 dan that was sold to far-off countries in Europe, America, and Southeast Asia. In 1966 58,000 mu were planted with tobacco, producing 80,000 dan of tobacco. In the last 2 years, Jiangxi's planting of tobacco not only didn't develop, but actually declined. Only 30,000 mu was planted with flue-cured tobacco in 1986 and only 2,000 dan was purchased, 98 percent of the raw material for the cigarette industry had to be shipped in from outside the province, seriously effecting the development of Jiangxi's cigarette industry. The key to vigorous promotion of Jiangxi's cigarette industry lies in giving priority to the development of tobacco leaf production. Also there are bright prospects for developing flue-cured and sun-dried tobacco production in the province. Farmers who plant 1 mu of tobacco can expect to take in from 300 to 400 yuan and the local area can obtain from 80 to 100 yuan in agricultural taxes. In 1985 in Guangfeng County sales of sun-dried tobacco exceeded 19,000 dan and the tax on tobacco products was 750,000 yuan, accounting for one-sixth of all taxes collected in the county; Shicheng County planted over 15,000 mu of flue-cured and sun-dried tobacco in 1987, the taxes on the tobacco were about 500,000 yuan. A large part of Jiangxi's land is suitable for planting tobacco, especially a large area of uncultivated land. There is a market for selling tobacco in the province. Two factories, at Nanchang and in southern Jiangxi, need 600,000 dan of tobacco annually. Current tobacco production in Jiangxi is only about 100,000, which falls very short of demand, so in developing tobacco production there is no need to worry about being able to sell it. Selecting good conditions, having a long history of tobacco planting, and with seven or eight counties with fairly strong foundations in the industry, we can achieve large growth in our tobacco production and also fully satisfy the raw materials needed by the cigarette industry by placing importance on giving direction and aid, establishing a high-quality tobacco plant base, and by gradually broadening development in other counties.

Speed up the reform of cigarette industry enterprises. Jiangxi's two cigarette factories, because of old equipment and backward technology, produce only about 350,000 cartons of their 400,000-carton capacity. The problems in speeding up the work in technology reform in the cigarette industry are very urgent and demand immediate attention. Currently, funds of 10 million yuan are being given to the two factories for technology reform to increase production capacity, especially the production capacity of chewing tobacco, and to promote the raising of cigarette quality. It is estimated that in 1990 these two factories will be producing 600,000 cartons (450,000 by the Nanchang cigarette factory and 150,000 by the southern Jiangxi cigarette factory). This way, not only can we meet the needs of Jiangxi's cigarette production materials, but also increase the amount of product taxes turned over to the state from 125 million yuan last year to over 200 million.

The most important factors in developing Jiangxi's cigarette industry are that the quality of cigarettes needs to be raised, hard work to open up the province's popular products, and the quick creation of name brand products for export. This will enable our cigarette enterprises to step into the modern ranks within a relatively short time. This is our hope, but it will not be easy. If our tobacco business works together and we receive good support from leaders at various levels and concerned departments, then our desires can definitely become reality.

Work hard at developing various forms of cross connections and alliances. For cigarette production to expand and go forward, in addition to strengthening our self-transformation, we must also strive to develop various forms and levels of cross connections and alliances. Jiangxi's cross connections and alliances in the cigarette industry should be stressed in three areas: The first is to develop mutually beneficial cooperation with cigarette industry enterprises of other provinces and cities, to learn from the advanced technology of others, and to jointly produce products that sell well; the second is cooperation between factories and tobacco producers of the province, and joint production of new tobacco products with special local characteristics; the third area is adoption of methods to bring in technology and send personnel out to study. We should organize and send tobacco producers in Jiangxi to other areas to study and also bring in planting technology and fine varieties to raise the output and quality of tobacco.

Jiangxi's tobacco industry has gone through a period in history where it thrived and its output, quality, and exports were the best in the country, then it experienced a continuous decline. But in the last few years a resurgence has begun and it is now taking vigorous steps to catch up. We firmly believe, if we get thorough concerted effort and cooperation from leaders at various levels and concerned departments and continue with our unremitting efforts, that a new surge will emerge in Jiangxi's tobacco industry.

Trouble Signs in Jiangxi Farming: Agricultural Capital Costs Up

40060403C Beijing JINGJI RIBAO in Chinese
15 Feb 89 p 2

[Article by Li Houxin 2621 0624 0207: "A Sign Worth Noting"]

[Text] Beginning in September of last year, the retail price indexes of commodity goods in Jiangxi began a monthly decline. The drop was 27.7 percent in September, 27.3 percent in October, and 27.1 percent in November. Other medium-sized cities and towns had price drops in September of 31.9 percent, 29.1 percent for October, and 28.4 percent for November.

However, hidden behind these encouraging figures is an ominous sign. The prices of agriculture capital goods still have a tendency to rise. The price index for agriculture materials provincewide rose by 18.6 percent in September, this is 1.2 percent higher than the previous month; in October it was 20.6 percent, 2 percentage points higher than the month before; and in November it was 21.9 percent, again increasing, this time by 1.3 percent over October. According to data for the month of October from Jiangxi's statistical bureau, compared with agricultural material prices for the same period last year, the price of small farm implements rose 25 percent, machinery 20.8 percent, chemical fertilizer 23.7 percent, and pesticides 24.4 percent. Currently, the price of agricultural capital goods are not showing any tendency to drop. A local newspaper revealed that in 1989 the per-ton price of carbamide was between 1,200 and 1,236 yuan, a per-ton increase of 320 to 356 yuan above the 880 yuan it cost in 1988, this startling price has increased the concerns of some people.

The Central Committee and State Council have made some important decisions and adopted a series of measures for developing agriculture. Jiangxi Province has also formulated an overall plan for developing agriculture.

The fact of repeated increases in prices of agricultural capital goods has cast a dark shadow over agriculture production, especially grain production. As soon as farmers figure their accounts, they know that the state has not substantially raised its purchasing price for agriculture products (grain). The scope of price increases of capital goods will cause them to forfeit any benefits they may have obtained from the state's increased purchasing price. In this way problems will occur, on one hand we talk about emphasizing agriculture production and mobilizing the enthusiasm of peasants and, on the other hand we persist with price increases. Isn't this defeating our purpose? Some comrades involved in rural work predict that in the first half of this year there may be insufficient manure, and too much chemical fertilizer to sell. Due to it not being worthwhile for the peasants, and with little fertilizer being produced, it could very

possibly affect agriculture crops, especially the grain harvest. These are not just exaggerations, this type of situation actually occurred in some areas during the last half of last year.

At the latest Jiangxi rural work conference many comrades talked about the current importance of agriculture and, although it was being stressed from top to bottom, in actuality there isn't very much true support and help for agriculture—the phenomena of blocking and defeating agriculture is not new. Many cadres have made the appeal that for the most important problems now, we should take hold of “real” goods, some cadre call these “dry goods,” so peasants can obtain more direct benefit and allow them to obtain the deserved awards for developing agriculture, especially grain production. We should take the most practical actions and adopt measures as quickly as possible to enable the price of agriculture capital goods to be lowered. According to what is known, the reason why Jiangxi's chemical fertilizer prices are so high is mainly because there is no large chemical fertilizer factory in the province, making it necessary for the majority of chemical fertilizer to be shipped in from outside the province or imported from abroad. The foreign exchange used to import chemical fertilizer is all redistributed outside the original plan of foreign exchange, the cost of this importing is too high. Even though people in the provincial government put out maximum effort to reduce the more than 60 million yuan expended due to increases in chemical fertilizer prices, the cost of chemical fertilizer has still not been lowered. Because of this, people are hoping that the state can take some planned foreign exchange to support Jiangxi's fertilizer imports. We should also encourage production units and management units to expand sales and garner more benefit for peasants. Looking at the current factors in the rising cost of raw materials, many comrades have pointed out that these can be considered as agriculture support funds. A plan has been drawn out for production units and management units to be given subsidies so marketing prices can be lowered. By handling it this way it looks as though agriculture construction funds are being reduced, when in fact it can enable peasants to receive direct benefits, arouse their enthusiasm for investing in more chemical fertilizer and pesticides, and greatly increase the output of agriculture products. This is exactly our goal for increasing agriculture production.

Yunnan's Sugar Supply Problems

40060431 Kunming YUNNAN RIBAO in Chinese
15 Feb 89 pp 1, 2

[By correspondents Han Shuguang 7281 2562 0342 and Liu Yun 0491 0061: “Recording Reflections on the Sugar Problem”]

[Text] During the 10 years of reform, Yunnan's sugar production has increased by over four times, and has reached a total of 600,000 tons. However, there is still a serious shortage of sugar in the market, and sugar can be had only at fixed amounts against ration coupons. Why is that?

Sugar, is a important raw material of the food industry. If you ask any of the plant directors in the more than 5,000 large and small food products factories of Yunnan Province, what is now the product that is most difficult to buy and that badly affects prices of candies, pastry, and beverages, the answer will be: sugar.

Sugar is an indispensable foodstuff in the livelihood of the people. Every family or household consumes from 3 to 7 kilos of white and brown sugar per year. With rising living standards, annual sugar consumption in Yunnan Province has risen from 97,000 tons in 1978 to the present 220,000 tons.

The magistrates of the autonomous prefectures of Dehong and Honghe made one firm commitment as one of the objectives to achieve during their tenure of office—to increase sugar production. The leading cadres of the provincial bureau of commerce and the manager of the Provincial Sugar, Tobacco, Wine, and Vegetable Company, Pu Guilai [2528 6311 0171], devoted all their energy for one month before and after New Year's to the study of the sugar problem.

Sugar production for the 1988-1989 period has just begun, and sugar buyers by the thousands from all over the country are swarming into the sugar producing districts of Yunnan. They buy up refined sugar at the high prices of from 2,800 to 3,000 yuan per ton. In barter, some offer food grain, chemical fertilizer, or even color TV sets, refrigerators, and other commodities in short supply. Yunnan's main trading companies have so far not yet been able to realize their purchase plan of 308,000 tons of sugar. If the main trading companies cannot fulfill this year's plan of buying 308,000 tons, their obligation to turn over the required quantity to the state, the fixed sugar rations in urban and rural areas of Yunnan, and the sugar requirements of the foodstuff industry will all be called in question.

That so very common a commodity as sugar should become a “focus” of attention in Yunnan's economic life, is certainly grounds for deep thought.

The Repeated Times of “Getting Rich From Sugar”

During the 10 years of reform, Yunnan's sugar production has swiftly developed. It is estimated that this year, Yunnan's production of sugar (including brown sugar, red granulated sugar, and refined sugar) will be about 600,000 tons, an increase of 50,000 tons over last year, and over four times what it was 10 years ago. However, sugar is still in short supply in the market and can be supplied only at fixed amounts against ration coupons. This state of affairs is closely linked to the imbalance and incongruity of production and circulation of sugar during the last 10 years.

Since the founding of the PRC, Yunnan has basically been self-sufficient in sugar and seldom exported sugar to other provinces, and was also not affected by the

larger economic climate in the rest of the country. During the period from 1981 to 1982, the joint production contract responsibility system was adopted in all rural areas of Yunnan, and it greatly stimulated production enthusiasm among the peasants. The province, moreover, adopted the policy of sugar sales against grain bonuses (1 ton of sugar cane was converted to 100 kilos of sugar), which resulted in a rush to grow sugar cane in all cane growing districts. During the period from 1982 to 1983, sugar production throughout the province rose to 288,000 tons, an increase of more than double of what it was in 1978. At that time, the supply-demand relation adversely affected the situation in Yunnan and sugar became "difficult to sell." For a time, anxious reports of overstocking of sugar came from all quarters. Hardly one year thereafter, the situation had suddenly changed. The state had restricted sugar imports, and Yunnan sugar was suddenly in great demand. All non-sugar-producing regions, such as Hunan, Sichuan, Guizhou, Shaanxi, and other provinces, came to buy sugar, and this immediately opened up sugar markets in Central and North China. In that year, Yunnan established a record of exporting 142,000 tons of sugar to other provinces and made huge profits from its sale of sugar. It reaped 150 million yuan of additional revenue and in return for its sugar exports obtained an abundance of grain and of industrial articles in short supply. It was a time of "getting rich from sugar" for the Yunnanese.

During the period from 1984 to 1985, the rural areas experienced difficulties in selling sugar. The policy of selling sugar against grain bonuses was no more effective. In order to encourage the peasants to grow more sugar cane, the provincial government had adopted a method of substituting cash for grain bonuses in the sale of sugar, to keep peasant enthusiasm for cane growing alive. Another strange phenomenon of that time was that while, on the one hand, there was a great increase in sugar production, and stocks in sugar warehouses throughout the province reached an amount of somewhat more than 40,000 tons, there were, on the other hand, loud complaints from cane growers that the prices for cane were much too low, only around 50 yuan per ton, and that the profits were all pocketed by the sugar mills. But then the cane crushing and refining plants again cried aloud that their operating costs were too high, and the price for white sugar too low, that the ex-factory price of 1,000 yuan per ton of white sugar had not been changed for many years, so that enterprise income could not cover expenses. Why? As some analyzed, procurement prices for grain, flue-cured tobacco, and other cash crops had been raised, only the procurement price for sugar had not been changed, and the ratio of cane and sugar prices to prices for tobacco and grain had become irrational. This was the reason for the great dissatisfaction of peasants and sugar mills. Commercial transfer and marketing sectors were also small-profit and money-losing business operations. The province was compelled by the situation in Yunnan to raise the procurement price for sugar cane to about 70 yuan per ton, and to allow the sugar mills to retain 10 percent for

their free sales (of which, 5 percent was to be resold to cane growers). This was the second time that Yunnanese were "getting rich from sugar." In particular, the cane growers gained over 60 million yuan from the state's higher cane procurement price.

In 1986, Yunnan's sugar production and supply situation tended to gradually quiet down, but, unexpectedly, in the fall of that year, and continuing into the 1987/88 sugar-producing season, the "battle" started up again, and once begun, it could not be stopped; up to now the air is still "heavy with the smoke of battle." The reasons are: the change in the monopolistic trading method of the main trading companies. Yunnan adjusted the state's procurement ratio, i.e., of the procurement of sugar (mostly white sugar) by the state-run commercial departments, the obligation to turn over to the state was reduced another 5 percent, based on the original plan, and the remainder was to be retained by the sugar mills and cane growers to dispose of at market prices. This amounted to allowing a double-track price system for the sale of sugar. During that year, Yunnan produced 552,308 tons of sugar, of which 517,300 were white sugar. The state plan called for the procurement of 474,900 tons of white and brown sugar, but the amount actually procured by the state was only 400,654 tons, or 84.36 percent. Most of the remaining more than 100,000 tons fell into the evil hands of "official profiteers" and "private profiteers." The amount of sugar obligated to be turned over to the state was then again increased, so that last year a total of 257,150 tons were turned over to the state (marketed inside and outside of Yunnan). For all sugar turned over to the state, if exported out of the province, the central authorities paid a subsidy of 146.48 yuan per ton, and for amounts distributed to prefectures, autonomous prefectures, and counties within the province, the provincial traders were paid a subsidy of 26 yuan per ton. This was the third "getting rich from sugar."

What was the reason for these repeated "battles"? The general view among experts and others in the field is:

Sugar production cannot be developed to the extent of satisfying all consumption demand, so that the shortfall of supply leads to sugar price increases. Increased assignment of shipments to outside the province, and the inordinately low plan prices for sugar, lead to the buying rush, and make it necessary to supply only fixed quantities against ration coupons.

The trading system and the double-track price system for sugar sales caused the outbreak of the "battle for sugar."

Certain shortcomings in the current administrative system restricted relevant departments from adjusting the use and restricted the full exercise of their functions, and this, to a certain degree, aggravated the shortage in the sugar market.

But there are also manmade problems.

Power and Interests

The sugar problem reflects the complex relations among producers, traders, consumers, administrators, and decisionmakers, and their actions, and this is where all of today's contradictions in the reform of the overall situation converge.

"Whatever man struggles to gain is related to his interests." With this sentence, Marx reminds us that the sugar situation is caused by the "propelling forces of interests."

What is sugar? When supply exceeded demand, peasants would say that it was an agricultural sideline product. Cadres in the foodstuff industry would say that it was a common production raw material. People in the trading sector would say that it was a "bothersome burden," because for many years, trade in sugar had been a losing proposition. But today, with a nationwide shortage of sugar and prices having risen high, people regard sugar as an indispensable foodstuff for the livelihood of the people, and as a commodity in great demand. Traders will now say, "That is good stuff. I want as much of it as you have available."

Some people call sugar jokingly "hard currency"—a commodity that can function as currency. If you have it, you can exchange anything for it—grain, pork, color TVs, refrigerators, high-quality tobacco, high-quality liquor, and, besides, it is valid anywhere in the entire country.

At one time, department stores, sundry commodity shops, official organs and groups, "corporations" with a great variety of names, even schools, and units and individuals that had not the slightest connection to the supply and marketing of sugar, all started to deal in sugar. However, there was one precondition for dealing in sugar, namely power. A certain sugar mill sold at the beginning of last year more than 120 scrips of allocations for 1,800 tons of sugar, which was more than 30 percent of the sugar mill's production. Almost all this "allocated sugar" ended up in the hands of "official profiteers" and "private profiteers." In addition, the prefectures, autonomous prefectures, and counties, and the sugar mills are allowed to retain 30 percent, so that these profiteering-type sales became legitimate business. A certain prefecture produced 6,200 tons per year, and according to regular business principles should report this quantity to higher authority and turn over supplies for the use of the state and the masses, that is, turn over to the province 2,500 tons, keep 3,300 tons for normal supplies to the local population, and retain the remainder for the industry's own sales and for return to the cane growers. In the last two years, they relied on the support of leading cadres in the prefecture, the county, and in the departments, and instead of turning sugar over to the state, they sold it at market prices to Sichuan and other provinces and regions. Because the volume of sugar sold

at market prices is exceedingly large, supply at parity prices to the masses cannot be maintained, and, as a result, the province is asked to allocate sugar for the market.*

The common people have no way of remedying the situation and call it "the effect of privileges." Someone composed a jingle:

At parity price nothing, at market price everything and more,
At the front door nothing, all you want at the back door.
To the masses nothing, while to cadres all they want to acquire,
And while no sale to strangers, to good friends all they desire!

Almost every sugar refinery in the province is also in the "sugar-grabbing" racket. They have the power to do so. In order to energetically develop sugar cane growing and sugar production, over 400 million yuan of loans were granted in the last few years for the construction or renovation of sugar refineries, which was a very substantial economic encumbrance. Selling more sugar at market prices for greater profit and facile loan repayment, may after all not be such a bad strategy.

Although sugar production increased during the period from 1987 to 1988, the state, could procure only 100,000 tons less. Part of the sugar procured by the state was then again sold by certain regions and departments to places inside or outside of Yunnan at market prices, which caused a reduction in the amount turned over to the central authorities according to plan, and in turn caused a shortage of supplies in the markets within Yunnan, so that it became necessary to resort to fixed issues against ration coupons.

Contradictions Are Being Mitigated and Resolved

Since contradiction arose between growing sugar cane and growing other cash crops by the peasants, and since the "battle" erupted between the state procuring sugar at parity prices and the local authorities and enterprises selling at market prices, the leadership of Yunnan Province, while adopting administrative measures to develop sugar production, at the same time gave serious thought all along to the resolution of these problems. Finally they thought of new ways that would, on the one hand, give consideration to the interests of the state, the sugar refineries, and the cane growers, and, on the other hand, would bring fully into play to the greatest extent Yunnan's advantages with regard to sugar production.

The scientific method as applied to sugar production: improving plant species, better insect pest and plant disease prevention, and greater effort to improve per unit area yield. In the hot plains of Yuanmou, Yuanjiang, Kaiyuan, and Jianshui, and in the river valleys,

adoption of a method of interspersed planting of sugar cane and vegetables, thus resolving the conflict of sugar cane and vegetables competing for place.

Rational distribution of profits in the production and circulation processes: First, an appropriate raise of sugar procurement prices. In 1987 the price for 1 ton of white sugar was 1,000 yuan, which has now been increased to 1,650 yuan, plus a 90-yuan grain subsidy, making the total 1,740 yuan. This raised enthusiasm for sugar production. Second, adjustment of the base figures for sugar production and procurements during the period from 1988 to 1989; that means that the base figures for production and procurement of sugar for the new annual period shall take as guideline the average production during 3 years, as reported by the provincial statistical bureau, and the sugar within this basic figure shall be procured according to state-fixed prices. Retained sugar outside of the basic figure and in excess of the basic figure may be used by each production district to exchange means of production and materials in short supply in the market, and may also be sold at market prices. Third, for the supply of sugar for use by the general public, the system of fixed amounts of allotments shall be maintained. For the supply of sugar for foodstuff production or processing, a double-track pricing system shall be practiced.

It would appear that application of the law of value must be a "radially curative technique." However, sugar is also a commodity in seriously short supply throughout the country; it is an important commodity affecting the national economy and the people's livelihood. While dealing with it according to the law of value, it is at the same time necessary to emphasize centralized management, unified procurement, thus strengthening control of the sugar market. The sugar-producing areas must guarantee fulfillment of procurement, allocation, and transportation plans. Government agencies at all levels must take the interests of the whole into account, observe strict discipline, adopt powerful measures, quickly fulfill sugar procurement, allocation, and transportation tasks right down to industrial and commercial enterprises. To ensure supplies in Yunnan's market, any sugar that may be retained by the various regions, or that is in excess of basic procurement figures, must first of all be made available for the requirements of local food processing. At the same time, active support must be given to solve the difficulties caused by the shortage of sugar as raw material for the foodstuff industry in the consuming areas of the province.

As the famous economist Li Yining [0632 0110 1337] said, "Fairness is the source of efficiency." The "getting rich from sugar" which is in the mind of some industrial and commercial enterprises must be based on the principle of protecting the state's fundamental interests, namely the guarantee that the state's basic sugar procurement norms will be fulfilled, and that as much as possible sugar will be turned over to the state. This alone will enable Yunnan Province to exchange from outside

the province what our province urgently needs, namely grain, pork, industrial raw materials, and urgently needed industrial products in short supply. Only through obtaining control by the state over larger amounts of sugar, will it be possible to ensure supplies to the market. Providing a material foundation will establish favorable conditions for a stabilization of commodity prices.

During the 10 years of reform, sugar production in Yunnan has developed well, and sales have increased. However, there are still many problems and great difficulties. People of all circles are extremely concerned: Will another great battle for sugar erupt in the 1988/89 sugar cane-crushing season, as in the preceding years?

Yunnan Reports 1988 Tobacco Production a Success

40060368a Kunming YUNNAN RIBAO in Chinese
11 Feb 89 p 1

[Text] Last year, Yunnan's cured tobacco and cigarette production, supply, and sales developed in a coordinated fashion; the province's earnings therefrom steadily improved; and its tobacco industry led those of all other provinces, municipalities, and autonomous regions in terms of five major economic indicators.

Yunnan enjoyed a bumper harvest of fine cured tobacco, procuring 486.3 million kg, equal to 128.37 percent of the planned amount for the year and representing an increase of 52.73 percent over 1987. High- and medium-grade tobacco comprised 80.15 percent of the total output, an increase of 1.75 percent over the previous year.

Cigarette production, supply, and sales developed in a coordinated fashion. Last year, the province produced 3,549,100 boxes of cigarettes, equal to 146.05 percent of the planned amount for the year and representing a rise of 18.21 over the actual amount produced in 1987. Grade A cigarette production totaled 743,300 million boxes, or 20.94 percent of the total, an increase of 59.68 percent over the 1987 figure. And filter cigarette output totaled 1,419,000 boxes, a rise of 42.78 percent over 1987.

Both sales and purchases are booming for cigarettes. In 1987, 3.44 million boxes, 96.93 percent of total output, were sold, of which 2,477,800 were shipped to other provinces, 33.27 percent more than in 1987; 937,200 were sold in Yunnan, a rise of 13.49 percent; and 14,900 were exported, an 15-fold increase.

Economic returns have greatly improved, and the growth rate for taxable profits has outstripped that for output. It is estimated that tobacco and cigarette production earned 3.984 billion yuan, an increase of 54.22 percent over 1987.

Foreign exchange earnings have risen. In 1988, the province earned \$87.93 million in foreign exchange, equal to 178.25 percent of the 1987 figure. Of these earnings, \$6.09 million was derived through export of 14,872 boxes of cigarettes; \$72.39 million came from the sale of 133,200 boxes of cigarettes in China for foreign currency; and \$4.01 million was earned from the export of 1.75 million kg of cured tobacco.

Yunnan Reports Progress in Establishing Commodity Hog Bases

*40060368b Kunming YUNNAN RIBAO in Chinese
7 Feb 89 p 1*

[Text] Policy support and complementary service enabled Yunnan to achieve initial results in the province's effort to establish 21 commodity hog bases last year. According to statistics from relevant departments, the number of live hogs in stock, the number slaughtered, the number marketed, and the number sent to superior agencies as of the end of last year showed marked increases over the respective levels in 1987: The number of live pigs in stock was 4.37 million, an increase of 5.3 percent over the previous year; the number of fattened hogs slaughtered was 2,197,400, a rise of 11.8 percent; the number marketed was 1,267,400, a leap of 338,000 or 35.3 percent, of which number state and collective commercial units procured 776,700, equal to 45 percent of the total amount procured in the province; and the amount sent to superior agencies was 461,800, equal to 95 percent of the total amount sent upward.

Early last year, the provincial government decided to make Luliang, Jiangchuan, Jinning, Xuanwei, and 17 other counties commodity hog bases, and then drew up a complete package of policies and programs, including rewarding peasant households for sales of fattened hogs and policies on procurement and on sending hogs to superior agencies. Coordinated investment in the bases carried out on three levels—provincial, prefectural, and county, reached 6.02 million yuan and was primarily used to establish three major systems—disease prevention, feed processing, and breed improvement—in an effort to gradually create an integrated technical service network. Animal husbandry departments encouraged technicians to go to the hog bases to extend the “five

changes,” namely, improving pig sties, changing from local breeds to hybrids, switching from the practice of feeding pigs whatever is available to the use of compound feed, changing from the practice of carrying out disease prevention work in the spring and fall to instituting a swine fever immunization program, and replacing natural mating with artificial insemination. The implementation of comprehensive, integrated technical programs has greatly reduced the growth-fattening cycle, reduced feed expenditure, increased the slaughter rate, and enabled hog raisers to obtain more satisfactory economic returns.

While continuing to root itself in the program of having thousands of peasant households engage in pig raising, each prefecture and county designated as a commodity hog base is paying attention to the development of a number of key and specialized hog-raising households and villages specializing in hog raising, offering guidance on hog raising, and gradually moving toward socialized and commercialized production. Last year, Fumin County implemented a three-tiered approach to hog raising which enabled the county to increase to 47,100 the number of pigs marketed. At the first level, 15 big hog-raising households were to market a quota of 10,000 hogs; at the second level, 2,666 key and specialized hog-raising households were to contribute 22,800; and, at the third level, thousands of peasants were to add 14,300.

The Yunnan Foodstuffs Co has changed the focus of its sourcing operations from external to provincial suppliers, has actively worked with animal husbandry departments, and has assisted a number of hog-base counties in the production of live pigs. All levels of state food departments throughout the province have vigorously improved live hog procurement work, thus stimulating production by broadening circulation. In supply sourcing, the province upholds the principle of going to provincial suppliers before going to outside sources, and first meeting base-county peasant demand to sell fattened hogs, then turning to outside sources to cover local-supply shortfall. Last year, Yunnan brought in only 23,000 tons of pork from other provinces, a decline of 30,000 tons, or 56.5 percent, from the previous year, thus improving the province's self-sufficiency in pork production.

Efforts Considered To Entice Return of Overseas Students

40050333a Beijing JINGJI CANKAO in Chinese
18 Feb 89 p 1

[Article by Yang Guangzeng 2799 1639 1073 and Liu Xi 0491 5409: "A Stable Overseas Study Policy Essential to Public Confidence"]

[Excerpts] Studying abroad is a hot conversational topic in China these days and has been so for some time. During the past 10 years, China has sent 60,000 students to study in 76 nations and regions. Since 38,000 of them remain overseas, their failure to return is also a topic on everybody's lips. Some people are sympathetic, others indignant.

No matter what people say, it is statistics that are most telling. An authoritative concerned department has forecast that there should be 1,000 returnees each year, starting in 1988. In fact, only about 200 returned to China last year. [passage omitted]

The motherland opens her arms to overseas students, but many refuse to throw themselves into her embrace.

We visited one unit after another that send students abroad and we learned of the concerns widely shared by those who have not returned: that they would be assigned jobs that do not match their specialties and that they could not be transferred to other positions; that hiring units at home would utilize personnel, determine job titles, and set wages based on seniority; that the overseas study policy would change and that once they return, they would not be allowed to leave again; and that there would be too many distracting worries in their daily life.

Some overseas students would like nothing better than to immediately give up the superior study and research conditions abroad, while others hope to remain overseas to do postdoctoral work or to join a company to gain practical experience.

The Education Bureau of the Chinese Academy of Sciences [CAS] last year conducted a survey of people from the academy who were studying in the United States. Eighty percent of those surveyed made it clear they would like to do postdoctoral work overseas. At present, there are more than 100 postdoctoral research mobile centers at a number of universities and scientific research institutions, but the number of people they can accept remains very limited. The biggest headache for these centers is housing. Pan Wenxia [3382 2429 7209], who earned her PhD in Japan, applied to do postdoctoral work at the Mechanics Institute at CAS; her only "extravagant hope" was to be able to move into a suite with her husband. The CAS could not meet her request.

Of course, there are people of an even more pragmatic frame of mind. They say, "By staying abroad for a few more years, we can do research, on the one hand, and make a little money, on the other, so that once we come home, we can settle down to even more productive work. What is wrong with that?"

But CAS Vice President Ru Xin [3067 0207] said, "This is precisely the time when the nation needs qualified personnel. Yet the best and brightest of our people live abroad, serving as cheap labor for others."

We visited Zhang Guangdou [1728 0342 2435], a famous irrigation expert, at Qinghua University. Mr Zhang Guangdou, who returned home from the United States after completing his studies in 1937, said emotionally, "There are many reasons why overseas students stay beyond their return deadlines, but housing is not the most important. Nor are scientific research conditions. A host of intellectuals returned home in the 1920's, 1930's, and 1950's. The conditions in China then could not have been better than they are now, could they? Could it be that those returnees were all broke overseas? Weren't there people who pretended to be crazy in order to be able to come home? Why did they come back?" [passage omitted]

In recent years the state has done a lot to receive students who want to return to China to work. As of now, the 145 postdoctoral research mobile centers located at leading colleges and research institutions around the nation have accepted 130 returned students for postdoctoral research. A modern Chinese returned-students service center is also being planned.

The leader in charge of the project told us that the soon-to-be-completed service center is a nonprofit organization with legal status. It will provide information and consulting services to people who want to go abroad to study, handle the paperwork involved, and provide lodging and transportation services for overseas students who spend their vacations in China. In addition, the center will provide information both to returned students and hiring units at home, enabling both parties to make better choices. The leader ended by saying, "Our goal is to create a microclimate by planting a 'Chinese parasol' so that returned students will feel the warmth of the motherland."

At Beijing University, a batch of young PhD's who returned home in recent years have become the backbone of the teaching and research corps. Chen Zhan-gliang [7115 4545 5328], 27, who earned his PhD in the United States, was assigned to the biology department on his return, and has been allocated adequate scientific research funds by the departments concerned. Today he is the youngest associate professor on the faculty of Beijing University.

Ceng Yi [2582 3015], who has studied at the Free University of Brussels in Belgium and the Netherlands Population Institute, was immediately made an associate professor at Beijing University and deputy director of the Population Institute when he returned in 1987. Shortly afterward, his excellent performance won him the "outstanding young college teacher scientific research fund," awarded by the State Education Commission.

Colleges, universities, scientific research institutions, and large companies and enterprises all provide ample room for returned students to demonstrate their abilities. The think tanks of high-level policymaking departments also include a number of top-notch returned students. [passage omitted]

18 August 1966. History should remember that day.

The hurricane of the Cultural Revolution wrought havoc on colleges and universities, research institutions, and factories. Wave after wave of experts and scholars came under attack and were driven mad, sent to the countryside to do reform through labor in disguise, committed suicide....In those extraordinary days, studying abroad naturally became an "impossible dream."

This was the tragedy of qualified personnel. It was also the tragedy of the Chinese nation.

The turmoil forces us to think soberly.

A microclimate where it is spring all year round is certainly lovely and the zeal of a generation of returned students to repay their nation is certainly admirable. But if we do not have the habit of respecting knowledge and experts, or an environment of equal competition, how can we ensure that the zeal will last forever?

Gratifyingly, along came the 3d plenum of the 11th CPC Central Committee and a decade in which students were again sent abroad to study. Unfortunately, our work remains flawed in many ways:

—a city once made the rule that a student refusing to return after being sent abroad to study at public expense would be fined 10,000 to 50,000 yuan;—

between 1979 and today, the self-funded overseas study policy was tightened three times and relaxed twice. In the past few years, we also repeatedly tinkered with the rules governing the level, composition, and destinations of students sent abroad at public expense.

All this makes intellectuals and academics at home rather nervous.

Zou Chenglu [6760 2110 7627], a member of the academic departments of the CAS and a researcher with the Biophysics Institute, said, "Stopping people from leaving is no solution. Even if they stay here physically, their hearts belong elsewhere."

A leader of the Beijing Science and Industry University said, "We should treat people with foreign doctorates and those with domestic doctorates in the same way. What intellectuals value most is equal opportunity and fair competition. Unfairness damages the work enthusiasm of large numbers of intellectuals."

Liu Shusen [0491 2885 2773], director of the Zoology Institute, made this appeal, "When you alternately relax and tighten the overseas study policy, you undermine the public's confidence in the continuity and stability of China's open policy. Excessively frequent changes only persuade people to stay put overseas, fearful that they would never be able to leave China again. Our problem today is a proliferation of new policies, new spirits, and provisional regulations. If the mainland can leave its Hong Kong policy unchanged for 50 years, why can't it do the same about the overseas study policy?" [passage omitted]

Ding Shisun [0002 4258 1327], president of Beijing University, said, "China's unique cultural background is one of our major attractions to qualified personnel. But the most basic step is still to translate into action the idea of respecting knowledge and honoring qualified personnel."

An insightful young person said, "It should not be the goal of the work regarding overseas students to attract them to come back. Our ultimate goal should be to mobilize the enthusiasm of the returnees and the zeal of intellectuals at home."

Performance of Supplementary Legislators Rated
40050354b Taipei TZU LI WAN PAO in Chinese
21 Feb 89 p 2

[Text] How was the performance of supplementary legislators during the 82nd legislative session? According to statistics, the number of written inquiries submitted by supplementary legislators averaged 21.67 per person, and the number of verbal statements or speeches averaged 22.20 per person. Compared with the record of senior legislators, who seldom expressed their views, the supplementary legislators have obviously become the chief force in legislative affairs. The frequency of written or oral speeches among supplementary legislators elected from Taiwan districts is several times greater than that of legislators elected from overseas.

According to the statistics, even though senior legislators still comprise the majority in the Legislative Yuan, the average number of speeches made by them is less than ten, and the number of written inquiries is even less. The "volume" of verbal and written inquiries among the supplementary legislators exceeds that of the senior legislators, the average for each supplementary legislator being 21.67 inquiries, and the average for overseas elected legislators being 8.57 inquiries. It can be seen from this that the district-elected legislators are the primary spokesmen among the supplementary legislators. Among these district-elected legislators, the number of written inquiries made by those with Kuomintang membership averaged 12.86, and those with Democratic Progressive Party membership averaged 66.

In the number of speeches or statements made, those made by supplementary legislators averaged 22.2 per person. Of these, the number made by district-elected legislators averaged 31.46 speeches, and the number by overseas-elected legislators averaged 3.79 speeches, clearly demonstrating the leadership position assumed by district-elected legislators. Among district-elected legislators here, those with Kuomintang membership averaged 22.9 speeches per person, and those with Democratic Progressive Party membership averaged 70.98 speeches.

Though overseas-elected legislators make up 25 percent of the supplementary legislators, the number of speeches and inquiries they made was far less than those made by district-elected legislators, and even less than legislators representing occupational and aborigine groups who make up close to one-seventh of the legislature. With reference to statements and inquiries made, the records

for overseas-elected legislators Yan No [0917 6179] and Huang Yuansheng [7806 0337 3932] showed a zero. For speeches made, the records for Zhong Weiguang [6945 0251 0342], Zhu Yongkuang [2612 3057 0562], and Huang Yuansheng also showed a zero. With reference to written inquiries, ten overseas-elected legislators did not make any. They are Ma Guoxiang [7456 0948 4382], Zhu Yongkuang, Huang Yuansheng, Zho Guangxuan [1563 0342 3551], Xie Rubin [6200 3067 1755], Xu Neng [1776 5174], Yan No, Liu Fuqi [2692 1788 6386], Wu Fengkun [0702 6265 1024], and Ma Keren [7456 0460 0117].

Freedom of Speech Improving, But Still Inhibited
40050354 Hong Kong MING PAO in Chinese
27 Feb 89 p 9

[Text] (Special) News from Taipei: A recent poll by the China Human Rights Federation on freedom of expression indicates that 12 percent of those polled still felt psychological pressure from public safety units or intelligence agencies. The poll also found that, among various occupation groups, the proportions who feel this psychological pressure are the highest among teachers and individuals working in the military and public service sectors.

On 14-19 February, the China Human Rights Federation conducted a public opinion poll of the whole island by telephone, with an effective sampling of 1,114 persons and 189 refusals.

Associate Professor Yang Taishun [2799 3141 7311] of the Political Science Department, Taiwan Political Science University, who sponsored this poll, compared the survey results with the 1984 "Survey Studies on Human Rights by the China Human Rights Federation," and found the proportion of those feeling pressure is much higher now than before martial law was lifted (96.5 percent said they felt no pressure then). Professor Yang also felt that after martial law was lifted, the people of Taiwan became bolder in expressing their views. Moreover, the activities of intelligence agencies are routinely more open to discussion now, and more people are aware of their existence.

Among those interviewed, 20 percent said they did not know that Taiwan had lifted the martial law which limited freedom of expression. As to their views on freedom of the press after the ban was lifted, 9.6 percent expressed dissatisfaction, 22 percent said it was passable, 34 percent gave it a definite positive, and 35 percent said they did not know, or had no opinion.