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# ***JPRS Report***

# **China**

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## SOUTHEAST ASIA/PACIFIC

**Asian NIC's Face Challenges in Modernization**  
40050365 Hong Kong KUANG CHIAO CHING [WIDE  
ANGLE] in Chinese No 197, 16 Feb 89 pp 80-83

[Article by Lu Fan-chih 7627 0416 0037: "The Modernization of the 'Four Little Dragons' and the Challenge of the Orient"]

[Text] **Class Relationships and State Machinery in the "Four Little Dragons"**

The "four little dragons" have produced a strong class of native, non-bureaucratic-compradore capitalists, a situation which differs greatly from that which obtained in most of Asia (except Japan) prior to the middle of this century, wherein the native capitalist class was weak and the working class, as a result of the development of external capital, emerged as strong by comparison. The concept of "new democracy," which Mao Zedong, based on conditions at the time, developed from Leninism and which posits that "through the Communist Party, the working class assumes leadership of capitalist development," is clearly no longer applicable in the "four little dragons of Asia," even though it still holds in some regions of the Third World where foreign capital monopoly is severe (such as in Latin America) or where bureaucratic-compradore capital is rampant. Although the native, non-bureaucratic-compradore capitalist class of the "four little dragons of Asia" (big financial groups) is formalistically dependent on the imperialism of developed capitalist countries, the relative autonomy of the class is considerable and growing, and the class has been able effectively to lead the successful development of capitalism in its respective country and thus to strengthen itself. In no "little dragon" is the working class stronger than the non-bureaucratic-compradore capitalist class, and thus there is no possibility that the working class (through the Communist Party), owing to the weakness of the non-bureaucratic-compradore class and consequent inability thereof to lead the development of native capitalism, would have to lead that development (which constitutes "new democracy").

### The Position of the Middle Class

The nativism of the "four dragons" is already quite well advanced, and the principal contradictions—namely those between the state and civil society and between the monopolist capitalist class (principally, large indigenous financial groups) and the broad middle and lower strata—already approximate those of developed capitalist countries. In the long term, the possibility exists that political parties championing the viewpoint of the working class will come to power through popular elections in multiparty democratic politics and will then carry out structural reform of the existing, highly developed capitalism (even though Hong Kong does not yet have fully developed political parties, Singapore still bans labor movements, South Korea lacks influential working class

parties, and Taiwan's Workers Party still has a long way to go before it can even imagine being elected and taking power). But this should not be construed as "new democracy" and, especially, if it is to mean that the non-bureaucratic-compradore capitalist class of the "dragons" (in South Korea the class can clearly be termed a national bourgeoisie) is "middle of the roadish" or that these large financial groups will accept the leadership of the working class, and the working class of the dragons does not have many peasant "allies," or the leadership power over current democratic movements resides mainly in the hands of the new middle class. Although the working class may gradually achieve some of that power, it will take a long time, and it will also have to share that power with the new middle class.

Meanwhile, except for Hong Kong, which remains a British colony and whose colonial state machinery therefore tends primarily to serve the interests of British monopoly capital in the port (the decolonization that the runup to the 1997 transfer has initiated has by no means altered this aspect, and will not until 1997, when political power is turned over to China). The state machinery of the dragons on the whole does not "lean to one side" and cooperate with the interests of exploiters, much less is there any of the naked and widespread use of power for personal gain that engenders corrupt and overbloated bureaucratic-compradore capitalist classes, such as happened under the Kuomintang on the Chinese mainland. (The Philippines, Indonesia, and many other countries in Southeast Asia still confront this problem, which, in fact, is an important reason why these countries have failed to achieve the great success of the "dragons.") It is true that the state machinery of the "dragons" is closely tied to the interests of international capitalism and that it makes a special effort to protect and nurture the large financial groups—the interests of the monopoly capitalist class (especially in South Korea and Hong Kong). But the "dragons" state machinery also places great emphasis on its own interventionist-regulatory function in overall economic growth and in modernization (the Hong Kong government, although championing *laissez faire*, "active nonintervention," is also quite "interventionist-regulative," albeit on a small scale) and even consciously mediates class contradictions (especially in Taiwan and Singapore), so Lenin's theory of the state clearly requires revision and readjustment. (I have already analyzed Taiwan and South Korea's characteristic practice of state regulation of capitalism in detail, and that practice is closely related to the state hegemony that operated in the traditional cultural structures of China and Korea. (From the perspective of Marx's undeveloped theory of the "Asian mode of production," this is closely related to the traditional workings of "Oriental despotism." The state hegemony, buffeted and readjusted by the capitalist market economy, which was transplanted from the West, saw its despotic nature reduced and its function enhanced). However, the little city state of Singapore also practices state regulation of capitalism, albeit of a different type from the forms employed by Taiwan, South Korea, and Western

Europe. Singapore has been profoundly influenced both by traditional Chinese culture and by modern Western culture. This is because Singapore has both "Oriental despotic" and "Western democratic" forms, a big mix that reflects both the spirit of the Chinese patriarchal system and the ideals of European social democratic parties, making full use of Oriental state hegemony and of the developing welfare state.

### Singaporean State Regulation of Capitalism

Although Singapore has more foreign capital (leading the "dragons" and being a leader among Third World nations in this regard) and is greatly influenced economically by multinational corporations from developed capitalist countries (which fact also accounts for the relatively high share of foreigners in the top management of major Singaporean enterprises, thus causing the upper strata of the new middle class of Singapore to have a greater innovative component), the port's state machinery primarily serves the existence of the nation of Singapore and thus strives to serve the greater interest of the overall development of the port so as to maintain and strengthen Singapore's lead in modernization over the Malay states (Malaysia and Indonesia), an important prerequisite for the continued existence of the nation, which is predominately Chinese. While it is true that, in this effort, the state must provide special protection for foreign capital and native financial groups, the state must also effect considerable state regulation with respect to the overall interests of the nation, which fact is reflected in the preponderance of state institutions and enterprises, which is described in *Hsin-chia-p'o: Erh-shih-wu nien lai te fa-chan [Singapore: The Last 25 Years of Development]*: "In view of conditions in Singapore, public enterprises include statutory agencies and wholly owned or non-wholly owned state companies. Statutory agencies are merely one form of direct government participation, which may be effected through holding companies or through direct establishment of wholly or non-wholly owned subsidiaries. The government also indirectly owns majority shares in a number of companies, thus making the range of public enterprise extremely complicated...The fact that there are a large number of statutory agencies (84 altogether)...proves that the government has been using them to build up the country and and restructure the economy. Because Singapore's economy is small, lacks natural resources, and is open to the outside world, and because the government has no choice but to assume leadership of development, the statutory agencies grow and are nurtured as the government expands." This is also manifested in the massive construction of public housing, designed to strengthen citizens' sense of belonging (as well as enhancing state control over the people); in the establishment of the "central accumulation fund" so as to provide more security for the lives of the middle and lower strata (as well as to expanding the state's funding operations) and the like. All of these "welfare state" and class reconciliatory measures may be said to characterize Singaporean state regulation of capitalism. Although Singapore is the

only "dragon" lacking a democratic movement, its welfare capitalism is the most modern of all newly industrialized regions. (Hong Kong is way behind in this respect. The "home to the resident" plan, though copied from Singapore and quite successful, has not been widely implemented, and Hong Kong treats housing as a commodity, rather than as social welfare. Insofar as the rejection of the demand to establish a "central public accumulation fund," it reflects even more the fact that Hong Kong caters much more than does Singapore to the interests of the propertied class.)

### The "Four Little Dragons" Need Their Own Rethinking of Modernization

The successful development of the "dragons" into fully capitalist societies and their development of native, monopolistic, non-bureaucratic-compradore capitalism; of "new capitalism" that is in hot pursuit of the modernity of the West; and of state regulation of capitalism that leads toward "postcapitalism" cannot be explained through Lenin's "theory of imperialism," Mao Zedong's "theory of new democracy," and the New Left's underdevelopment and dependence theories. The "dragons" must develop their own rethinking of modernization—move in the direction of new theory regarding postcapitalism and postmodernization. Hong Kong and Taiwan need, even more, to combine their efforts with the mainland's rethinking of modernization.

To be sure, the "dragons" have achieved economic growth and modernization rates that are the highest in the world, have made the whole world sit up and take note, and are truly worthy of the name "the four little dragons of the world." But the dragons also have experienced serious developmental defects, negative factors, and difficulties. The limitations of the export-led industrialization model; dependence on the markets of developed capitalist countries (the center of international capitalism); democratization of state hegemony (although democratic movements have made advances and breakthroughs have been made in the democratization of the political systems in South Korea and Taiwan, experience indicates that there is the possibility of serious and repeated backsliding for some time to come in these dragons); elimination of the monopoly exercised by large financial groups over the national economy; changing hardline anticommunist policies; seeking new ways to coexist peacefully and then to cooperate peacefully with the socialist developing regions of East Asia; creating a new culture combining the advantages of tradition and rethinking of modernization; the peaceful unification of China and of Korea, which will create a unique bond between Hong Kong, Taiwan, and Korea; peaceful coexistence, following by peaceful cooperation in Southeast Asia, which will create a unique bond between Singapore and the peoples native to the region (this refers primarily to the relations between Chinese and Malays); and the like all are serious issues that will require aggressive effort to resolve. When viewed in terms of an integrated development of the East Asian

and Asian-Pacific regions, accelerating the arrival of the "age of the Pacific," and sparking a new "challenge of the Orient" so as to promote the development of a new world culture and to promote human progress, these issues may be categorized into three major areas.

#### **The Peaceful Coexistence of the Two Systems of East Asia**

1. Although factors advantageous to the peaceful coexistence and peaceful cooperation between the two systems clearly are growing, peaceful coexistence has by no means become the general line of all regions, and serious difficulties clearly exist. Transforming monopoly capitalism and the economic hegemony exercised by big financial groups in the "dragons" and transforming the policies of Taiwan, South Korea, and Singapore from anticommunist to tolerance toward communists will prove every bit as difficult as implementing Western-style multiparty democracy and transforming the Communist leadership model on the Chinese mainland and in North Korea and Vietnam.

First, though global trends favor peaceful coexistence, competition, reform, and cooperation between and within international capitalism and existing socialism, almost all capitalist countries in Southeast Asia have anticommunist forces and violently suppress their communist parties, which continue to stress violent revolution (which situation is typified by the Philippines). Second, although Deng Xiaoping has proposed the "one nation, two systems" formula for the peaceful unification of China and reforms incorporating capitalist supplements and approaching mixed economy, and Kim Il-sung has adopted a federalist approach (under which North and South Korea would form a "Federation of Korea") to the peaceful unification of Korea, these two leaders insist that the Chinese mainland and North Korea adhere to the Communist leadership model. Third, while South Korea and Taiwan, the so-called anticommunist front lines, maintain hardline opposition to communism, even Lee Kuan Yew of Singapore has always insisted that "the real problem of Singapore, as well as the world, is how to deal with communism." Fourth, the emergence of big native financial groups has created a powerful social force base for the traditional anticommunism of the "dragons" (in Hong Kong, the traditional stance has been rejection of communism).

#### **The Peaceful Coexistence of the Peoples of East Asia**

2. National peaceful coexistence-cooperation involves two issues, opposition by the entire Pacific-Asian region to the resurgence of Japanese militarism and the complicated relationship among the peoples of Southeast Asia, especially the Malay (Orang)-Han Chinese relationship. In view of current international conditions and of future trends of development, the latter problem will be more difficult to resolve than the former. As for the latent possibility of the revival of Japanese militarism, although there is the factor of the intense nationalism of

the Yamato people of Japan, the issue is not purely one of race; especially important, Japan's disastrous defeat during World War II clearly has made it very difficult for Japanese militarism to make a complete comeback, and there is even opposition to militarism within Japan. This opposition is quite widespread (for example, the second-largest political party in Japan, the Socialist Party, has expressed unequivocal opposition to militarism). In my view, China and Japan, in accordance with the principle of peaceful coexistence (Japan and China should never fight again) proposed by progressive Japanese, should over the long term move toward development of special ties, or, with the support of economic equality, mutual benefit, and a shared culture, there might be a move first to develop Chinese-Japanese-Korean special ties and across-the-board peaceful cooperation and then to advance to promote development of the entire Asian-Pacific region. Acceleration of the "era of the Pacific" requires proper resolution of both the relationship between the two systems of East Asia and the complicated relations between the peoples and states of Southeast Asia.

From the perspective of the latter, dealing with the relations between the Chinese and the natives (including the Malays of Malaysia and Indonesia, the Thais of Thailand, the Jing of Vietnam, the Khmers of Vietnam, the Tagalogs of the Philippines, and the like) will be extremely complicated and difficult. Southeast Asian nations all have practiced discrimination against Chinese (including Vietnam, which once called China "comrade and brother," and the Khmer Rouge, whom the Chinese Communists still greatly support), but the most severe and sharp contradictions and antagonisms are in the countries ruled by Malays. The Malays are the largest ethnic group in Southeast Asia (with a population exceeding 150 million), and their strong desire to use the Malay state to eliminate the Chinese culturally as much as possible, the extreme measures they have employed, and their deep-seated "genocidal mentality" truly rival the anti-Semitism of the German Nazis of the past. The "Chinese build the nation" model, which has been in practice from the 19th century's Lan Fang [5695 5364] federation to the 20th century nation of Singapore, offers a way to resolve ethnic contradictions. In this respect, the nation of Singapore, which is predominately Chinese (who comprise 75 percent of the total population of 2.6 million) has historical implications that cannot be overlooked. Of course, Southeast Asia certainly needs many more rational models and measures with which to resolve the problem of the relationship between Chinese and natives in the region.

With respect to the "dragons," for Hong Kong, Taiwan, and South Korea, the issue of the peaceful coexistence of the two systems is the primary problem, whereas for Singapore, the problem of peaceful ethnic coexistence is more important than the issue of the peaceful coexistence of the two systems. In fact, in most regions of Southeast Asia today communist forces have been violently suppressed (except in Indochina, where violent communist revolution succeeded), as has Chinese nationalism. Singapore is composed of three major races—Chinese, Malays, and Indians—and is surrounded by Malay-ruled nations (Malaysia and Indonesia) which have adopted parochialist racism. And

because most Malays believe in Islam and because Singapore was long a British colony and has been greatly influenced by Western culture, four of the great civilizations of the world—Chinese, Western, Indian, and Islamic—naturally have great influence and coexist in tiny Singapore. (Such a complex intermingling of cultures is truly rare in the world.) Thus there is some objective basis for the tendency of most people to describe Singapore as a “problem society” rather than as a “solution society” and for the claim that the city-state suffers a perpetual sense of crisis. From the macroscopic perspective of comparative history, as for the “Chinese build the nation” model and the political line of maintaining a lead in modernization (in certain respects, Singapore, which is surrounded by Malay countries, is really similar to Israel, which is surrounded by Arab states), a certain amount of elitist lead in modernization is a prerequisite for [Singapore’s] existence. As for the questions of the Chinese in Southeast Asia and of national peaceful coexistence-cooperation, what are the far-reaching effects? As for the relations between Singapore and China, there is in fact already a “one-people, two countries” relationship (though the two countries differ greatly in size). What are the far-reaching implications of this relationship for China (including Taiwan and Hong Kong), for the role of Chinese culture in the development of the entire Asian-Pacific region (in other words, accelerating arrival of the “age of the Pacific”), and especially for Southeast Asia? The problem of the status of the Chinese people in Southeast Asia must be rationally resolved, for this issue not only involves the elimination of discrimination against and even oppression of the tens of millions of overseas Chinese (Southeast Asia has a large share of the total number of Chinese residing overseas) and relates to the issue that China, as the “fatherland,” should assume responsibility for protecting overseas Chinese and actively make use of the social resources and functions of overseas Chinese, but also relates to the realization of the possibility of an “age of the Pacific” (namely, the “challenge of the Orient”). All of this requires that China formulate a more active and rational policy vis-a-vis Chinese society in Southeast Asia. Clearly, China’s relevant policies have been quite negative and very passive historically (with the most deplorable result being the fact that Chinese in some Southeast Asian countries have been subjected to cultural genocide; the appointment by Malaysia in 1987 of Malays to take charge of Chinese schools marked a further advance in that nation’s consistent policy of eliminating Chinese culture; and Indonesia has long prohibited circulation of Chinese newspapers and magazines).

#### The “Challenge of the East” and the Coming of the “Age of the Pacific”

3. To integrate the rethinking of modernization with the re-examination of Chinese culture and the Oriental cultural tradition, although the total area of the “four little dragons” is insignificant, the “dragons” by their modernized development standards are catching up to the

advanced industrialized nations thereby creating social conditions necessary for a more profound rethinking of modernization (although Singapore and South Korea have closed themselves off from the most advanced ideas and theories of the world, an unhealthy state of affairs). While Japan has achieved a high level of modernization, Japanese generally have failed to exhibit any cultural creativity at the level of values (this problem is due to deep limitations stemming from the fact that Japanese culture has long been derivative, a situation that also applies to Korea). If we assert that the core of traditional Oriental (East Asian) culture is Chinese culture, that Japanese, Korean, and Vietnamese cultures basically are derived from Chinese culture, and that Chinese culture has come to exercise a major influence in Southeast Asia through the wide dissemination of Chinese people, and although the natives of Southeast Asia have been variously subjected to other outside influences (for example, the influence of Islamic culture on the Malays, the influence of Indian Buddhist culture on the Thais and Khmers, and the influence of Western Christianity on the [?“Visayans”] and the Tagalogs), there can be no doubt of the central status of Chinese culture with respect to the entire Asian-Pacific region or for all of East Asia (the Orient). Chinese culture is the one and only domestically engendered, major primary culture. Thus, at the cultural foundation level, the development of the Asian-Pacific region, the coming of the “age of the Pacific,” and the rise of the “challenge of the Orient,” though certainly requiring a joining of forces, must include the driving force of the rejuvenation of Chinese culture (namely, the driving force of the readjustment and restructuring of Chinese culture and of the raising of the “challenge of China,” which developments occur and emerge as Chinese culture is buffeted by the strong blows of Westernization and experiences baptism in modernization.)

Given the important role of China, Hong Kong and Taiwan, which are both part of China’s territory and the most Westernized and modernized places in the Chinese cultural area, objectively should play a definite, special role in the rethinking of modernization in the following process: in the process of China’s entire modernization development and in the process of incorporating the Chinese-style of rethinking of modernization with reexamination of the Chinese cultural tradition. To be sure, there can be no substitute for the mainland China’s rethinking of modernization as the mainland gradually improves its level of modernization and enriches the experience of socialism development. Nevertheless, the rethinking of modernization provided by Hong Kong and Taiwan also form a part of the rethinking of modernization of all of China, and Hong Kong and Taiwan serve as forerunners in certain areas of this rethinking.

The more complete modernization of the “four dragons of Asia”—including economic productive forces, rationalized political democratization, equalization of social distribution, humanization of the values of existence, developments in other major areas, and the dragons’ rethinking of modernization—is an indispensable element of the effort to advance the “era of the Pacific” so as to replace the “era of the Atlantic” and to ignite the “challenge of the Orient” so as to overcome the “challenge of the West.”

## NATIONAL AFFAIRS, POLICY

### Symposium Participants Debate Price Theory, Reform

40060549 Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese  
No 3, 20 Mar 89 pp 21-25

[Text] During the 10 years of reform, Chinese society has undergone profound changes, having achieved conspicuous successes and experienced many difficulties. Especially the fact that China's general index for retail prices reached double-digit figures last year posed a serious danger to China's reform and development, and certainly attracted widespread attention as it was also cause for reflection among all circles. From 16 to 17 January 1989, the Economics Institute of Nankai University held a symposium for the discussion of price theories. It brought together persons concerned with price theory and those engaged in practical work, thus providing a unique opportunity for dialogue and debate on different viewpoints. The following reports the most salient points:

#### I. Challenge to Traditional Concepts and Indices

Participants at the symposium expressed the opinion that clearing up unscientific formulations that have been in use for a long time is not only a matter of correcting concepts but also one of far-reaching practical significance.

A. "Total demand exceeds total supply." Some delegates mentioned that any discussion of inflation always brings up mention of the excess of total demand over total supply. However, this formulation is not scientific. According to macroeconomic theory, total demand and total supply are always equal, and total demand cannot possibly exceed total supply. Some people believe "inflation is beneficial and without harm," and that it is only increased total demand that will lead to expanded production; this is a distortion of the Keynesian theory. Only by the occurrence of large-scale unemployment, production operating under capacity, and expanding effective demand, can production be increased. Under conditions of full employment, a further expansion of demand (total demand to exceed the total supply from full employment) can bring about true inflation; this is also something that Keynes opposed.

B. "Restrainable inflation." Some pointed out that objectively there is no inflation that is restrainable. The system of price controls with rationed amounts sold against ration tickets, viewed from the standpoint of the national economy as a whole, has not and cannot restrain inflation. It can only have the effect of maintaining price stability for certain types of commodities or to have their prices rise moderately, which will have other types of commodities go up in price even more rapidly. Generally speaking, when the amount of currency issued exceeds the amount of currency required for commodity circulation, the magnitude of social commodity price

increases under a system of providing fixed quantities against ration tickets is identical to the magnitude of average price increases for social commodities without implementation of a rationing system. The reason why the concept of restrainable inflation arose is that price indices cannot reflect the actual rate of inflation. The reason for this is that the statistical organs will frequently take the commodities supplied in rationed quantities at controlled prices as principal commodities for the computation of price indices, and will seldom use the prices of commodities that are not supplied in rationed quantities at controlled prices.

C. "The nationwide general retail price index." Some experts expressed the opinion that the current statistical indexing system for prices cannot, by far, satisfy objective requirements for the study of the laws governing changes in the pricing system of China's national economy. Although the national index of retail prices is, among all Chinese price indices, presently the one that best and most comprehensively reflects the changes in China's general price level, it does not comprise final prices of means of production, that is, prices charged to consumers of means of production. This index cannot, therefore, accurately reflect changes in the nation's price level. For many years, when we studied the proportional prices of industrial and agricultural commodities, we studied only the procurement prices for agricultural products in relation to retail prices of industrial products in the villages, but we did not study the prices of all agricultural products in relation to all industrial products. That is certainly a defect. Under these circumstances, when the demand was for a narrowing of the price scissors between industrial and agricultural products, our procedure led to a one-sided lowering of prices for means of agricultural production sold to the peasants, regardless of whether these prices were reasonable. The relation of these prices to prices for other similar industrial products was also left out of consideration, with the result that these computations not only were harmful to the interests of producers who used these agricultural means of production, but made it impossible for peasants to buy the means of production they needed, and were therefore endangering agricultural production. It is thus clear that planning and setting up a statistical system of price indices according to the objective demands of changes in the pricing system and in its laws is an objective demand of economic development.

#### II. Leading Cause for the Large Rise in Commodity Prices

According to one opinion, the overall rise in commodity prices is a currency-related phenomenon and a result of the choices made in the process of determining policy. An irrational system may ultimately have an adverse effect on the speed of economic development and on improvement in the people's livelihood, but may not necessarily cause inflation. Only under conditions of stimulation by increased reliance on the issue of currency can there occur a large-scale, comprehensive rise in



commodity prices. To overcome inflation, to improve the economic environment, and to create favorable conditions for reform, it would therefore be necessary to close the sluice gate of bank note issuing and, by controlling this critical point alone, all the problems of overheated economy and overheated consumption would automatically be cooled down, because there would be no currency to support any overheating.

According to another opinion, the basic reason for inflation is the shift in course of China's economic system. The essence of the economic reform was a delegation of authority to lower levels, but that does not mean that the central authorities have to delegate all their authority to lower levels. It only means that each level, the central authorities, the local authorities, and the enterprises, may have their own specific authority. At a time when market restrictions are not yet fully in force, the result of the hasty delegation of powers is a two-sided failure. The attempt to replace the hierarchical power system with a lateral system actually created a system that is reminiscent of feudal lords in their separate territories, each a government to himself, and each locality rigging its own economic system on the principle of "small in dimension, but comprehensive in coverage." Overheating of the economy did not occur at the center, but in local areas. During the times of greatest difficulty in our history, inflation was checked because power was centralized in the central authorities, all the people were united as one, orders and prohibitions were strictly enforced, and this was the way that difficult times could be successfully weathered. To control inflation, it is therefore necessary to again take back all powers that had been delegated to lower levels.

Some participants at the symposium stated that inflation is not a peculiarity of capitalist countries, but that it also occurs in socialist countries, that it is not peculiar to any system, but that inflation is more apt to occur during the process of the reform of an economic system. Precisely as Lenox, a scholar of comparative economics, expressed it: Small reform brings small inflation, medium reform brings medium inflation, large reform brings large inflation, no reform brings no inflation. Because, prior to reform, socialist countries will, in general, have suppressed and concealed inflation, it will therefore naturally erupt explosively in the course of reform.

With regard to the view that inflation is unconnected to the economic system, some pointed out that the current system is the deep-rooted cause of China's inflation and for the continuing difficulty to remedy the situation: 1) Political powers will frequently disregard objective economic laws, so that the entire economic process will often suffer interference from administrative decrees at all levels. 2) The banking system has all along been in a subordinate position, and currency credits and loans were unavoidably increased to suit the strategy of trying to catch up and overtake economic developments in other countries. 3) The greatest defect of this system is the lack of elasticity in supplies, restricted by the

restraints of shortages. 4) The continuous reinforcement of the public ownership system created an abnormal employment structure, leading to enormous "on-the-job unemployment" and a very low labor productivity. This system continued to reinforce on a new level the egalitarian viewpoint and aggravated "toadyism" among all economic parties.

According to yet another viewpoint, it is necessary to differentiate between the causes at different levels—there is an outward cause, a deeper cause, and a root cause, and that a differentiation of this kind will be useful in solving the problem. 1) The excessive issuance of bank notes, their circulation in excess of actual requirements is the outward cause of inflation. 2) The high-speed economic growth in pursuit of a "strategy of trying to catch up and exceed the economic development of other countries" is the deeper cause of inflation. 3) The lack of a perfect regulating and controlling mechanism in the economic system is the root cause of inflation.

Finally, someone put forward the idea that the continuous rise in commodity prices and inflation in China is not simply an inflation of rising costs, of rising demand, and of a structural imbalance, but a kind of multifarious, comprehensive, spiraling inflation. The causes that have led to this spiraling inflation are complex; it is not due simply to "consumption inflation," nor to the system and its reform, but rather to mistakes made in the reform itself. We have in the past generally explained price reform as a reform of the pricing system and have understood the pricing system as the relation of the price structure to price parities and differentials. However, the pricing system must also comprise the following three levels: 1) Prices for goods on hand and goods for future delivery and their various subsidiary prices. 2) Price types (plan prices, guidance-type prices, market prices). 3) Parity and differential prices under each category. In this price system it is not a question of whether to reform or not, but a question of restoring and developing. What must be reformed is the pricing mechanism, that is, the mechanism for price determination, formation, and realization, in the final analysis the mechanism for price determination.

### III. How Are We To Regard the Present Price Situation

Some believe that now is the best time for a review of price reform. The present situation is grim, price reform has met with obstructions, and of necessity is cause for reflection on the success or failure of the first stage of price reform. We have certainly had successful experiences in price reform, but there have also been certain lessons that must be reviewed, and a review in times of economic difficulties will deepen our understanding. Generally speaking, we cannot say that the price reform of the last few years has been very successful: 1) In recent years, commodity prices have risen continuously and very substantially. 2) On top of old price disparities, new distortions have set in. 3) Amid market confusion, the

pricing mechanism has failed to play its role. The fundamental cause for these problems was that the guiding ideology in organizing the price reform was divorced from the national condition of the initial stage of socialism: 1) Price reform is an arduous, complex, and long-range process, but our guiding ideology assumed it to be an easy matter, solvable by one document or one measure. 2) In the price reform of the last few years, the problem was that it was tried as a single-handed attack and in isolation, and insufficient consideration was given to its possible chain reactions. 3) The decontrol of prices was not effectively administered. 4) Price reform has a bearing on reform of the political structure; honesty of government is a guarantee for successful implementation of price reform.

According to another opinion, there have indeed been conspicuous successes achieved in the 10 years of reform, although it did not, by far, attain the anticipated objectives. Reform during these 10 years may be divided into two phases. Prior to 1984, it was predominantly a matter of adjusting prices that were felt to be irrational, and emphasis was on reforming the pricing system; this phase of structural price reform must be regarded as positive. From the latter half of 1984, the price reform went from reforming the pricing system to reforming administration of the pricing system, pricing powers for certain commodities were freed, and the policy was one of predominantly decontrolling prices. Merely looking at it from the standpoint of price reform itself, the post-1985 decontrolling of prices was a move in the right direction, but it was done too hastily, and while the other supplementary reform measures were not yet in proper place, the single-handed advance in price reform could have only negative consequences.

Some comrades believed that the direct cause of last year's wave of panic buying was anticipation of rising commodity prices, but this process fully demonstrates the contradiction in the present economic system. It is, therefore, extremely important to analyze how various prices advanced in this process, who were the beneficiaries of commodity price increases, how excessive currency was released into circulation, etc., in order to study the operation and contradictions in the present system and to be able to propose countermeasures to resolve the problem. 1) As the people spent their savings in the market, prices for almost all consumer goods went up to varying degrees, which showed that the state was unable to directly control prices for consumer goods. Following the rise in prices for consumer goods, consumer goods industries increased production and expanded, with the effect that the supply of raw materials, which had been stabilized for a time, again became short of market requirements. However, since the state still strictly controlled prices, the shortage of raw materials became even more serious and black-market prices went up. 2) Initially, the beneficiaries of inflation were mainly various types of official and private profiteers; later, as inflation continued, enterprises, staff, and workers also profited from inflation, as it led to the enormous increase in

bonuses paid last year, which mostly made up for any losses incurred by staff and workers, while state finances became stringent, which fully shows that the state could not effectively control income distribution by means of taxation. 3) The state could not help but issue huge amounts of currency. On the one hand, money was needed for procurement of agricultural products, for increased subsidies due to the rise in commodity prices, and for investments in plan projects. On the other hand, production costs at the enterprises, investment demand, and trade demand all increased following commodity price increases, and this led to increased bank loans and credits, which shows that it was very difficult for the state to directly control currency issuance, and it also shows the internal factors that engendered the increased currency supply.

#### IV. How To Remedy Inflation

According to one opinion, resolving inflation by merely controlling the amount of currency issued is conditioned by space-time restraints and, at least in China, is hardly feasible. Under China's strict cash control system, the functions of cash and transfer money are artificially separated, and China's specialized banks, to some extent, act on behalf of the central bank, and the reserve system cannot play the same role as in Western countries. The credit, loan, income, and expenditure plan of the Bank of China is determined subject to the plan for the entire national economy and may, furthermore, be exceeded or expanded according to changes in economic conditions. The banking system can, therefore, unavoidably become only the propeller for economic growth, but not a buffer in case of economic decline. Besides, as the contradiction between the developing country's strong desire to develop in order to survive and its shortage of capital is exerting pressure on the central bank and on the entire monetary system, it is impossible to arrive at a final conclusion in the matter of checking inflation by only giving attention to the currency phenomenon. To regulate inflation, it is necessary to establish an effective counterinflationary policy, designed on the following principles: 1) There must be a fully reliable inflation monitoring system to accurately measure inflation. 2) There must be a complete and effective system for enforcement of counterinflation policy, including strict enforcement of all orders and prohibitions from the central authorities down to the local authorities, a system that must have the support of the broad masses of the people. 3) There must be a perfect social insurance system to compensate people for losses in their incomes, standards of living, and employment conditions due to inflation or suffered in the course of regulating inflation. 4) The interests of the state as a whole must be enhanced, but under no circumstances must state interference, especially direct interference, be used to act in the place of market mechanisms. 5) The functions of the central bank and of the whole monetary system must be strengthened, ensuring independence for the state's macroeconomic monetary policy.

According to another opinion, in regulating inflation, the problem is the need for an accurate policy decision and to have a mechanism that will ensure implementation of these measures. 1) It is necessary to have an accurate guiding ideology in all economic work. We must resolutely reject the opinion that inflation is beneficial, and reject a guiding ideology that propounds pursuit of rapid growth in disregard of economic returns. We must make it our primary macroeconomic management objective to control the double inflation of investments and consumption, and a too rapid rise of commodity prices. 2) We must resolutely restrict credits and loans, tighten money supply, get a firm hold on the critical point where currency is issued, and, while controlling the total amount, we must deal with each case on its merit, and, according to the principle of rationalizing the economic structure, select only the best for support, to solve the problem of the structural imbalance. 3) We must implement a tight financial policy. At the height of inflation, we must, as far as possible, reduce the financial deficit and, with regard to the deficit that has already occurred, we must resolutely put an end to the practice of taking on new supplemental bank overdrafts. Besides, we must bring taxation into play, set up new tax categories, and raise certain tax tariffs. 4) We must deepen all concurrent complementary reforms. Most important is deepening enterprise reform and raising economic returns. To increase social supply, it is presently most important to continue to perfect the contract system, institute shareholding systems, and have enterprises truly become commodity producers, responsible for their own profits and losses, independent in their business operations, and directing their own development. Second, we must strengthen market organization and construction. We must resolutely put a stop to monopolies and blockades, regional separatism, hoarding, and speculation, promote the perfection of market development and the market system. Third, we must, through a reform of the political system, resolutely overcome corrupt practices among the cadre contingent, ruthlessly eradicate extravagance and wastefulness, and, furthermore, we must earnestly straighten out and readjust companies in which official and commercial interests have not been separated, and in which government administration has not been separated from business management. We must punish according to law all acts of graft and bribery and all illegal profiteering. 5) We must bring the government's role in macroeconomic control fully into play. In fulfilling their important mission of enforcing the counterinflation policy, the government at all levels must strictly enforce all orders and prohibitions, as otherwise the best of measures will remain ineffective.

On the question of regulations and adjustments in relation to reform, someone pointed out that the purpose of regulation and adjustments is to provide favorable conditions for the next step of deepening the reform. The present strengthening of administrative control must center on consolidation of reform achievements. In this sense, strengthening administrative control and perfecting control laws and regulations are also part of the

reform, and must not be uniformly regarded as a return to the ways of the past. However, at the same time administrative control is strengthened, we must also guard against outdated ways, because some may find it much easier to go along the old road, to "drive a light carriage on a familiar road."

#### V. A New Understanding of Price and Value Theories

The various problems that have arisen in China's economic practice have spurred theorists to search for reasons at an even deeper level of economics, and it is extremely necessary to gain a new understanding of prices and values.

Some comrades queried the theory of labor value: 1) Looking at the definition of value, we see that it is, generally speaking, the law regulating price movements. To doubt that the definition of value includes general human labor as a commodity is merely the view of classical political economics, and does not reveal an even more common content of value. 2) Looking at the formation of value, we see that value is the relation of cost to effectiveness. It is determined by both supply and demand. The price equilibrium in Western economics is actually value. Saying that modern Western economists speak only of price and not of value would be a biased view derived from the theory of labor value. 3) Looking at the determination of value, we see that since value is the law regulating price movements, while price is essentially a proportional measure in the exchange of different use values, and therefore apart from labor it is only land and capital, such key elements of production, that play an important role in the creation of use value, and as a consequence become stable and enduring elements of in the determination of exchange value. Thus labor, capital, and land are the elements that determine value. 4) Looking at the relation between value and social wealth, we see that if we regard value as created only by labor, then, assuming that a society's total population does not change and its total labor does not change, its social wealth (in the form of value manifested in use value) would be fixed and unchanged. That would obviously be contradicted by the actual growth of social wealth, which may grow many times over. 5) Looking at it from the angle of exchange at equal value, we see that the principle of comparative benefits applies not only to international trade, but primarily to the commodity exchanges within a country. If we begin with the theory of labor value, we must regard all exchanges at comparative costs and exchanges at production prices as exchanges of unequal values. In this way, exchanges of unequal values would become the rule, and exchanges of "equal value" would become the exception. 6) Looking at the relation between the theory of value and the theory of distribution, we see that the theory of labor value cannot reveal the source of such forms of income as wages, interests, and land rent, and the determination of their amounts. As to the theory of labor value, there are not only arguments in circles about its determination of labor

value, but it is also completely impossible to determine from it interests as such, and it is equally difficult to determine the source and amount of absolute land rents.

Some comrades expressed the belief that with regard to Marx's theory of labor value we must: 1) uphold it, and 2) develop it. The contradiction between the theory of labor value and the continuous growth of wealth must be understood as follows: 1) From a static point of view, following the rise in labor productivity, the value of a single product is actually declining, but from a dynamic point of view, the rise in labor productivity is followed by an increasingly finer social division of labor that promotes an expansion of the entire scope of social production, engenders new sectors, and, as a consequence, labor employment throughout the entire society will increase and total value will also increase. 2) Following the increase in labor productivity, labor directly engaged in material production may possibly decline, but the concept of productive labor has also broadened. Not only those directly engaged in material production can create value, but every kind of labor can create value. 3) Labor productivity has developed in the wake of scientific and technological development. Scientific and technological progress has added to the complex nature of labor, while complex labor can create more value than simple labor.

During the discussion, someone brought up the subject of the "theory of value of the productive forces." The comrade who held this view believed that since value is the product of the worker's physical and mental strength, it is also the result of the function exercised by the means of production. We may therefore define value as the fusion in one organic system of all the important elements of the productive forces that have had a part in or were expended on the production of a commodity. The productive forces that are here fused in the commodity are abstract productive forces that have shed the concrete form of productive forces of equal quality expended on the various key elements of production. They constitute the value entities in the socialist commodity economy. In other words, abstract productive forces create the value of commodities, concrete productive forces engender the use value of commodities. Obviously, the theory of values in Marx's theoretical system of developmental laws of capitalist production relations, such as the concepts that only live labor creates value, and the means of production only transfers old value and cannot create new value, concrete labor creates use value, abstract labor creates value, etc., cannot be simply transferred into the theoretical system of the socialist commodity economy. During the 10 years of economic structural reform in China, many contradictions and difficulties have occurred that have been hard to overcome. The most profound reason for it was that we have not yet truly understood the nature of the socialist commodity economy and have not yet been able to reveal its operational law and not been able to work according to its demands.

The "theory of price standards in the operation of commodity economy" was also one viewpoint put forward at the discussions. The comrade who held this view believed that we have to differentiate between prices in the narrow sense and prices in the broad sense, or between "small prices" and "big prices." The term "small prices" refers to what people normally recognize as the general prices of material things or the income from labor service, while "big prices" not only include "small prices," but also comprise the prices of all other important elements, such as everything discussed under the topics of price of land, price of labor, and capital. The theory of price standards in the operation of the commodity economy is most generally expressed as the core position and core function of price in the operation of the commodity economy. The fundamental points in the operation of the commodity economy can be summarized as: 1) Inherent genes; 2) Regulatory network system that relies on the market; 3) Mechanism for balanced growth. The three factors are one organic entity as they simultaneously rely on each other, restrain each other, and promote each other, and form an operational mechanism-chain, of which the three factors are the foundation. In this operational mechanism-chain, price is the core link and exercises motivating, coordinating, and balancing functions. It may therefore be said that the theory of price standard is a proposition of many facets, many levels, and broad connotations.

An accurate reform strategy must be guided by a sound theory. In order to organize the scattered contingent of price theorists, we have officially constituted at the present symposium a preparatory group for the organization of a center for price research at institutions of higher learning, in an attempt to develop at this center relations with relevant units in China and abroad, give impetus to and promote the development of work in the field of price theory, and to launch studies of practical measures for price reform.

## PROVINCIAL

### Propaganda Chief Speaks on Student Demonstrations

*HK2405082589 Changsha Hunan Provincial Service in Mandarin 2200 GMT 23 May 89*

[Excerpts] At a provincial conference of tourism bureau chiefs, Xia Zanzhong, provincial party committee propaganda department head, pointed out that developing tourism as well as all other undertakings of our province requires a stable social environment. He is also a member of the provincial party committee standing committee. [passage omitted]

Xia Zanzhong also noted: "If there is not a stable society, a stable political situation, and good social order, who is in a mood to enjoy the beauties of nature? And who is willing to spend money to travel our province? Over the past few days all of us have been much concerned about student demonstrations and sit-ins in Beijing and other

parts of the country. The students' patriotic zeal as well as their consciousness of being concerned about the country and the people must all be affirmed. Their intentions of demanding an end to corruption and stepping up the process of democracy and legality are good, and some of their acts are understandable. However, we must see that it is true that a handful of people are now using the students' patriotic zeal and their good intentions to create confusion among the people by using our errors in work, and some bad people are fishing in troubled water and go in for beating, smashing, looting, and burning. If such a chaotic situation continues, the political situation of stability and unity will be endangered and our endeavor to improve the economic environment, rectify the economic order, deepen the reform, and eliminate corruption will be in vain. Therefore, as is necessary, the party Central Committee has adopted decisive measures to stabilize the situation and maintain order."

(Xia Zanzhong) continued: "All of us hope for good social order. Student demonstrators and sitters-in have organized themselves to maintain order of their own accord. The present situation is serious. But we must believe the party and government as well as the broad masses of the people and that all difficulties can be surmounted and all problems can be appropriately solved." [passage omitted]

## INDUSTRY

### **Steel Firm Buys Hot-Rolling Mill From Japan** *HK3005083789 Beijing CHINA DAILY in English* 30 May 89 p 2

[By staff reporter Xie Songxin]

[Text] Nisshin Steel Co Ltd of Japan agreed yesterday to sell a hot-rolling mill to the China Metallurgical Import and Export Corporation, which will enable an additional 1.3 million tons of hot-rolled steel plates to be turned out annually by one of China's major steel works.

Chinese Metallurgical Minister Qi Yuanjing said the deal promises good prospects for "Sino-Japanese cooperation to update China's existing steel producers."

The mill, which had been turning out 2 million tons of plates a year before it stopped production in 1986, will be installed in the Taiyuan Iron and Steel Corporation in Shanxi Province.

The cost of the mill was 500 million Japanese yen (\$3.6 million). The deal is an effort by the Japanese seller to help China increase steel output to meet its growing demand for economic construction.

Dong Zhixiong, assistant president of the China Metallurgical Import and Export Corporation, told CHINA DAILY that imports of fairly advanced second-hand equipment have been raised to a higher priority by the Ministry of Metallurgical Industry in order to save hard currency.

He said that the Meishan Iron and Steel Corporation in Shanghai is also negotiating to buy a second-hand hot-rolling mill from another Japanese steel manufacturer.

Steel plates and tubes are in short supply in China, which imported more than 346 million tons of such products during the 1983-87 period, 48.3 percent of the country's total steel imports during the period.

And prices of steel products have continued to rise on the world market.

China's aim of renovating existing steel manufacturing plants, to allow them to produce according to international standards, gives foreign companies an opportunity to sell equipment and technology in China.

Dong said that the Nisshin mill is still considered fairly advanced in China although it had operated for 20 years in Japan.

The Taiyuan Iron and Steel Corporation has needed a hot-rolling mill for years to feed a cold-rolling mill and a continuous casting plant which was imported from Austria.

The Nisshin mill is expected to leave Japan in 1990 and start operation in China by 1992, Dong said.

### **Chemical Industry Output Increases in April** *HK2705005089 Beijing CHINA DAILY in English* 27 May 89 p 2

[Text] Production in China's chemical industry increased steadily in April, thanks to the efforts of the department concerned to ensure adequate supplies of electricity, coal and raw materials.

But safety remained a serious problem, with some accidents causing deaths or serious injuries, CHINA CHEMICAL INDUSTRY NEWS reported.

The industry finished with an output value of 6.279 billion yuan (about \$1.688 billion) in April, 7 per cent up on the figure for the same period last year, the newspaper said.

The country's chemical industry achieved a total output value of 22.54 billion yuan (about \$6.06 billion) during the first four months of this year, 5.2 per cent up on the figure for the same period last year.

With the exception of Jiangsu, Hubei and Shaanxi provinces, other provinces, municipalities and autonomous regions enjoyed increases of varying degrees in industrial chemical output in April.

Of the country's 16 major chemical products, 12 enjoyed better daily outputs in April than in March, the newspaper reported.

For example, about 7.6243 million tons of chemical fertilizer were produced last month, 5.7 per cent more than the previous month. The daily output was 254,100 tons, a record figure.

Meanwhile, 19,300 tons of farm chemicals were produced, an increase of 9.1 per cent compared with March.

But according to the State plan, chemical fertilizers still suffered a shortfall in output at 595,000 tons, and farm chemicals, at 1,800 tons, because of the decreases in the first two months of this year, the newspaper said.

There are difficulties in reaching State quotas of 43 million tons of chemical fertilizer and 100,000 tons of other farm chemicals during the first half of this year.

However, the production of polyvinyl chloride was ample. This product is widely used in many fields, from agricultural plastic sheets and shoes to building materials, water pipelines and food packaging.

About 64,000 tons of polyvinyl chloride were produced in April, 5.4 per cent more than in March. A total of 232,000 tons were produced in the first four months, completing 38.9 per cent of this year's total plan.

Accompanying the good news from the chemical industry, however, was the fact that numerous accidents were reported in April, the newspaper said.

#### **Sichuan Governor Encourages Steel Workers** *HK3105104389 Chengdu Sichuan Provincial Service in Mandarin 2200 GMT 30 May 89*

[Text] At about 1500 yesterday afternoon, Governor Zhang Haoruo, Liu Zhiheng, provincial government secretary general, and Zhu Youming, vice mayor of Chengdu City, visited the Sichuan Provincial Power Supply Bureau to find out the current power supply situation in our province.

From March to May this year, there has been some increase in electric energy production. This has helped guarantee an appropriate industrial growth rate.

Governor Zhang Haoruo pointed out that electric energy is a matter of great importance for industrial production and the people's life. On the occasion, he also expressed thanks to workers for their effort to stand fast at their

posts and called on power supply departments to adopt effective measures against the oncoming season of hot weather at an early date so as to ensure production and set people's minds at ease.

At 1650 Governor Zhang Haoruo and his party reached the Chengdu Seamless Tubing Mill. Director Yin Guo-wei told Governor Zhang that the current campus upheaval has not affected production of our factory. The steel output of the mill reached 40,000 tons in April, the highest in the province. Governor Zhang also said: "The students' demands for ending corruption and striving for democracy are patriotic and the workers' effort to boost production is patriotic too. Making more contributions to the state is workers' concrete manifestation of loving the country. The existence of society is based on the boosting of production, and the people's life needs a strong material basis. For this reason, the workers' effort to boost production is in the interest of the whole people, including students, and the whole society must support workers in their effort to boost production. This is a real patriotic deed." Governor Zhang Haoruo also called on workers to stand fast at their posts in the workshops of open-hearth furnaces and hot rolling, and extended his best regards to them.

### **FOREIGN TRADE, INVESTMENT**

#### **Development of Externally Oriented Economy** *40060509 Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 3, 30 Mar 89 pp 4-12*

[Article by Yang Xiaowei 2799 2556 0251, Hua Xiaohong 5478 2556 4767, and Zhu Guoxing 2612 0948 5281 of the University of Foreign Economic Relations and Trade: "An Investigation of Certain Issues in Connection With China's Development of Its Externally Oriented Economy"]

[Text] Following the increasingly closer international economic interrelationship and the growing interdependence of all countries, it has become the general trend in the present economic development of all countries to advance along the road of developing externally oriented economies. After adopting its policy of opening to the outside world, China too has decided on a policy of developing an externally oriented economy. The strategy of developing the economy of the coastal region is precisely one specific incidence of implementing this overall strategy. Though there is still argument, even at this late hour, about the basic concept of China's externally oriented economy, the essential outline of the externally oriented economy is quite clear and definite, and may serve as a foundation for the concrete pursuit of the strategy. According to practices in various countries of the world, and according to the specific conditions in China, we believe the principal features of China's externally oriented economy to be as follows: While presupposing its purpose as the improvement of macro-economic benefits for China's national economy, and

being guided by the demands of the international market, it consists of establishing a domestic system of organization that is capable of adapting to changes in the international market and quickly react to such changes; it also means a proportionally much larger participation in the world economy, and the establishment of a supportive industry that possesses international competitiveness and an adequate material foundation.

### **I. Some Concepts Connected With the Externally Oriented Economy**

Since China has embarked on an externally oriented economy, theorists have begun discussing such issues as the target model of the special economic zones and the meaning of an externally oriented economy. In January last year, after the central authorities had put forward their strategy of developing the coastal regions, the discussion became even livelier. In an article entitled "A Comprehensive and Accurate Understanding and Implementation of the Developmental Strategy of Externally Oriented Economy,"<sup>1</sup> comrades Ji Chongwei [1323 1604 1218] and Yang Mu [2799 3092] objected to the view expressed in the World Bank's development report that the proportionate share of import-export trade value in the GNP may be taken as basis for a determination of whether a certain economy is externally oriented. They pointed out, "Whether a country or territory's economy is externally oriented is determined by whether it generally inclines toward export trade, as manifested in its policies and system of organization. Whether its policies and organizational system favors the steady development of exports is the main index for external orientation in the economy of a country or territory." They also pointed out, "The view that the proportion of import-export trade value in the GNP is indicative of the existence of an externally oriented economy is theoretically untenable and practically conducive to...imbalance in the entire national economy." What, then, is an externally oriented economy? In the following we shall present our viewpoint on some of the relevant concepts.

#### **A. Developmental Strategy and Relations of the Externally Oriented Economy**

In its Development Report for 1987, the World Bank pointed out, "By their nature, trade policies may be divided into two types: externally oriented and domestically oriented." Obviously, the World Bank is not differentiating between the character of economic types, but is differentiating types of trade policies. The World Bank proposes to use the overall attitude toward export trade as an index to differentiate between externally oriented and domestically oriented strategies of each country or territory, and not as an index for a differentiation of domestically oriented or externally oriented economies.

An externally oriented strategy and an externally oriented economy are two different things. The former indicates a trade policy adopted by a government for the

purpose of participating in international economic life, the latter indicates the objective character and type of the economy itself. Of course, an externally oriented strategy is closely related to an externally oriented economy, but there is a distinct difference between the two. When a country or territory shifts from a domestically oriented strategy to an externally oriented strategy, its domestically oriented economy will be able to make the transition to an externally oriented economy only by undergoing a process of change. Even if a country intends to shift to an externally oriented strategy, it will still not be able to achieve this goal if its specific economic decisions fall short of its intentions. It is therefore not possible to assume that once an externally oriented strategy is adopted, the economy is thereby right away turned into an externally oriented economy.

As to an externally oriented trade policy, the World Bank has also made its views very clear. They reject any form of nontariff import restriction, also any policy that provides for favorable treatment as export incentive. They emphasize that "in actual fact, the essence of an externally oriented strategy is not to show any bias toward exports nor to discriminate against import substitutes" or, in other words, "Any incentive provided by an externally oriented strategy must maintain a neutral attitude toward production for the domestic market and production for export." This shows that the World Bank does not one-sidedly emphasize exports, and that it does not recognize a policy of preferential export incentives as an externally oriented trade policy.

Since production for the domestic market and production for exports are thus given equal consideration, why is it then that it is called an externally oriented strategy that favors exports? The World Bank explains, "By contrast, a domestically oriented strategy is one in which trade and industrial incentives are biased in favor of production for the domestic market over the export market." People will usually regard the externally oriented trade strategy as one that promotes exports, since there are no restraints in international trade, and particularly since goods used for export can be freely imported.

The fulcrum of the externally oriented trade strategy, as put forward by the World Bank, is liberalization of trade, i.e., having every country unrestrictedly free to participate in world trade and to gain rapid economic growth and industrial modernization. However, this demands, objectively, that the actual developmental level of the country's economy be adequate to sustain the macroeconomic policy adopted by its government for the purpose of promoting trade liberalization.

Implementation of an externally oriented trade strategy requires a highly perfected domestic market to provide the key elements of production as well as many related environmental factors and conditions. This is so because, in an open economy, what is actually functionally effective are those extremely sensitive and agile

economic forces, which, acting as an automatic regulating mechanism, bring about close coordination of the various variable elements that affect economic growth. On the other hand, it is precisely these forces that are missing in China and in many developing countries.

Is it then possible to pursue an externally oriented economic strategy under an imperfectly or partially liberalized trade policy? It is indeed. Practice has proved that most countries are implementing this type of developmental strategy in this manner. These are the countries that the World Bank report refers to as "moderately externally oriented," as opposed to the "strongly externally oriented" types. At present, China's economy is in the process of transformation from a "moderately domestically oriented" to a "moderately externally oriented" economy.

### B. Indices of an Externally Oriented Economy

Can the degree of dependence on foreign trade, i.e., the share of total import-export trade value in the GNP, be taken as an index to differentiate between the domestically oriented and the externally oriented economy? Ji and Yang deny this in their article and base their opinion mainly on the following facts: In 1985, the total import-export trade values of four countries—the United States, Japan, the Soviet Union, and China—were 14.6, 19.3, 29.4, and 25.2 percent respectively. Ji and Yang therefore believe that "it is not possible to say that the Soviet Union and China are more characteristically externally oriented than the United States and Japan." On this issue, we shall set forth for discussion two possible viewpoints.

1. The Soviet data cannot possibly be used in a comparison for two reasons: First, trade between CEMA countries accounts for almost one-half to three-quarters of the foreign trade among the member countries, and trade with non-CEMA countries accounts for only one-quarter to one-half of their foreign trade. Even in the case of the Soviet Union, a country with comparatively large trade with non-CEMA countries, such trade is also only 40 to 50 percent. When figuring the dependence of Soviet foreign trade, the numerators have been artificially enlarged, and this is one of the reasons why the ratio appears excessively high. Second, the total domestic output value of the Soviet Union refers merely to the net value of materials, and does not include the output value of tertiary industries, so the denominator is obviously excessively small, and this again is a reason why the ratio is excessively high.

2. The degree of trade dependence is related to the basic national conditions of the country in question. Comparing the vast territory and abundant natural resources of the large continental economy with the restricted territory and poor natural resources of insular economies, there is of course a disparity in trade dependence. Even if the export dependence of two countries is the same,

the import dependence can evidently be different because of differences in self-sufficiency in natural resources, and that can also result in differences in trade dependence.

The degree of dependence—import dependence and export dependence—reflects, from an overall viewpoint and seen from different angles, the degree of economic involvement of a country or territory in the global economy. The degree of trade dependence reflects the involvement of the entire economy of a country or territory in the world economy, while the import and export dependencies reflect the degree of global involvement of sources for the supply of key elements of production and the direction of their flow. If a comparison is made between countries with similar degrees of self-sufficiency in material resources, these three specific values can serve as indices for a differentiation between domestic orientation and external orientation. If a comparison is made between countries with obviously different degrees of self-sufficiency, the level of export dependence can more or less reflect the degree of external orientation of its economy

The above shows the complex situation met with in lateral comparisons of the economies of various countries with different conditions. But if we compare different historical periods in the development of certain countries, using the above-stated three indices as indices to judge the degree of external orientation, our assumptions will also be tenable theoretically.

When a country or territory shifts from a domestically oriented developmental trade strategy to an externally oriented trade strategy, the degree to which its domestically oriented economy is changed to an externally oriented economy depends mainly on the reflection of three indices: the degree of trade dependence, the degree of export trade dependence, and the degree of import trade dependence. Since China opened up to the outside world, in the period 1978-86, the three indices mentioned rose from 11.8, 5.6, and 6.2 percent to 33.1, 13.9, and 19.2 percent.<sup>2</sup>

Comrades who were of the opposite opinion believed, "If one accepts the degree of trade dependence as the index to determine existence of an externally oriented economy, it is bound to lead to a neglect of macroeconomic returns in the development of the externally oriented economy and a blind pursuit of accelerated development of foreign trade," and that "in practice, it is quite possible that it will create an imbalance throughout the entire national economy for which a high price will have to be paid in the retrenchment of domestic consumption."

Speaking of the theoretical side of the issue, not only is foreign trade never cause for imbalances in the domestic economy, but, on the contrary, is in fact an important condition for balanced growth of the national economy. The excessively large gap between total demand and



total supply is the chief cause of the present shortage of supplies and price inflation in China, and the idea that "excessive exports" could cause shortages in the market is pure illusion. The larger or smaller proportion of means of production and consumer goods in the import-export commodity mix can be composed in a variety of ways. As long as the import-export commodity mix is beneficial in eliminating or alleviating shortages in the domestic market, it will always be beneficial in providing an important element for a well-balanced economy, regardless of the growth rate of foreign trade.

In our opinion, foreign trade dependence must be an important index, but not the only index, for the existence of an externally oriented economy. The degree of domestic or outward orientation of the flow of key elements of production, such as capital, technology, and labor, as well as the degree of adaptation of a country's economic structure to the international market, are all also indispensable indices for the existence of an externally oriented economy.

### **C. Relation Between Import-Substitution Strategy and Export-Guidance Strategy**

It is generally believed that a domestically oriented economy will adopt an import-substitution strategy, and that an externally oriented economy will adopt an export-guidance strategy. However, separating the two stages of import substitution and export guidance in actual practice is not only hard to accomplish, but senseless as well. The famous economist Lewis believed that foreign trade has different effects at different stages of economic development. In the first stage, exports are like a locomotive for economic growth; in the second stage, import substitution has a guidance function; in the third stage, because of unbalanced growth, it may possibly lead to structural inflation; in the fourth stage, economic development will meet with bottlenecks, and the tendency to import will weaken; in the fifth stage, the tendency to import will still be low level, while the potential growth rate of exports prescribes the limits of the growth rate of the mature economy. After formulating the above differentiations, Lewis emphatically pointed out that the above stages are not historical stages emerging in historical order. Economic development can skip one stage or the other, or after achieving one stage return to a previous stage. The meaning of delineating the stages is merely to clarify the basic situations in development of a country's economy.

Lewis's views agree with the actual conditions in many developing countries and territories. For instance, Taiwan was at the stage of import substitution during the period from 1952 to 1961. The typical sign of this stage has to be the marked increase in the effectiveness of import substitution for a variety of major products. That is, in the overall increase of production, a rapidly growing portion was devoted to substituting items for which, in the past, reliance had to be on imports, and a comparatively smaller portion of the total volume of

production was used on expanding exports. The actual conditions, furthermore, showed an extremely unbalanced situation. During this period, the effects of import substitution clearly showed in three types of products, namely, in machine-manufactured products, means of transportation, and basic metal tools. Import substitution of these was effective to 47.5, 46.4, and 37.5 percent respectively, which means that, in the production of these three types of products, almost 40 to 50 percent was used on substitution of products for which reliance had formerly been on imports. This demonstrates very clearly the effectiveness of import substitution. But foodstuffs were very atypical. In the total volume of foodstuffs production, 65 percent of increases were used to satisfy domestic needs, and of the remaining 35 percent, 25 percent were used to meet the needs of export expansion, and only 10 percent for import substitution.

During the stage of import substitution from 1961 to 1972, although there were some declines in the effectiveness of import substitution in machinery-electrical items and means of transportation, they were still as high as 22.8 and 29.8 percent. Only import substitution for metal tools declined from 37.5 percent to 5 percent. Expansion of exports, though growing somewhat, remained of secondary importance.

In 1973, the steep increase in oil prices brought along wage increases and caused prospects for export products to deteriorate. This demanded development away from exportation of mainly labor-intensive products to increased exportation of capital- and technology-intensive products. That was the beginning of the second import-export substitution. During that stage, import substitution and export substitution were practiced almost simultaneously. The reason was that the second import substitution consisted mainly of developments in the heavy and chemical industries, reduced reliance on imports, confronting limitations of domestic demand and of narrowness in the domestic market. It was, therefore, at the same time that heavy and chemical industries products replaced light-industry products, that is, realized the development process of the second export substitution.

This shows that import substitution and export guidance are not at all two sharply divided developmental stages. Alternate selection and simultaneous adoption of the two strategies will not impede development of an externally oriented economy. It is rather the old-fashioned and inflexible view and method of placing the two into hostile opposition that will harm realization of the macroeconomic benefits of a country.

## **II. Domestic and Foreign Environments Encountered in the Development of China's Externally Oriented Economy**

Opening up to the outside world and development of an externally oriented economy are historically inevitable developments. No country is likely to be able to drift

about outside the world's economic system. China's resolution to carry out a strategy of economic development of the coastal regions will depend for its success first of all on acquiring objective and accurate knowledge of the present and future domestic and foreign environments that will be encountered, on the basis of which corresponding action and dispositions will be carried out.

Generally speaking, presently encountered domestic and foreign environments show very distinctly favorable elements. This is a basic prerequisite for success in the strategy of economic development of the coastal regions. As far as the international environment is concerned, in the global context we see that the superpowers are now turning from political and military confrontation to economic competition, in which the elements of peace outweigh the elements of war. This provides an excellent environment of peace and security for the healthy and steady development of the world economy. At the same time, science and technology are developing extremely rapidly, and some new production sectors are about to come into being in developed industrial countries, while certain traditional, especially labor-intensive production sectors are experiencing difficulties from the rising cost of labor. It is for this reason that the middle of the 1980's has seen a worldwide adjustment of the industrial structure. Developed countries have further improved and renovated their industries, have directed the flow of some of their capital and technology toward developing countries; and some newly industrializing countries and territories, after a certain period of economic maturation and development, will also reach the time of upgrading and updating their industries, and will need to shift part of their labor-intensive industries to areas of cheaper labor costs and, in exchange, will develop their own high-tech industries.

As far as domestic conditions are concerned, China has extremely abundant manpower, which has become a large contingent with a certain quality of labor skills, working for comparatively low wages. China also has the initial scope of an infrastructure, such as storage, transportation, and harbor facilities, needed for development of an externally oriented economy, a strong potential for scientific and technological excellence, and in particular is now also in the process of building a new economic system. All these are important elements, favorable to development of an externally oriented economy.

However, compared with the favorable, the unfavorable elements are even more evident. The challenges, which are larger than the good opportunities, present a variety of difficulties for the development of an externally oriented economy and demand of us unceasing adjustments, dispositions, and cautious actions. In this respect, the focal point of the following part of this article will be an attempt to analyze these unfavorable elements.

### A. The International Environment

Compared with the 1960's, we are now faced with a grim international situation that manifests itself in the following manner:

1. The world economy has entered a stage of protracted slow growth. After the recovery in the world economy that started in 1983 and reached its height in 1984, a slowdown began in 1985, and difficulties in economic development were even more serious for the developing countries. Some countries experienced a protracted decline, and it is still not yet possible to resolve their crises of indebtedness.

What effect will the world economic situation in the next 10 years have on the economic development of the developing countries? The World Bank has made the assessment that, if the annual average growth rate in industrial countries exceeds 4 percent, faster than the 1973-80 and 1980-86 periods, but slower than the 1965-73 period, developing countries will find it comparatively easy to carry out their own transformations and achieve a 7-percent average growth rate in their output value during the 1986-95 period. However, there are some prerequisites for growth rates of this kind. First, only a reduction of imbalances in public finances and imbalances in international income and expenditures will allow maintenance of economic growth in industrial countries. To accomplish this, each country must consider how to stimulate the demand sector. Second, the rate of unemployment in industrial countries must have dropped significantly by the year 1995. Third, the governments in the industrial countries must be able to effectively stop trade protectionism, must increase the volume of international trade, and must raise the efficiency of their own economies. Fourth, the developing countries themselves must carry out adjustment plans, transform their economic structure, and promote employment and income growth. These four prerequisites are not impossible to achieve, but extremely difficult, not to mention the contradictory elements existing between them.

We believe the future development of the world economy will for a long time be characterized by slow growth, and the occurrence of a rather serious recession cannot be ruled out. Under these conditions, every step forward will require great effort.

2. There are limits to the extent and scope of adjustments to the international industrial structure. In the period from the 1960's to the 1970's, and now again, there have been worldwide adjustments to the industrial structure, but the adjustments of the industrial structure on these two occasions have been quite different in background, scope, extent, and substance, and have, therefore, also brought along very different opportunities for the developing countries. The first period of adjustments to the industrial structure came just at a time of rapid development of the world economy, strong demand in the

international market, and the start of the introduction of postwar scientific and technological achievements (nuclear power, electronic computers, high polymers) that had reached maturity. This background determined that the first adjustment of the industrial structure was large in scope, broad in extent, and rapid in its development. However the present adjustment of the industrial structure comes at a time of slow growth in the world economy, weak demand in the international market, imbalance of international incomes and expenditures in the major industrial countries, a persistent high rate of unemployment, strong tendencies toward protecting traditional domestic industries, as well as high interest rates and low investments. These factors determine that the present adjustment of the industrial structure will proceed at a very slow pace. The important thing is that the wave of scientific and technological revolution, an important pillar supporting the adjustment of the industrial structure, is abating, and seen from a historical angle, has even reached a standstill. It is therefore impossible for the present adjustment of the industrial structure to be of a large scope, and to take over the markets of the traditional industries. It will also be a time when, conditionally and cautiously, and for quite a long time, there will be a "gathering of the strong," and competition will be fierce.

The two adjustments of the industrial structure are also obviously different in substance. In substance, the worldwide adjustment of the industrial structure since the middle of the 1980's is of a twofold nature: For one, there is the shift of the developed countries from capital-intensive industries to high-tech and knowledge-intensive industries. The other is the advance of the newly industrializing countries and territories from their foundation of using advanced technologies and the transformation of their former labor-intensive industries toward a high-tech industrial structure. The consequence of this is that the opportunities yielded by the developed countries are more appropriate for the newly industrializing countries and territories, while the opportunities that the newly industrializing countries and territories can yield, which would be suitable for the conditions in China, are relatively limited, besides the fact that China is a large country; its population in the coastal regions alone is nearly 200 million, which is almost 11 times the population of the "four little dragons" of Asia.

The international opportunities enjoyed by the "four little dragons" in their time were a widespread and large-scale adjustment of the industrial structure and few competitors who could offer comparable terms. The opportunities that we are faced with today are a limited and slow adjustment of the industrial structure and a large number of extremely strong competitors. We must, therefore, not place our hopes too high although opportunities have indeed turned up.

3. Trade protectionism will continue. The atmosphere of free trade brought on by the postwar economic upswing has for a long time been swept away by higher and higher

waves of trade protectionism. The third tide of protectionism, which started in the early years of the 1980's, has endured for many years. Not only has it not subsided, but under the influence of protracted slow economic growth, it is even evolving into "a component of the trade system of the Western countries, of their trade legislation and trade policies, and is infiltrating into trade institutions."<sup>3</sup> We have reason to believe that protectionism will continue through the next 10 years, and may even extend beyond protectionism by single countries to protectionism by regional groups, and that it will be even more evident after 1992.

The present protectionism has appeared in a nontariff form. According to World Bank statistics, the rate at which imports to North America and to the EEC were subjected to nontariff restrictions had increased more than 200 percent during the period from 1981 to 1986. The restrictions concentrated particularly on a few labor-intensive industries, such as textiles, clothes, footwear, and leather products, therefore particularly affecting the developing countries. Under these circumstances, China's foreign trade, structured predominantly to handle labor-intensive products, will be beset by many difficulties. The rate at which major developed countries increased nontariff barriers against Chinese products during the period from 1981 to 1986 was, in the case of manufactured goods, from 48.6 to 49 percent, and for textiles was from 77.7 to 79.8 percent. Restrictions against Chinese agricultural raw materials also rose from 14.2 to 35.7 percent.<sup>4</sup>

At this time, when China is determined to enter the international economic market on a large scale and to develop energetically its externally oriented economy, the target area that China faces is not at all an international environment that gives rise to much optimism. We must fully appraise present and future difficulties that we will have to face and, according to China's actual condition, formulate a developmental strategy that it suited to the present condition and future trends in the international economy.

## B. Domestic Conditions

Here we want to roughly analyze just three aspects that have an impact on the development of an externally oriented economy, namely the domestic economic system, quality of the productive forces, and coordination between the various sectors. The purpose of recognizing all the unfavorable factors is to prepare for changing these unfavorable elements into favorable elements and to be in a better position to develop our externally oriented economy.

1. Reform of the domestic economic system is a precondition for implementation of an externally oriented development strategy. China is now in a period of twofold change, namely, from an old to a new system and from an old to a new development strategy. The old domestically oriented development strategy, which

neglected economic returns and gave priority to extensive operations, is now being gradually replaced by an externally oriented development strategy that emphasizes economic returns and intensive operations. However, elements of the old system, which are unfavorable to development of an externally oriented economy, are still playing an active role, while the new system of the planned commodity economy is still in its formative period. The shift to the double-track system presented an opportunity for development of the externally oriented economy, but also contained contradictions that are hard to overcome, and which, as a consequence, increased the difficulty of implementing an externally oriented development strategy.

Experiences of other countries and territories in developing externally oriented economies demonstrate that formation and development of an externally oriented economy constitute, in essence, a process of economic development, while strategy and policy can only accelerate or impede its development. In a certain sense, the condition of the domestic economic system is crucial for success or failure of the development toward the externally oriented economy.

The basic framework for China's new economic system is the new system of a planned commodity economy in which "the state regulates the market, and the market guides enterprise." As far as development of an externally oriented economy is concerned, this is undoubtedly very necessary, but it is not enough. The crucial point is whether it will be possible to form the operational mechanism of an externally oriented economy that will be guided by the demands of the world market, that can fully activate the mechanism of market regulation, that can flexibly align improved key elements of production according to the demands in the world market, and for which the objective will be to strive for greatest macroeconomic returns.

The operational mechanism of this kind of an ideal externally oriented economy will be quite different from the former ossified, highly centralized, command-type plan system, and also quite different from the market economy system of the West. China's new system will, on the one hand, draw full support from the state's direct or indirect planned macroeconomic regulation and control, and on the other hand will fully activate market regulation.

China's present economic structural reforms make it clear that our confidence and conditions are up to the mark, but the various new problems that have arisen in the reform also make it abundantly clear that the enormity of difficulties in the reform exceeds original estimates. Domestic and overseas prices have been disjointed for long periods of time, the renminbi exchange rate has become irrational, and no part of the socialist market system—the markets for means of production, for capital, for technologies, and for labor—has so far

been established. The reform of the enterprise mechanism, which had aimed at "taking responsibility for one's own profits and losses, autonomy in business management," is still bogged down in the transitional stage of contract management, leasing, and the shareholding system. There is extremely little flexibility and urgency among the enterprises to respond to market demands.

A rational price system is prerequisite to implementation of market regulation, while a rational rate of exchange for the renminbi is the bond that links the domestic economy to the overseas economy. The imbalance between domestic and overseas prices makes it impossible to have the domestic prices for raw materials reflect the true costs of products manufactured with these raw materials and makes it impossible to have export profits or losses reflect the true macroeconomic and microeconomic returns.

The high value of the renminbi stimulates excessive imports, and also makes expansion of exports difficult. Under these circumstances, enterprises cannot possibly respond flexibly to changes in demand on the international market.

"Putting both ends abroad" is the prerequisite for development of an externally oriented economy in the coastal regions. Because of the presently distorted prices and exchange rate, it is more profitable to market products domestically than to market them abroad, and it is more profitable to buy raw materials, semiprocessed materials, spare parts, and components domestically than to import them. Under these circumstances, implementation of an externally oriented development strategy will have to rely mainly on administrative and legal restrictions as its assurance of success, and will not progress in reliance on such economic levers as prices, exchange rates, interest, and customs revenue.

Developments in the Shenzhen Special Economic Zone fully demonstrate that the flow of key elements of production, products, capital, and talent is controlled mainly by economic profit, while supporting measures of a administrative and legal nature cannot control these movements in a fundamental way. The work of "improving the economic environment and rectifying the economic order," which is now under way, has had an effect in stopping the warlike frenzy of recent years to buy up all kinds of commodities, but if no corresponding economic measures are taken to coordinate the economic profits of the various parties concerned, it remains a question still worth pondering whether a cessation of the above-mentioned conditions has been finally achieved.

Certain really effective economic measures rely essentially on the establishment and perfection of the new economic system, and on its truly constituting a new system that will start out from the need to raise economic returns, that will benefit the expansion of exports, and

that will benefit large-scale involvement in the global economy. In the near future, it will be possible to use tax revenue, customs duties, interests, and other such measures to encourage the healthy development of an externally oriented economy.

2. Checking the overheating of the economy and ensuring a relaxed economic environment are important conditions for development of an externally oriented economy under conditions of a shortage economy and relative backwardness of basic industries.

An overheated economy and simultaneous shortages of materials have been major problems that have beset the normal development of China's economy for many years, problems that could never be resolved. In the first half of 1988, China's industrial growth rate was 17 percent, which includes a growth rate of 13.6-36 percent in the processing industry, and a growth rate of 10.1 percent in the energy and raw materials industries. It also includes a growth rate of only 2-3 percent in the nonferrous metals, petroleum, and coal industries. Freight transportation by rail had increased only 5.2 percent, attaining only one-third the growth rate of industry, while, in June, freight transportation by rail increased only 0.9 percent, so that coal production had to be regulated according to transport facilities, further aggravating the shortages in energy and electric power.

Discussion of the "shortage economy" by the Hungarian economist Kornai can deepen our understanding of certain phenomena in the present economic development of China. In his opinion, an evident difference between socialist and capitalist economies is that the former is restricted by resources, the latter is restricted by demand. This peculiarity determines that the Western market economy easily responds to changes in demand in the world market, and promptly expands supply or reduces production, but resource shortages form a bottleneck for economic development in countries of the socialist type, whose economic development has reached or exceeded the state of saturation, and even if the global market provides them with excellent opportunities, they cannot respond flexibly.

In the shortage economy, which suffers restrictions in resources, the effects of market regulation cannot resolve the contradiction between supply and demand, because there is only a one-way, cause-and-effect relationship between currency inflation and shortages, that is, shortages bring about price increases, but price increases cannot bring about increased total supplies and elimination of shortages. Of course, supply may increase for products that show high price increases, but only at the cost of reducing the supply of other goods, so that overall supply will not increase. Even if externally oriented enterprises, trades, or regions increase the supply of certain goods, stimulated by price increases in the world market, this is bound to squeeze out production of other

goods, especially production of goods for sale domestically, and will, in this way, increase the contradiction between domestic and overseas marketing.

The ongoing "improvement of the economic environment and rectification of economic order," by having checked economic overheating and inflation and by having created a comparatively relaxed economic environment, will, therefore, be beneficial for the development of the externally oriented economy.

3. The domestic economic structure and the level of development of the productive forces are the material foundation that set limits to the development of the externally oriented economy.

During the 39 years since the founding of the PRC, China has built an industrial system that is fairly complete in its various departments and that possesses a certain capability. China has thereby created favorable conditions for establishment and development of certain export-oriented mainstay industrial sectors and groups of key export enterprises.

In view of the fact that China's textile exports have already attained a substantial volume and that the exports of these products account for one-quarter of total foreign exchange earnings from exports, the task for the future is to rely on intensive operations to raise product grades and quality, raise the added value of export goods, and increase exchange earnings from exports. At the same time, it is necessary to foster energetically some mainstay export industries with potential advantages, such as the production of electrical appliances for home use and common electrical products. These should be given preferential treatment with regard to the use of foreign exchange and the importation of production equipment, raw materials, parts, and components, so that the capability of these externally oriented industries and enterprises to export and earn foreign exchange will be enhanced as quickly as possible.

China's scientific and technological strength has great potential advantages, which undoubtedly provide favorable conditions for development of an externally oriented economy. However, China's scientific and technological development is very uneven. The scientific and technological strength is not at its best in many sectors, such as light industry, textiles, and in the machinery and electric sectors, that could meet the needs of the world market. There are still few scientific and technological achievements that have large use value and that can be quickly converted to expand competitive export strength. Even in the present large adjustment of the international industrial structure, when developed countries are prepared to transfer out branches of trade or products, China frequently loses the opportunity to take over because of the low level of China's science and technology and handicraft industries.

4. Functions of government organizations. China's government organizations and their functions were formed under conditions of long-term seclusion and cannot meet the needs of the present economic construction and opening up to the outside world. Since the 3d Plenary Session of the 11th CPC Central Committee, government functions began to be shifted so as to adopt economic construction as their core, which provided the necessary guarantee for development of an externally oriented economy. However, the present government organization and its functions still require thorough reforms to ensure smooth execution of an externally oriented development strategy.

Developing an externally oriented economy will not only not allow a weakening or abolition of necessary administrative controls, but these controls must rather be strengthened. However, unnecessary and excessive administrative control will make it impossible for externally oriented enterprises to flexibly respond to changes in the fast-changing world market. Meeting the needs of development of an externally oriented economy demands formation of an active administrative organ with a contingent of strong, high-quality personnel, working with greatest efficiency, and knowledgeable about the mechanics of the market, so that it will be capable of effectively executing administrative intervention when necessary and demanded by objective economic laws. More important, the highest decisionmaking organs of the government must be familiar with movements in the world market, and must promptly issue accurate decisions in order to foster development of the externally oriented economy.

### III. China's Fundamental Measures in Its Development of an Externally Oriented Economy—Improvement of Its Industrial Structure

The political and economic situation in China and abroad determines that China's development cannot take the road of a "strongly externally oriented economy," of the kind mentioned by the World Bank, but must formulate an appropriate strategy of externally oriented development in accordance with China's actual conditions.

In our opinion, with the important assumption of a continued deepening of political and economic structural reforms and perfection of the system serving the externally oriented economy, China's strategy of externally oriented development should begin with the idea of pursuing trends of greater profitability and macroeconomic returns, should bring all strong points into play and avoid weaknesses, and should activate to the greatest extent the potential advantages in the economy. While not destroying the rational guidance and functions of the market mechanism, China should pursue an industrial policy that provides for government intervention. This is crucial for the success or failure of China's strategy of developing an externally oriented economy.

Experiences of many developing countries and territories in the development of externally oriented economies and the lessons learned from these experiences demonstrate that it is necessary to start with existing industrial structure when pursuing the objective of upgrading and rationalizing the industrial structure. There has to be coordination with import substitution and export guidance, step-by-step preferential development of industries that are significant for the development of the national economy, and then gradually dispersion and upgrading. This will promote the process of industrialization, while the function of foreign trade is to promote, by the process of upgrading and rationalizing the industrial structure, the even growth of the economy as a whole. This will be much more sensible than obtaining comparative profits purely from the exchange of international commodities.

Industrial policy is the policy system of the government adopted for the purpose of maximizing economic returns by guiding the upgrading and rationalizing of the industrial structure, and by regulating the rational allocation of key elements of production and resources among all industries. Its core is the policy governing the industrial structure, including policies concerning public finance, credits and loans, investments, enterprises, technology, and foreign trade, and it emphasizes the comprehensive utilization of all the various economic levers.

In the peculiar political and economic environment in China and abroad, in which China now finds itself, pursuit of an accurate industrial policy has its special practical significance.

A. The industrial policy must be suited to the objective economic operational model of China's present socialist commodity economy. Due to the fact that China has for a long time practiced a traditional planned economy, is still in transition from the old to the new system, has never developed a commodity economy, has had little mobility in the key elements of production, commodities in the domestic market, and between the domestic market and the international market, and also does not have a well developed market, the functions of the market mechanism could not play their normal role, and there was no possibility for effective disposition of its natural resources. This determines the necessity for government intervention.

B. China's present peculiar dual economic structure, which is backward and irrational, is in urgent need of government intervention. Since its founding, the PRC has adopted a comprehensive "import substitution" strategy under an intensive domestically oriented protectionist policy which was biased in favor of heavy industry. Even though China built up an industrial system complete in all its departments, this system did not constitute a "mainstay industry" and, furthermore, showed few beneficial results. There has to be selective acceptance and discards of some of its elements. There is some justification, but not total justification, for talking

here of the possibility of "expanding exports of labor-intensive products and equipping a modern industry from the returning foreign exchange." Setting aside the question of whether these products could really be internationally competitive, the ability of these products by themselves to earn foreign exchange is extremely limited and not in the least sufficient to develop a modern industry, and it would, therefore, delay the upgrading of the industrial structure. Besides, one-sided emphasis on having township industries export labor-intensive products would have small enterprises and traditional industries surge into the international market, while large modern industry would be satisfying only the needs of the domestic market. A radical solution to the problem of China's dual economic structure and manpower surplus in the rural areas depends on a modern industry entering the international market and the widespread effect that would be brought about by upgrading its industrial structure. This, then, determined the necessity for government intervention.

C. The longstanding problem of China being unable to effect a strategic adjustment in its foreign trade commodity mix must be resolved by means of an industrial policy. The existing state of China's industrial structure is seriously impeded by the state of its basic raw materials industries, and the overly and widely expanded processing industry. Industry is compelled to rely on large imports to support its development, and, as a result, objective economic returns decline, it impedes improvement of the industrial structure, and creates a new restrictive vicious cycle for the future development of foreign trade.

D. An industrial policy is beneficial to relax and resolve the contradictions between domestic and international markets brought about by the imbalance in economic development between regions. It is beneficial to enhance the economic relations between regions that are very backward in the exploitation of resources and regions in which processing has been well developed. As a consequence, it will ensure the comprehensive and coordinated development of the domestic economy.

It has to be pointed out emphatically that the industrial policy, with its characteristic intervention, is based on the market mechanism. It is based on the international division of labor and also reflects the changes of the international trade structure, taking demand and development trends of the international market as its reference for the determination of the industrial structural model. Without missing the right opportunities, it will change the industrial structure, enhance the competitiveness of products, and thus create a benign cycle for development of the externally oriented economy and for economic growth. Obviously, this is quite different in essence from the interventions under the traditional system, when the state issued administrative and plan orders, held a monopoly for purchasing and marketing, and disregarded the function of the market mechanism.

Besides, industrial policy will also be involved in the area of production, but things will not be as in the past when market competition was mostly competition between foreign trade companies, a state of affairs that did not provide any encouragement for production enterprises, but on the contrary, had a destructive influence.

China's industrial policy must start at the present state of its own economic structure and the disposition of its resources when determining the set of its medium and short-range objectives.

1. While further improving the quality of the export industry, which exports products of the labor-intensive processing industry, we must foster as key sectors and leading industries in our strategy such basic industries as the machine-building, iron and steel, and energy-sources industries. We must concentrate our efforts on development of products with good export potential, where a certain foundation for their production already exists, and through the buildup of an export production system we must engage in their large-scale production to achieve substantial benefits. Only on the premise of reducing costs, can we be sure to maintain strong competitiveness when invading the international market.

2. We must develop potential capital-intensive and technology-intensive industries, similar to China's satellite-launching technology and computer software developments, which have already been introduced into the international market. If necessary, we have to institute appropriate guidance and support, so as to have these industries become leading industries in the next phase.

3. In the case of the motorcar and durable goods industries, which have already been well developed, we must institute effective import substitution upgrading, in order to shift in these lines to export guidance. In China's strategy for overall economic development, we must shift from the traditional import substitution domestically oriented strategy to a strategy of import substitution upgrading and promotion of export guidance, as both are mutually compatible and may exist side by side.

#### Footnotes

1. RENMIN RIBAO 18 Jul 88, p 5.
2. ZHONGGUO JINGJI NIANJIAN [CHINA ECONOMIC ALMANAC], 1987 issue.
3. GUOJI MAOYI [INTERNATIONAL TRADE] No 3 (1988), p 8.
4. Ibid., p 10.

**Machinery, Electronic Appliance Exports Rise**  
*HK2405120389 Beijing CEI Database in English*  
24 May 89

[Text] Hangzhou (CEI)—Measures have been adopted by the Ministry of Machine-building and Electronics Industry to increase export of its products. They include the strengthening of quality control both at government and grass-root levels and enhancing ties with UL of the United States, CSA of Canada, TUV and VDE of Federal Germany and BSI of Britain [expansions unknown].

In the first quarter of this year export of machinery and electronic appliances reached 1,416 million U.S. dollars, a 47.5 percent increase compared with the corresponding period of last year.

By the end of April, 527 machine-building and electronics enterprises have won quality approval for export of 1,146 products.

Export approvals are now needed for 58 categories of products such as metal-cutting lathes, measuring and cutting tools, medium and small electrical machinery, standard fasteners, engineering machinery, television sets, recorders and electrical components.

Foreign sales agents said that quality of China's export products have greatly improved since the adoption of granting of export approval system.

According to the Chinese customs, in 1988, China's export of machine-building and electronic products reached 6.15 billion dollars, or 61 percent more than the previous year. The percentage of machinery and electrical appliances in China's total exports rose from 6.1 percent in 1985 to 13 percent in 1988.

**Guangxi Consolidates Trading Companies**  
*HK3005084389 Nanning Guangxi Regional Service*  
in Mandarin 1000 GMT 28 May 89

[Excerpts] When delivering a report at the 10th meeting of the 7th Regional People's Congress Standing Committee, Wang Rongzhen, vice chairman of the regional government, pointed out: "Through half a year of efforts, our region has achieved success in cleaning up and consolidating trading companies."

He continued: "In the spirit of the decision made by the party Central Committee and the State Council, our region has taken efforts to clean up and consolidate trading companies as an important job in improving the economic environment and rectifying the economic order, with the focus on those trading companies established since the second half of 1986, in an effort to solve the problems of integrating government administration with enterprises, integrating officialdom with business circles, profiteering through the resale of goods, and illegally reaping exorbitant profits."

Vice Chairman Wang Rongzhen noted: "Party committees and people's governments at various levels and the departments concerned seriously examined those trading companies. Trading companies that contribute to the development of commodity production, create wealth for society, promote the combination of science, technology, production and trade, and play an important role in the area of circulation are generally allowed to continue to carry on their business. Trading companies with no capital, working staff nor offices, those that exist more in name than in reality and are virtually owned privately, and those that are redundant in the circulation field have been dissolved. Some trading companies that engage in speculation and practice usury by taking advantage of reform were resolutely shut down after their illegal acts were verified."

Throughout the region, 7,829 trading companies of different sorts have been cleaned up and consolidated. Figures show that, by the end of April, 6,159, or 78.6 percent of the total, had been approved to continue their business; 909 had been dissolved, accounting for 11.6 percent of the total; 34 had been amalgamated, 0.43 percent of the total; and 262 had been switched to other trades because they were not eligible for trading, 3.35 percent of the total; and no decision had yet been made on 465, 5.93 percent of the total.

Wang Rongzhen also said that in our effort to clean up and consolidate trading companies, we have handled companies that integrate government administration with enterprises and those that purely use administrative power in doing business. Investigation demonstrates that there are 417 companies integrating government administration with enterprises and 1,015 companies run by party and government organizations across the region. [passage omitted] As a result of our efforts, 194 companies integrating government administration with enterprises have been dissolved, and there are 62 companies whose administrative functions have been changed or whose power in management has been canceled, all of which make up 61.3 percent of the total. Meanwhile, 567 companies run by party and government organs have been disbanded, accounting for 55.8 percent of the total; 332 companies have been reserved after they severed relations with party and government organs, amounting to 32.7 percent; and 43 companies have been amalgamated or switched to other trades, making up 4.2 percent. [passage omitted]

**Shanghai Mayor Acts To Reverse Export Slump**  
*40060627 Beijing JINGJI RIBAO 25 May 89 p 1*

[Summary] Because of shortages in energy, raw materials, and funds, Shanghai's total export volume between January and April 1989 dropped by 9.5 percent compared to the same period in 1988. The decline in textile exports, which account for 40 percent of the municipality's total exports, was even greater.



The situation is serious since Shanghai needs to expand export foreign exchange earnings. In recent years its industrial production has come to rely increasingly on imported materials. Foreign investments are also needed to carry out much of the city's basic facilities construction and industrial technological transformation.

Shanghai's municipal government has placed full attention on the export situation, with Mayor Zhu Rongji personally getting involved. On 19 May, a mobilization rally was held to promote the "double increase and double economy" campaign, and the mayor has appealed for an all-out effort to increase export production. Several days ago, under the directive of the municipal government, the textile industry convened a 3-day symposium attended by more than 100 factory directors of export-producing enterprises. Participants decided to create the conditions necessary to ensure fulfillment of 1989's export obligations in textile and other industries. To further remedy the situation, Mayor Zhu proposed the following three measures: First, use every possible means to step up export production; second, emphasize the economizing side of the "double increase and double economy" campaign; and finally, work at the forefront of production with an enthusiastic and hard-working spirit.

## LABOR

### **Economists Advocate Efficiency as 'Key Point' in Wage System Reform**

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[Article by Li Xuezheng 2621 1331 2582, Zhang Wenmin 1728 0795 2404, and Zhong Jiyin 0112 3444 0995 of the Economic Research Institute, the Chinese Academy of Social Sciences: "Establish an Efficiency-Oriented Wage System"]

[Text] A fundamental question concerning reform of the wage system is the relationship between fairness and efficiency. People in general will propose three methods for handling this relationship: First, to combine fairness with efficiency. Second, to give priority to efficiency and to give consideration to fairness. Third, to obtain fairness and efficiency separately. We stand for the third method because, if the proposal of combining efficiency with fairness is taken as the individual income distribution principle, this principle will be too general. Moreover, it is not clear which target should be achieved first, and biases will occur in real practice. Although the proposal of giving priority to efficiency and giving consideration to fairness can stress the key point of efficiency, it mixes the efficiency problem, which has to be solved in the economic aspect, with the fairness problem, which has to be solved in the social aspect. Thus, this proposal is disadvantageous to implementation of the practice of increasing economic efficiency through individual income distribution. Therefore, we hold the idea that the targets of efficiency and fairness should be achieved separately. The return on labor is determined by the results of labor achieved by each

individual. Therefore, an efficiency-oriented wage system should be established; while solving the problem of fairness should rely on the social security system. In other words, efficiency should be emphasized in initial distribution and fairness should be emphasized in the second distribution.

Our views will be analysed specifically in the following paragraphs.

### **I. The Present, Main Problems in the Realm of Income Distribution Should Not Be Generally Described as a Problem of Unfair Distribution**

The wage system is one of the components of the Chinese individual income distribution system. Therefore, our study should first correctly understand the main problems concerning the present Chinese individual income distribution system. Is the problem of unfair distribution a main problem? We consider that although there exist the phenomenon of great disparity between rich and poor and the phenomenon of unreasonable and even illegal income, the problem of unfair distribution in general is not the main problem, and it is even not an accurate generalization of the present phenomena. If we regard the solving of the problem of unfair distribution as the direction of wage reform, equalitarianism will certainly be intensified, and the present distribution relationship will be further distorted.

First, the unfair phenomena seen by people are often the differences between different ownership systems, or the differences in income among individuals who are running their business and employing laborers. For instance, people always say that the income of a surgeon is not comparable to that of a barber, the income of a scientist responsible for manufacturing missiles is less than that of an individual who sells eggs, and so on. However, these people are at different levels, and their income should not be compared in this way. We know that the income of an individual businessman not only includes labor income, but also the income from their business, which has risks, and a small amount of income from his assets. Therefore, the income of this type of businessman should be higher than that of laborers who are earning only wages. However, it is difficult to stipulate how much higher the income of an individual businessman should be than that of a laborer. We should make clear that the income of a wage laborer includes not only monetary income but also nonmonetary, invisible, and material income. For instance, living conditions, housing subsidies, free medical care, enterprise, and social welfare and security, and so on. According to estimations, the amount of these incomes to be received by a laborer is more than 100 percent of his wage.<sup>1</sup> If this nonmonetary and invisible income is added to the monetary income of a laborer, the difference in income between a laborer and an individual businessman will definitely be reduced. Besides, the living standard of people should not be measured only by an income-level indicator—their social status, living security, sense of

job stability, and other indicators should also be taken into account. The income of individual businessmen in these respects is not comparable to that of laborers. The labor intensity of individual laborers is often very much higher than that of wage laborers because individual laborers are motivated by the mechanism of benefit and are under the pressure of economic and living competition. Viewed from this angle, it is normal that the income of individual laborers is higher. Some of these people have committed crimes and have violated laws, and some of them have got rich by foul means. However, these are not problems of unfair economic distribution, but are problems of conspiratorial behavior in the policy and legal realms.

Second, the problem of unfair distribution also involves the problem of inverse proportion between the income earned by manual workers and that earned by mental workers, or the problem of low income of intellectuals. If we view superficial phenomena, these seems to be real facts. For instance, our wage policy always stresses that the increase in the wage of first-line production personnel should be higher than that of personnel in other realms. The result is that the wage income of middle-age scientific and technical personnel and secondary and primary school teachers is lower than that of production workers of the same age. According to data obtained from the sample survey of 10,000 people in Shanghai in 1986, the average monthly income of professional and technical personnel in Shanghai is lower by 23.39 yuan than that of the staff and workers in the whole municipality; the average monthly income of professional and technical personnel is 109.33 yuan and that of staff and workers is 132.72 yuan. According to a sample survey conducted on the wages of workers in the middle-age group of well-managed, middle-well-managed, and poorly managed enterprises in Beijing, the average wage difference between mental workers and manual workers is 11.4 yuan. If this situation cannot be improved, not only will the current economic development be affected, but the reserve energy of China in achieving future prosperity, and in obtaining future strength will also be affected.

Can we generalize these phenomena as a pattern of unfair distribution of income between manual and mental workers in China? We cannot.

First, mental laborer or intellectual is a concept with broad meaning and the scope of its meaning is not defined. With the increase in productive forces and the development of society, many types of productive labor have become mental labor, and many manual laborers in the realm of production have become mental laborers. If we regard senior secondary school graduates as the basic level where people are classified as intellectuals, then many current factory workers are intellectuals.

Second, the income of all intellectuals is not inversely linked to their intellect. For instance, the wage income of old intellectuals at high positions is not lower than that

of workers. Moreover, in some newly developed industries and departments, the wage of scientific and technical personnel is often higher than that of production workers. Apart from these, the income of mental laborers in all industries is not lower than that of manual laborers. According to a survey conducted by the Beijing statistics bureau in January 1988, the income of mental laborers in industrial, transportation, post and telecommunication, and public utility units is higher than that of manual laborers; and in the commercial field as well as in the catering and service industries, the income of mental and manual workers is basically at the same level.

Third, for a long period of time, the guidance thinking of Chinese wage and employment policy has been: Low wage, high rate of employment, and to share the income of three people by five people. Therefore, the situation of being overstaffed, the situation of having five people complete work that should have been done by three, and the serious waste in manpower have commonly existed in areas where manual laborers or mental laborers are concentrated. Under such conditions, it will be unreasonable to require that the income of mental laborers should be generally higher than that of manual laborers, and people will not accept this type of arrangement. Under general conditions and in implicit aspect, the labor contribution achieved by mental laborers is higher than that achieved by manual laborers. However, we have to consider the physical aspect of the contributions when we are measuring them. Therefore, only in situations where the contribution really achieved by mental laborers is higher than that achieved by manual laborers, can the idea that the return on mental labor should be higher than that on manual labor be put forward. Of course, we do not object to the idea of trying to solve immediately the problem that the income of some mental laborers is too low. We only want to illustrate that the proposition that income of mental laborers is inversely linked to their intellect is not a scientific one and will arouse confusion. In fact, the problem of equalitarianism in income distribution among mental laborers, and the problem of large salary difference between government officials and ordinary personnel (for example, that between the governor of a province and a professor) are the problems that we should seriously solve as soon as possible.

We do not agree with the generalization of unfair distribution. One reason is that the criteria for distinguishing between fairness and unfairness is not clearly defined. It will, of course, carry some truth if the unfairness refers to a situation where the labor reward obtained by an individual does not match his labor contribution. However, people in general will use income gap as a ruler to measure fairness, and there is no publicly recognized and clearly defined quantitative limit for measuring such a gap. In this case and under the influence of the force of habit of equalitarianism, people will often regard the disparity between high and low incomes as a phenomenon of unfair distribution. In fact, the practice of giving

corresponding amounts of reward to people in accordance with their labor contribution, which in turn will generate an income gap among people, is a fair expression, not an unfair one.

In short, the problem of unfair distribution is not a main problem in the current realm of distribution in China. We consider the main problems to be that people have ignored efficiency and only stress comparing income level and the distribution plan is a confused and disordered one. Speaking in concrete terms, with the emergence of diversified types of ownership and diversified forms of management, and with expansion of the economic decision-making power of local and enterprise units, the income distribution mainbody and object have also been diversified. Consequently, the income distribution principle and criteria have been diversified and the income gap has also been apparently enlarged. In this way and in situations where the planning system is being transformed, the development of the market mechanism has not yet become perfect, the labor force cannot move freely, employment opportunity is not equal, and the practice of eating from the great communal pot of the state still exists, various units have been promoted by the thinking trend of income comparison of staff and workers. They have been competing with each other and have adopted self-defense measures. In situations where the wage level cannot be changed, they have tried to increase the income of staff and workers by distributing more bonuses or materials and goods to them, and they have also tried every means to increase the real income of their staff and workers. Consequently, a chaotic situation where various units are competing to increase the real income of their staff and workers, and a disordered situation have emerged in the realm of income distribution. In addition to these, since social aggregate demand has exceeded social aggregate supply in a sustained manner over the past few years, the problem of inflation has existed for years and commodity prices have increased in every quarter of the year. These situations have thus forced people to try any method to increase individual income through the channels of income distribution to compensate for their losses caused by inflation. These have thus intensified the disordered situation in the realm of income distribution. If we still stress that the main problem in the present realm of income distribution is the problem of unfair distribution, and we will thus narrow the income gap between businessmen and wage laborers and solve the so-called problem that the income of mental laborers is in inverse proportion to that of manual laborers, without pinpointing the real problem and without taking into consideration the problem of efficiency, the results will be that the commodity operating mechanism will be damaged, business operators will lose their enthusiasm, and the thinking of manual laborers in comparing their income with others will be enhanced. In fact, the situation in which the labor reward of an individual does not match his labor contribution, or the unreasonable situation where the income

of an individual is not calculated in accordance with his labor input, exists among mental laborers as well as manual laborers. We should pay attention to this point in solving the problem.

## **II. The Emphasis on Fairness Has Caused the Wage System To Lose Its Function in Mobilizing the Enthusiasm of Staff and Workers**

In the past, although the Chinese wage system had in theory emphasized the principle of distribution according to work, it had in fact emphasized equalitarianism. The reasons for this are many, and there are three major important factors. First, the level of productive forces was low, the population was huge, and the supply of products in society was not abundant. Under these circumstances, it was difficult to increase the income gap among different types of laborers. Second, the commodity economy was not developed, people's concept of competition was weak, and equalitarianism in small production had occupied a ruling position. Third, the so-called principle of fairness had been emphasized, while the relationship between fairness and efficiency had not been correctly handled. People have had many discussions about the first and second factors. Here, we are going to briefly discuss the principle of fairness and the relationship between fairness and efficiency.

We consider the reason why people have been stressing the principle of fairness is that they have misinterpreted the superiority of a socialist system. They think that under the conditions of socialism, since people are the owners of the means of production, they should, on the basis of this type of ownership, receive corresponding and equal income. The so-called practice that everyone will have a job, and everyone will have rice to eat, that five people will share the rice for three people, prosperity for all, and so on, have in fact neglected the fact of unequal labor contributions among individuals, and have propagated in a distorted manner and in the name of superiority, the idea of equal fairness. They have not only propagated these in theory, but have also put them into practice—the distribution system has stressed the idea of fairness. For instance, the distribution of consumer goods will involve two aspects: First, monetary wages will not differ very much among people; and second, collective welfare that everybody can enjoy is distributed in accordance with the principle of distribution according to need. It is obvious that this type of distribution structure is established on the basis of equalitarianism. This has resulted in the situation where hard-working people will receive the same income as lazy people, well-done tasks will be rewarded in the same way as poorly done jobs, lazy people will be rewarded while hard-working people will be punished, and everybody is eating from the great communal pot of the state.

We do not object to the idea that the relationship between fairness and efficiency is a relationship of dialectical unity. That means the increase in efficiency is

the material foundation for obtaining fairness, and fairness can promote efficiency. The question is: What is fairness? In the realm of distribution, the term of fairness has two meanings: First, whether the distribution yardstick is a fair one, and second, whether the results of distribution are fair. In studying the relationship between fairness and efficiency, the focus should be on the distribution yardstick, not on the results of distribution. If we regard labor contribution as the distribution scale, we can thus achieve a unity between fairness and efficiency. It is because labor contribution will involve efficiency, and both aspects have the same yardstick—fairness. If we focus on results and emphasize only quantitative equality in distribution, the dialectical unity of the relationship between fairness and efficiency cannot be achieved. Traditional theories consider that, due to the fact that the public ownership system has been established, the principle of fairness has become an expression of the superiority of the socialist system and that efficiency is the result of people's subjective initiative and can only be achieved on the foundation of fairness. That means fairness is the first priority and efficiency is the second. This has, in fact, put quantitative equality in distribution as the first priority. In Chinese distribution history in the past 30-odd years, the main mistake and deviation was that equalitarianism had been stressed. Therefore, the emphasis on differentiating different realms has practical meaning, and it will enable people to pay more attention to efficiency in the economic realm. At present, since different types of ownership systems have emerged, different distribution yardsticks have correspondingly emerged. Therefore, readjustment in the realm of redistribution should be carried out.

Since 1978, China has paid attention to the principle of material benefit, has started handling matters in accordance with the principle of a commodity economy, and has gradually implemented reform in the wage system. In brief, the following measures have been adopted: The practice of linking the total wages of staff and workers of an enterprise to the amount of tax and profit the enterprise has to turn over to the state, whereby total wages will float in a proportional percentage to the amount of tax and profit the enterprise has to turn over to the state. The state has adopted the practice of controlling enterprise wages at various levels. That is a method whereby the state will control the magnitude of increase in total wages, and enterprises can decide by themselves a wage and bonus distribution method. For enterprises that have issued bonuses and wages exceeding the limit set by the state, the state will collect wage regulatory tax and bonus tax from them. These measures have played a role in mobilizing the enthusiasm of enterprise staff and workers. However, in view of the whole wage system,

these measures are still under the influence of the old model, with everything proceeding from the quantitative fairness of distribution. Then, what is the present situation of the whole wage system?

1. Over the past several years, the amounts of total wages and of average wages have increased in great magnitude. However, labor productivity has not increased correspondingly. The results of the whole-people industrial departments that have adopted coordinated wage reform show that from 1983 to 1986, the amount of total wages has increased by 73.5 percent, and the average wage has increased by 58.08 percent. However, during the same period, the all-personnel labor productivity of enterprises has increased only 18.4 percent.<sup>2</sup> These have illustrated the fact that the increase in wage has not stimulated an increase in efficiency.

2. In the income structure of staff and workers, the proportion of nonbasic wage, such as bonus, subsidies, materials and goods, and so on, has been continuously increased. Under inflationary conditions, the role of basic wage in ensuring the livelihood of staff and workers has diminished; and the function of the practice of increasing the basic wage of staff and workers in stimulating their labor enthusiasm has also diminished. According to calculations, the percentage of the average amount of bonuses and subsidies in the total amount of wages of staff and workers in the whole country has increased from 15-20 percent in the past to 34 percent in the first half of this year. When the amount of welfare income, which is in the form of materials and goods, and the amount of price subsidies are taken into account, the amount of the nonbasic wage of staff and workers has contributed to more than 50 percent of the total wages of staff and workers. Under these circumstances, the high amount of nonbasic wage, has lost its original meaning. The nonbasic wage has, in fact, become price compensation to be distributed in situations of serious inflation and has failed to fulfill its original mission of increasing efficiency. Moreover, as with the basic wage, it is playing a role in ensuring the livelihood of staff and workers.

3. The structural wage system and coordinated wage reform have intensified the inclination of equalitarianism.

First, let us analyze the structural wage system. Structural wage consists of four parts—basic wages, job salaries, seniority subsidies, and incentive pay. According to material from the State Statistics Bureau, after launching the structural wage system, the ratio of the wage between high- and low-ranking personnel has declined from 1:3 to 1:2. This illustrates that the inclination toward equalitarianism has intensified (see the table below). Therefore, the structural wage system is not a wage system guided by the principle of distribution according to work, but is a wage system with the highest degree of inclination toward equalitarianism since the abolition of the free supply system.

**Wage Proportion Between High- and Low-Rank Personnel in Various Industries Before and After Wage Reform**

	Before the Wage Reform	After the Wage Reform
Researcher trainees and researchers in scientific research units	1:3.0	1:2.0
Practitioners with secondary medical school education and doctors in charge in hospitals	1:3.0	1:2.2
Grade three secondary school teachers and high-rank teachers	1:3.0	1:1.8
University assistant professors and professors	1:4.10	1:2.1
Office workers in government organizations and bureau chiefs	1:3.1	1:1.6

Second, let us analyze the coordinated wage reform implemented by state enterprises. The original objective of the wage reform program adopted by state enterprises in 1985 was to separate, on the basis of method and system, the reform implemented in departments and units from that implemented in enterprise units, to reduce the original 300 wage levels to 14 wage levels through adjusting the criteria for determining wage levels and in accordance with the differences among areas and industries, and to allow enterprises to implement coordinated wage reform by using their funds—wage levels will be combined and people will be promoted to a higher wage level in accordance with the new wage system. However, when the reform was being implemented, it was implemented in the light of the structural wage system, and the original amount of bonuses was uniformly and rigidly transformed into normal, additional wages. Moreover, since the distribution of these bonuses was carried out with the inclination toward equalitarianism, the role of the practice of issuing bonuses to reflect income differences and to raise efficiency has diminished. It has been said that the practice of linking the wages of an enterprise to the economic returns of the enterprise can break equalitarianism. However, only 15 percent of the total enterprise staff and workers have adopted the practice of linking the total wages of an enterprise to the amount of the economic return of the enterprise, and the remaining 85 percent of the staff and workers are still adopting the “semilinkage” practice whereby they receive a fixed amount of wage, and the amount of bonus they receive is determined by the economic returns of their enterprise. Moreover, the wage fund of enterprises is still under state control. Since the amount of bonus distributed to staff and workers is small, it is difficult to increase the income gap among staff and workers. Consequently, in the aspect of distribution, there still exists an inclination toward equalitarianism.

4. The bonuses, subsidies, goods, and materials distributed to staff and workers have become a means to compensate their losses caused by inflation, and they are

the factors leading to, and the material objects of, the intensification of the effects of the tendency of comparing income among people. The bonus system relaunched in the early period of reform was aimed originally at increasing efficiency and had played a positive role in achieving this aim. However, because of the influence of traditional wage theories, which are focused on fairness, the practice of equalitarian distribution had not been banned. Commodity prices have increased greatly since 1984. In order to ensure that the basic living standard of staff of workers will not decrease, and because they do not have the power to adjust wage (the state controls the amount of total wages), enterprise and professional units have employed the method of increasing the average amount of bonus, subsidies, and various types of materials and goods (without charging staff and workers or selling to them at low prices) distributed to staff and workers to compensate the losses suffered by them under the situation of price increases. In this way, the distribution of these “extra bonuses” is decided completely by the power of various units. Under these circumstances, the staff and workers of all units will thus tend to compare with each other the “extra bonuses” they get, and a social comparison mechanism is thus formed.

5. The deviation from “government standard” involved in the wage system has worsened, and this deviation is contradictory to market-oriented reform. As a result, people are induced to choose a struggle direction that does not conform to the interests of society. The deviation from “government standard” is an innate deviation of any traditional system and must be abolished by the market-oriented reform. However, it is a pity that the adoption of the structural wage system has not only enhanced the “government standard,” but has also clearly monetarized it. Under such a system, every industry, every sector, and every aspect will be linked to an administrative government rank, and job salary will be determined in accordance with administrative rank. Here, the job salary is the core of the government standard, and it will encourage people to get government posts and become high-ranking officials. In fact, the implementation of the structural wage system is really attractive to people whose original rank was not high, and who have become high-ranking officials. In short, the tendency toward the “government standard” has enhanced people’s desire to become government officials and has induced a great number of talented people to try to get a government post; and it has also induced people, who are always trying to become government officials but can never realize their aim, to drift along aimlessly, to become unsatisfied with their job, and to do things that will violate laws and discipline. All these are disadvantageous to the effective allocation of manpower and to increasing the operative efficiency of the whole national economy. Moreover, they have also brought obstacles, in the conceptual aspect and in the aspect of people’s obtained benefits, to readjustment of the industrial structure, to implementation of government departmental reform, and to formation of a market system.

The five defects mentioned above show that the current wage system has not thoroughly eradicated the influences of traditional theories and practical methods—it still emphasizes that the first priority should target

fairness and the second priority should target efficiency, or that these two targets should be combined, and it is intended to solve the problems of fairness and efficiency at the same time through wage reform. However, the result is that the problems of fairness and efficiency have not been solved. Therefore, one fundamental reason for the failure of the wage system reform implemented several years ago is that the relationship between fairness and efficiency has not been made clear.

### III. An Economic Efficiency-Oriented Wage System That Relies on Development of the Commodity Economy Should Be Established

Over past years, China has been implementing a wage system emphasizing an equalitarianism-oriented distribution method. This system and its drawbacks are inefficient in nature and are disadvantageous to development of the commodity economy. To establish an efficiency-oriented wage system, where wage is defined as the pay for labor, is to carry out distribution in accordance with labor efficiency and to exclude all factors, such as the question of fairness, that are not related to efficiency in nature from the realm of wage distribution. However, it does not mean that society will pay no attention to the principle of fairness. The idea is that the question of fairness cannot be solved by the distribution of wages in the economic realm, that is, the first income distribution, but should be solved by the second income distribution: society (the state and mass organizations) will collect taxes and will use them to establish a social welfare and security system.

Concretely speaking, we can establish the efficiency-oriented wage system in the following ways:

First, reformers should eliminate the influences of the natural economy concept (a concept that will induce people to yearn for the past) and the product economy concept (imitation of future ideas) on their guidance thinking, and should make clear the relationship between fairness and efficiency. Moreover, they should also eradicate the thinking—which is influenced by equalitarianism—of distribution according to living needs; distribution can be in the form of material and goods, and can be conducted without the presence of the market; and distribution can be in an invisible and special supply form backed up by political power. Apart from these, they should eliminate noneconomic factors and factors ignoring efficiency from the wage standard, and should also eliminate ideological obstacles so that an efficiency-oriented wage system can be smoothly formed. Furthermore, reformers should also understand that the efficiency-oriented wage system is a means for individual income distribution, is monetarized and marketized, and will handle matters in accordance with the law of value (that is, the law of demand and supply). The method of distribution, however, can be determined in accordance with the quantity of the objects that are to be distributed. Therefore, when the new wage system is being formed and when a new wage standard is being

defined, it has to be made sure that these two aspects can suit the practical situation of the productive forces in society. An individual laborer's total income can help him and his family members meet their living and development needs, and can also help them satisfy their nonbasic needs; it will not affect the needs of society to further develop. Moreover, the needs of infants and children, unemployed people, and sick and wounded persons, who do not have labor capacity nor the ability to support their living, and the needs of old people who no longer have any labor capacity should be taken into consideration from the angle of society (the state).

Second, the national unified wage scale should be abolished. Different wage systems, which have different characteristics and can suit the nature of diversified ownership systems, the nature of a diversified economy, and the nature of a diversified laboring system, should be implemented in different realms.

Under the traditional system, the cost of a rigid and unified wage scale is the loss of the function of wage in achieving efficiency. It is because a unified wage scale has ignored the differences in the nature of labor and the results of labor among different realms, among different departments, among different enterprises, and among different individuals, and has thus induced people to work according to their pay, and to have the practice of "eating from the great communal pot. Although the wage scale was unified, the personnel of government departments and organizations who have to set the wage standard for different departments, areas, enterprises, and different types of staff and workers in accordance with the unified wage scale will have their own value concept, guidance thinking, and direction of interests. Consequently, the course where wage should be determined objectively by the market, and the process where the wage standard is being fixed and wages are being adjusted will be affected by uncertain factors, such as the will of people and the interest preference of people. Moreover, malpractice will emerge, tight human relationships among people will emerge, and the masses will complain about their wage to the people in power. Therefore, it is imperative to abolish the national unified wage scale and to establish, step by step, an efficiency-oriented wage system, the formation of which is determined by the market.

When the national unified wage scale is abolished, some transitional measures should be adopted to facilitate transition toward a new wage system that is determined completely by the market. Moreover, the main bodies, recipients, and realms of income should be classified, and different distribution principles and organization systems should be established. For instance, the income of the staff and workers of enterprise units can be determined in accordance with effective labor results, which have to be assessed by the market; the income of the staff and workers of professional units can be determined in accordance with their professional duties or professional job titles; and the income of the staff and

workers of party and government organizations and mass organizations can be determined in accordance with their administrative duties. Of course, there must be a scientific assessment standard for determining the results of effective labor and for classifying various professional duties or professional job titles and administrative duties, and the people who are to receive their income under these categories must have the capability to fulfill their duties.

Different criteria for determining job titles and ranks and for promoting staff and workers should be formulated in accordance with the nature of different realms, and the criteria should not be linked to one another. The general principle and basis of assessment for defining the criteria for determining job titles and for formulating the criteria for promoting staff and workers should focus on the point that these criteria are something that can be obtained by people through their hard work. For instance, the standards for professional and technical level and the degree of labor capacity. Things that cannot be obtained through hard work (such as seniority) should not be taken into account when wage is being determined, and they should not be a factor leading to income differences among people. These things should be taken into account when an individual retires. The reason is that if the income gap among people can be eliminated through hard work, people will be motivated to work hard. However, if the gap cannot be eliminated by hard work, people will be induced to become passive and do nothing.

Third, the nature of wages, which is the pay for labor, should be clearly defined, a clear distinction between the functions of the market and that of the government should be made, and a system of dual distributions should be adopted.

The aim of the present wage system is to give wages a role in inducing an increase in economic efficiency, and to enable wages to manifest the principle of social fairness. Thus, it has mixed up the functions of individuals, enterprise and business units, and society with the aspect of income distribution. This type of wage system has ignored the aspect of market regulation on wage, which must be carried out by the market—for instance, basic wage and bonus. Besides, this type of wage system has carried out the function of government regulation on wage, which in fact should be carried out by the government—for instance, welfare expenses, pensions, and so on, that are contributed by the total wage and are under the control of enterprises. In this way, the total wage, excluding the part that will be distributed as bonuses, is for solving the question of fairness. At present, due to the fact that bonuses, to a large extent, play a role in compensating people's losses caused by inflation, its function in stimulating increased efficiency has been greatly weakened.

In order to overcome this defect, radical reform should be implemented: It has to be clearly defined that wages, including bonuses, are the pay for labor; the social

functions of wages, which were subjectively given to it, should be abolished; and it must be clearly defined that wages should conform to the principle of efficiency. All these are to enable wages to carry out the economic functions that it should carry out. The target of social fairness should be achieved outside the "labor-wage" realm by government (state) and social organizations through the means of transfer payment. The part of income that has to be taken away by society for social expenditures from the total pay for the labor of staff and workers (or the total labor income) should be transferred to society (government) in the form of tax, and should be taken by society after the staff and workers have obtained the full amount of their pay. In short, the wage standard should be determined by the market (in accordance with the principle of efficiency), and the market should carry out the first distribution. The full amount of the pay for the labor of staff and workers should be paid to them, and the state (the government and social organizations) should then carry out the second distribution in accordance with the principle of fairness (including humanism), and should also reasonably regulate the second distribution.

Fourth, conditions should be created to deepen the reform and to promote transformation of the wage system from a fairness-and-efficiency-oriented system into an efficiency-oriented system.

The wage system is an element of the social and economic system. Without the presence of an appropriate macroeconomic environment and corresponding measures adopted in the "labor-wage" realm, an efficiency-oriented wage system cannot be established, and the functions of an efficiency-oriented wage system will not be carried out. Therefore, transformation of the wage system has to rely on the following aspects:

1. On the overall situation, China's economic reform will be deepened in the direction required by reform. We not only have to recognize that the products made by manual labor are commodities, the products with intellectual nature produced by mental labor are commodities, and the service products made by combining the production and the consumption processes are commodities, but should also regard the labor force as a type of commodity. Commodities cannot exist without the presence of a market. Therefore, the labor force should be allowed to exist and develop in the market. These are the basic macroeconomic bases for establishing a new labor system and a new wage system.

2. In the realms of labor, employment, and the realm of remuneration distribution, the centralized job placement system should be abolished, and the supply and demand of the labor force should be placed in the market. These are to provide equal competitive conditions for everybody, to eliminate the possibility of having manmade unequal opportunities, and to link the quality of labor to the pay for labor. The idea of these actions is that one who wants to earn more should be

more competent. At the same time, the government can set a minimum wage standard and a starting wage standard to ensure a minimum level of wage to be received by employees, and to protect them from being affected by vicious competition. Moreover, the present post and job occupied by staff and workers should be reallocated, and a new system for assigning posts and jobs should be established in accordance with the principle of economies of scale and the principle of maximum efficiency. The idea is to cut the amount of excess staff, and to eliminate the overstuffed phenomenon and the phenomenon where the job that should be carried out by three people is done by five. At the same time, free mobilization of labor should be allowed, and people who lose jobs under the new system of assigning posts, and people who voluntarily want to become mobilized labor should be allowed to find jobs freely. They can find jobs through labor departments and can also become temporarily unemployed. Corresponding unemployment relief organizations should also be established to provide relief to people whose income is below the poverty line. When the phenomenon of excessive income differential and polarization emerges, the state can adopt the method of collecting progressive income taxes to regulate the situation. The pretax income gap can be made larger to stimulate income earners' enthusiasm in labor, management, and development. Moreover, the income gap among people can be reduced by taxation, and social harmony and stability can thus be maintained.

3. Measures within the wage system that can concretely reflect and promote efficiency should be adopted. For instance: 1) The wage difference among different proficiency levels and different technical and professional levels can stimulate people to work hard and to raise their capability. This type of income difference should not be divided into too many levels. However, the difference between each level should be big enough to give people lasting incentive, and there should be a high degree of difference in technical and professional difficulty between each level. We can consider this method: When a staff member is gradually promoted from the lowest wage level to the highest wage level, his age will increase, and the income difference between this staff member and others at this time should be smaller than at the time when he is at the lowest level. The idea is that when a young man is working hard at the lowest wage level, he has just become economically independent, and he will have a strong desire to increase his income. Since he is young and strong, he will have a high degree of creativity and labor contribution. At the time he is gradually promoted to higher levels, he will have accumulated more knowledge and skills. However, at this time, he will be physically weaker than before and the increase in the degree of labor contribution achieved by him will also be smaller than before. 2) Under conditions where labor force can freely mobilize, laborers (including management, scientific, and technical personnel) can mobilize across different sectors and industries in accordance with their special skill and interests. In this way,

they can also move from low-income industries to high-income industries. The wage difference formed in this situation among different sectors and industries is not a manmade one, but is determined by market supply and demand in a previous period. This type of wage difference among different sectors and industries can play a role in regulating the allocation of resources in later periods, in promoting optimization of the labor industrial structure, and in raising the comprehensive efficiency of the entire national economic system. 3) Bonus, in real terms, is the reward for extra and efficient labor contributed by laborers at a particular time, and the management of bonus should be separated from that of the regular labor wage. Labor remuneration should be paid for current labor contribution, and it should be calculated on item basis. Moreover, the so-called comprehensive bonus, which everybody is entitled to get, and with the nature of "eating from the great communal pot," should not be distributed.

Finally, we would like to point out once again that an efficiency-oriented wage system can only be established under conditions where the formation of a market system is combined with the transformation of government functions, and in a coordinated way.

#### Footnotes

1. See JINGJI YANJIU [ECONOMIC RESEARCH] No 10, 1988, p 19. The estimated amount is analogous to 115 percent of the total amount of wage.
2. The percentages were calculated on related data published in the 1984 to 1987 issues of the *Chinese Statistical Yearbook*.

## TRANSPORTATION

**Shaanxi Draws Up Plan To Build Roads**  
*HK1705101089 Xian Shaanxi Provincial Service in Mandarin 2330 GMT 15 May 89*

[Excerpts] Communications departments of our province have drawn up plans for developing communications and transport and will pool funds and energy to lay stress on building several main roads. They include the main roads from Tongguan to Baoji, from Yulin to Zhenba, from Hancheng to Hanzhong, and from Shangnan to Changwu. [passage omitted]

Apart from doing a good job on the state projects in our province, the provincial authorities will suitably concentrate material and financial resources to guarantee the progress and quality of local roadbuilding in order of importance and urgency. All prefectures and cities must be responsible for the provincial road projects in their own areas.

With a view to solving the question of insufficient funds, the provincial communications departments adhere to the principle that whoever invests will use the facilities



and benefit and will encourage all quarters in society to invest in communications building. Funds will be raised in many forms, including loans, fundraising, issuance of building bonds, and attraction of foreign capital, and through many channels to speed up the building of the communications projects for basic facilities of our province.

At present, the provincial communications department has organized engineering cadres to stay at high-grade roads by rotation and to be responsible for the building of the main roads.

### PRC MEDIA ON FOREIGN ECONOMIES

#### Scholars Comment on Lessons of Soviet, East European Economic Reform

40060530 Beijing JINGJI LILUN YU JINGJI GUANLI  
[ECONOMIC THEORY AND BUSINESS] in Chinese  
No 2, 28 Mar 89 pp 44-46

[Article: "Experience, Lessons, and Inspiration From Soviet, East European Reform"]

[Text] *Editor's Note: Sooner or later, economic reform in socialist countries goes from a golden age to an age of crisis. The logical relationships inherent in this and the selection of methods, strategies, and opportunities merit our serious consideration and thought. To further promote in-depth research on the theory of China's economic reform, our editorial department, in conjunction with the Institute of Soviet and Eastern European Studies and the Scientific Research Office of the Chinese People's University, sponsored a discussion: "The Experience, Lessons, and Significance of Soviet and East European Reform." We are publishing edited comments of some of the comrades to stimulate responses from comrades in theoretical circles.*

**Li Zhenzhong [2621 7201 0022]** (Professor and Director of the Institute of Planning and Statistics of the Chinese People's University): Having read Comrade Pang Chuan's [1690 1557] article, "The Experience of Yugoslavia's Economic Reform Merits Research and Serious Consideration," published in *Planned Economy Bulletin*, I was very impressed. Our research on the economic reforms in Yugoslavia and Hungary has gone through two high tides but this high tide heated up quickly and cooled down quickly too. In recent years, research on Hungary's reform experience has been overlooked and this cannot be considered a scientific attitude. The experience of Yugoslavia and Hungary has important reference value for us and merits our serious study. I think that we should first set out clearly the problems of Yugoslavia and Hungary and then link them to China's problems. The reforms in Yugoslavia and Hungary had common problems, and there was a similarity in the basic methods and contradictions, but is this a necessity?

If so, we should bring the necessity to light. If we can clarify the problems that appeared in Yugoslavia and Hungary, then our problems will be clarified.

The economic reform thinking of the countries has the following two similarities: 1. Streamlining government, relaxing authority, and expanding enterprise autonomy; 2. Changing the mechanism and replacing the planning mechanism with a market mechanism. The extent of reform in these countries is not the same and the methods are not the same, but the content is, and the results of reform have advantages and disadvantages that merit study.

**Pang Chuan [1690 1557]** (Researcher at the Economic Institute of the State Economic Planning Committee): Eastern European reforms started very early but now they have run into trouble. The origin of the difficulty is basically the same—the errors in policymaking in the countries is also almost the same and this provides us with important insights.

The difficulties encountered by reform in East European countries are basically the same: primarily, inflation, heavy foreign debt burden, irrational economic structure, increasing range of losses incurred by enterprises, and decline in economic growth, decline in income of the masses, etc. There are primarily two causes of these difficulties. First, reform and development were not linked. There was too much haste and enthusiasm in the guiding ideology and the process of reform was accelerated without taking national circumstances into consideration. This is a reflection of leftist thinking in the communist movement in the new era. The second is the system. The issues of what a socialist commodity economy is and how it can be realized were not resolved. The experience and lessons of the East European countries merits our careful thought. We can gain some insights from this:

1. A socialist commodity economy is limited. It is not equivalent to a market economy and there should be certain restrictions on the role of market mechanisms. The mistakes of Yugoslavia and Hungary in this area were, one, overreliance on the market and overestimation of the role of the market; and, two, excessive denial of the role of planning. I think that we can change the scope and methods of planning, but we definitely cannot destroy the balanced and planned nature of national economic development.

2. The development of a socialist commodity economy should occur in stages. The development of a socialist commodity economy can be divided into three stages: the initial, developmental, and mature stages. The setbacks in reform in East European countries occurred in the initial stage. Because of general shortages in goods, in this stage there were such factors as many bottlenecks restricting the development of production and rather weak ability of society to accept reform, and the need to rely on the support and promotion of the state in moving

from an unbalanced state of economic development to a commodity economy. The scope of the state's role can be limited and the means and methods of this role can be changed, but the role of the state must be strengthened.

3. The managerial system of the national economy. The managerial system of the state economy should include three things: 1) An economic operating mechanism; 2) An economic growth model; 3) A sensible economic structure. This is a trinity and the so-called change of model should be a matter of changes in three areas, not just a systemic reform, but a coordination of reform in three areas. The biggest mistake of the East European countries in this area was that their system reform was an isolated force, penetrating deep into one area but lacking coordination with other areas, which ultimately led to the system reform running aground and creating dissatisfaction and opposition among the people; we need to have a clear understanding of this.

4. Reform of the economic system. Reform of the economic system can also be divided into three areas: 1) Establishment of a macroregulation and control system and setup; 2) planned, paced, and orderly establishment of markets; 3) reform of enterprise mechanisms. This is also a tripartite affair and avoiding marshalling troops for reform of a single aspect requires that we strive for coordination and matching of reform in all three aspects.

5. Friction and change between the new and old systems is a variable process of gradual progress and demands that there be an intermediate form of support, such as contracting. We should adopt positive and reliable measures, uphold promotion of a commodity economy within a range controllable by the state and avoid sudden changes in reform.

**Fang Qun [2455 5028]** (Director, Foreign Economic Management Institute of the Chinese People's University): Today I would like to focus on the problems of Soviet reform. There are three favorable conditions and three unfavorable conditions in Gorbachev's reforms in the Soviet Union. The favorable conditions are: 1) It began in the eighties when the Soviet Union and Eastern Europe had already been through a 20- to 30-year history of pain and pleasure and China had accumulated a certain amount of experience at reform, so at home and abroad there is abundant experience and lessons on which we can draw; 2) The high tide of theoretical discussion that welled up in the Andropov period under the participation and leadership of Gorbachev himself prepared a powerful brain trust for him; 3) Abundant per capita resources and strong capacity of material resources. The unfavorable conditions are: 1) Theory is ossified, society is closed, all levels are satisfied with the status quo, do not want to forge ahead, and there is a great deal of inertia; 2) Official and administrative agencies are complicated, difficult to deal with, ingrained, and have formed a dangerous force in which personal interests override social interests and are very

resistant; 3) Social contradictions, especially contradictions among the people, which have been concealed in a long period of accumulation, are very deep-seated and very dangerous.

What has been the course of Gorbachev's reforms in the past 3 years? We can summarize it this way: There has been considerable progress in ideological groundwork; there have been very slight results in economic efficiency temporarily; scientific and technological reform "achievements have been fewer than failures for the time being" (Aganbie [7093 3927 0446] dialect of Uyghur language); the struggle between reform and conservatism is tending to be made public and to intensify; contradictions among the people are always breaking out and are difficult to settle. In short, it is moving with difficulty. The Soviet situation once again indicates that it is easy to expose the existing political and economic abuses, but it is difficult to design new comprehensive political and economic plans, and implementing them and setting a direction is even more difficult.

So, how should we evaluate Gorbachev's reforms? First, Gorbachev is attempting to find a new way to increase economic vitality through market regulation and also to take advantage of the macroregulation and control function of planning to control the negative functions of a market economy. That is, he has been courageously exploring for a market economy under so-called overall planning and we should follow and research this. Second, under the pressure of the Soviet Union's specific national situation, Gorbachev has made certain mistakes and has acted with undue haste in such areas as promoting glasnost and dealing with the relationship between reform and development. Conservatism in economic reform theory, staidness of economic reform content, and undue haste in the progress of reform and the speed of development have created a pair of contradictions.

Nevertheless, in terms of reform thinking, there are two insights that merit our study. First, we should pay close attention to integrating expanded enterprise rights and increased enterprise responsibility and strictly demand macroeconomic coordination measures to serve the invigoration of enterprises. This will help improve enterprise autonomous management, self-development, and self-restraint, and it will help create the conditions and the stable macroeconomic environment for improving enterprise vigor. Second, we should pay close attention to preventing and overcoming unfair social factors and intensify the democratization and transparency of the policymaking process. These will help mobilize the initiative of the masses and help promote the smooth progress of economic reform.

**Jin Ying [6855 3892]** (Lecturer in the Soviet and East European Institute, Chinese People's University): The characteristic feature of Hungary's economic reform is the vigorous search to integrate the relationship between planning and the market. They have carried out some profitable tests and have made valuable contributions in

this area. However, there have been major flaws and errors both in design of economic plans and in economic policies in the reform process. The important questions now are: 1) The function of the market mechanism has not been fully exploited. There has been no organized and systematic reform, making it possible for excessive state interference in enterprises. The lack of standardization of the regulatory system has also limited the ability to take advantage of the positive role of market mechanisms and a truly competitive market has not been established. Next, knowledge of the market is one-sided, giving much consideration to the commodity market but not considering the issue of the capital market, so that the flow of key elements is greatly restricted and the market system is still imperfect. Hungarian comrades think that, in a socialist economy, planning should be based on an overall regulatory mechanism of the market. The future system should be based primarily on a socialist market economy with a planned economy as a supplement to the market economy. We should adopt measures that will help establish a true market and expand economic competition. 2) Major errors in economic policymaking. This is mainly in that some mistaken judgments were made about the world economic situation in 1973 so that there was a foreign debt of \$6 billion. The readjustment of 1979 did not fully take into account the issues of benefits and structure so that not only was there no turn for the better in the economic situation, but on the contrary, it continued to deteriorate. Hungarian comrades think that, when economic policy was formulated in the past, there were too many noneconomic considerations, so that politically it was possible only to make formulations that were in the "passable" range. Thus, it was very difficult for economic policy that was formulated to conform to the demands of economic law. The lesson of this is that economic policy should not be mixed with social policy and should not make social policy influence economic policy.

**Lu Ruliang [0712 3067 5328]** (Associate Professor in the Department of Planned Economy, Chinese People's University): We can discover by comparison that we can learn from the reforms in the Soviet Union and the countries of Eastern Europe some insight and answers for many of the differences and debates that have occurred in the process of China's reform. 1) Reform environment and timing. Reform requires that we carefully select the opportune moment. Although not all reform demands a relaxed environment, at least in such reform as price reform, which is directly related to the socioeconomic balance, we should give serious consideration to the economic environment in particular so that to the extent possible overall supply is greater than overall demand and revenues, and market supply and demand are in general balance, i.e., only under a rather relaxed conditions can the pace of reform be somewhat greater. 2) The reform center and gap. The reforms of the countries of Eastern Europe had different emphases and centers. The fact of reform indicates that although reform requires selection of centers and emphases,

because of inherent relationships in the economy, the content of reform must be coordinated, otherwise it cannot achieve the anticipated results. 3) The program and operation of reform. When major reform measures involving broad areas emerge, we should first vigorously strive to have very comprehensive programs and planning arrangements, then advance in a planned and measured way and avoid recklessness in reform and short-term goals in reform actions. 4) Reform steps and arrangements. In reforms in such highly sensitive areas as price reform we must be cautious, and only by taking the endurance of the state, enterprise, and individual fully into account, can there be measured and staged advance but we absolutely cannot be eager for quick success and instant benefits.

**Zhang Zhendi [1728 2182 4574]** (Associate Professor in the Soviet and East European Institute, Chinese People's University): The Soviet Union and the countries of Eastern Europe are ahead of us in reform and the theory and practice of their reform has direct reference value for us. Experience demonstrates that all the problems which the Soviet Union and the countries of Eastern Europe encountered in reform and reconstruction we may similarly encounter at a slightly later time, the only difference being that they have certain Chinese characteristics. The reform experience of the Soviet Union and the countries of Eastern Europe has the following insights for us: 1) Reform is a complex process. Limiting reform to the economic area is far from sufficient. If economic reform is not matched by corresponding political reform and provided guarantees, then economic reform cannot deepen in an sustained way. Thus the new feature of the Soviet and East European reforms is its comprehensive nature, i.e., economic reform marches in step with political reforms. 2) Economic reform encompasses many areas, at least four of which are: (1) economic development strategy; (2) economic policy; (3) managerial system; (4) training. We cannot limit economic reforms only to the one aspect of reform of the managerial system, for policy errors will make up a very large proportion of the hindrance to reform. 3) Economic difficulties are related to foreign debt. The possibility of using foreign capital to promote a takeoff of the national economy and its healthy development exists, but the process of moving from possibility to reality includes many unknowns and both good and bad possibilities exist at the same time. How to guarantee that we achieve the anticipated results is a problem that deserves our serious consideration.

(The speeches of Comrades Li Zhenzhong and Pan Chuan were edited on the basis of notes and have not been read by them.)

## AGRICULTURE

**Creation of Futures Market Under Consideration**  
*HK2905085389 Beijing JINGJI RIBAO in Chinese*  
16 May 89 p 2

[Article by Liu Dong 0491 0392: "Futures Market in China"]

[Text] *Abstract: Since the state lifted its control over the prices of the majority of farm products, the peasants have been faced with an unpredictable market. Chinese peas-*

*ants often say, "If our farm products can find a good market, they can become gold bars to us; but if our farm products fail to find a good market, they are just straws to us." Futures trade can help to alleviate market risks, protect the interests of both the sellers and the buyers, concentrate market supply and demand, and make public competition possible. However, under our country's existing economic structure, a futures market is still vulnerable to government administrative intervention. Furthermore, our country still lacks advanced transport, communication, and storage facilities which are indispensable to the operation of a futures market. Therefore, it has been suggested that a futures market for such farm and sideline products as wheat, live pigs, and so on, should be built on a trial basis first. In order to build a futures market on a trial basis, we should first of all formulate relevant laws and market plans.*

A futures market has been left out in the cold for several decades. At a time when our country's economy is in dire straits, a futures market is once again attracting the attention of our economists.

Some 140 years ago, after the commissioning of the Illinois-Michigan Canal, the city of Chicago in the United States found it much easier to transport its cereals to other parts via the canal. However, when winter came, canal transportation was suspended because the river froze. As a result, people began doing futures trade by negotiating trade terms first, and delivering goods and paying money later. At that time, the biggest futures exchange in the United States was the Chicago Commercial Exchange. Later on, such futures trade gradually became public trade transactions inside the Chicago Commercial Exchange and became a type of contracted and standardized futures trade.

Some 140 years later, experts of the Chicago Commercial Exchange came to China and found that economic circles have placed great hopes in the futures market: The feasibility study on establishing the Zhengzhou Wheat Exchange, the first futures market since the founding of the PRC, is currently under way. The results of this feasibility study are expected to come out at the end of this year. Although U.S. scholars were still puzzled by the complexity of China's economic structure, they enthusiastically briefed their Chinese counterparts on the functions and operation of their own futures market and hoped that their experiences will be beneficial when China starts building and perfecting its own futures market. China is a country with an underdeveloped commodity economy and a "narrowly balanced grain supply." Under such circumstances, is it feasible to build a grain futures market?

Although the scholars in China's economic and theoretical circles are now busily carrying out a feasibility study and various scientific demonstrations on the urgency and possibility of building a futures market; although our country's present economic development level is much higher than that of the United States some 140 years ago;

and although our country formulated the "Law of Young Crops" in the past, which was a seed of the futures market, our country will still encounter numerous obstacles and difficulties in her efforts to build a futures market.

#### **The Argument for Building a Futures Market**

Since the implementation of the contracted farmland responsibility system in the rural areas, China's rural reform has entered its second stage. As a result, the proportion of mandatory plans in state economic plans has been greatly reduced. The state has lifted control over the prices of a lot of commodities and has put commodity prices under market regulation. Now the farm products which are still under state control or partly under it include grain, cotton, tobacco, and so on. However, the state has already lifted control over 70 percent of China's farm products. There have been ups and downs in agricultural production and fluctuations in farm product prices. This situation has continued for some years. In 1978, the peasants of Cangshan County, Shandong Province stormed into their county people's government simply because they could not find a good market for several million jin of garlic bolts. The peasants said: "If our farm products can find a good market, they can become gold bars to us; but if our farm products fail to find a good market, they are just straws to us." The unbridled production and operation, and drastic market changes have already brought risks and economic losses to the peasants. They are now faced directly with an unpredictable market and are struggling to withstand the strains caused by drastic market changes by virtue of their very weak economic strength. They cannot find a "buffer zone" where they can obtain timely market information. If the state continued to try to reduce the peasants' burden by providing financial subsidies, it would soon find it impossible to satisfy the growing demands of the peasants, and find it impossible to establish a sound market regulation mechanism. In consequence, the producers and the government would be thrown into passivity; thrown into the inverse cycle of quantity and prices by the market force, which would in turn push up the price index in China's urban areas and add much to the state financial burden. Therefore, such a policy is a thankless one.

Futures trade can help to alleviate market risks and protect the interests of both sellers and buyers. As for the producers, since the prices of their products are fixed before their productions start, their profits are guaranteed in advance despite any future price changes on the market. As for the operators, on the one hand, they can readjust their operations and gear their productions to the market demand through the futures market; On the other hand, they can buy futures at prices appropriate to them to set their operation cost at an appropriate level and disperse their operation risks through the futures market. This is so called value-protecting futures.

On the futures market, the concentration of supply and demand and the open competition can help to smash the monopoly caused by the lack of information, and put an end to the price fluctuations caused by the differences between various regions and the time difference, to enable people to find the real prices. Since a commodity exchange market is not only a commodity circulation center but also a material circulation center, it can certainly increase the market transparency, prevent cheating resulting from one-to-one trade negotiations, and greatly reduce the number of purchasing agents.

From the above analysis, we can see that the futures market is capable of dispersing risks, allowing public price bargaining, and providing market information. It seems that these functions of the futures market have provided us with an opportunity to alleviate market risks for the peasants. As an "experimental plot," the building of the Zhengzhou Grain and Oil Wholesale Futures Market is aimed at "giving the green light to" a futures market and allowing market mechanism to regulate and control the behavior of all participants in the market.

However, is it possible for such a "small experimental plot" to expand and eventually become an "all-weather" market system which will replace our country's present "dominant" double-track structure?

#### **The Argument Against Building a Futures Market**

The basic principles of a futures market are:

- Price fluctuation within a certain range;
- Futures transactions in large quantities;
- Contract transference and risky speculation;
- Public competition and absence of monopoly;
- Advanced transport, telecommunication, and storage systems.

Our country has already carried out experiments on building a futures market for grain, live pigs, flax, vegetables, and some other major farm and sideline products. What will happen to our present agricultural production and our existing supply and marketing structure? The lifting of state control over commodity prices will no doubt give a direct impetus to the development of our country's agricultural production. However, its development will inevitably be restricted by our conditions concerning land resources, productive forces, and commodity supply and marketing. For instance, since our per capita cultivated land is only 1.5 mu, if we choose to grow more grain, cotton and oil crop production would be adversely affected. Since our country has little elasticity with regard to her supply of major farm and sideline products, especially grain, these products are still in short supply. Under such circumstances, the

efforts to lift state control over commodity prices will certainly be hindered by our limited state finance and by our people's poor capability to withstand such strains.

Each year, the state purchases some 200 billion jin of commodity grain. Some 50 percent of such grain is purchased through the regulation of the state plan while another 50 percent through market regulation. The contracted purchase of grain is always guaranteed. However, since the grain "which should originally be purchased at negotiated prices, but is now purchased at government prices" accounts for a large proportion of the total amount of the commodity grain purchased by the state, the purchase of this part is usually carried out according to state mandatory plans. Under such circumstances, the amount of grain really on sale on the market, including imported grain, usually accounts for only a small proportion, considering our country's huge grain market. This shows that our existing double-track structure is bound to restrict the grain input and grain transactions on the futures market.

A futures market is a place where value-protectors and speculators coexist. In a place where the value-protectors try to shift the risk of price drops onto others, the speculators are willing to take such risks and try to gain profit through their speculative activities. In China, speculators have always been regarded as swindlers, embezzlers, and trouble-makers. In point of fact, if there were no speculators engaged in contracted purchasing and selling activities, and information collecting activities, a futures market would be unable to collect information, carry out expeditious trading activities, and disperse the risks of futures. Under the current state policies, it is still impossible for people to openly and legally carry out speculative activities. The people have yet to change their concepts in this regard.

In building a futures market, what worries people most is government administrative intervention and a major change in state policies because this could well jeopardize the normal operation of a futures market. The current situation has fully borne out this fact: When a sound market system is in conflict with the double-track system, there is no law to restrict government behavior.

Furthermore, how should we make the peasants and operators honor the futures contracts they have signed? Can our country's existing railroad transport, telecommunication, and storage systems provide effective and sufficient service in the operation of a futures market? How can people involved in futures transactions protect themselves in a market full of risks?

#### **Compromise on Building a Futures Market**

As a matter of fact, it is still difficult to predict whether a futures market will be built in China or not. However, it is both unrealistic and impossible to reach a complete compromise on this issue. To build a futures market in China is the natural outcome of the development of the

commodity economy and is also the only way for China to extricate herself from the present predicament. At a time when China's spot market has not yet grown mature enough, a futures market is no doubt a leading project. Nevertheless, people should not overestimate the success of a futures market. The process of a spot market evolving into an unstandardized futures market and then into a standardized one will no doubt follow its own law. The present situation is that the urgency and the various favorable conditions for building a futures market are still restricted by our country's backward productive forces and our country's economic structure which is currently undergoing a transformation. In light of the above mentioned situation, we should first try to build a futures market for wheat, live pigs, flax, and other seasonal farm and sideline products, which are basically under market regulation. The building of the Zhengzhou Wheat Exchange on a trial basis was aimed at reforming China's existing grain circulation structure.

Zhengzhou is situated in a hub where the Beijing-Guangzhou Railroad and the Lianyungang-Lanzhou Railroad meet, and thereby is an ideal center for gathering and distributing goods and materials. Henan Province is the major wheat producing center in China, which provides some 6 billion jin of commodity grain annually. The annual volume of wheat trade carried out in Henan Province is about 40 billion jin, if the wheat imported by the Central Authorities, and the wheat marketed by other provinces and regions in Henan are factored in. So Henan Province always has a lot of wheat business to do.

It was learned that while opening the Zhengzhou Wheat Exchange, Henan Province also opened a Central Grain Wholesale Market. In a big country like ours whose commodity economy is still underdeveloped, if we do not build a well-organized spot wholesale market, it will be impossible for us to institutionalize and standardize our grain market. Likewise, if we do not establish a futures market, it would be impossible for us to resolve such problems as market risks, price formation, price stabilization, and so on, which are bound to emerge in the spot transactions. Therefore, while building a wholesale market, we should also make efforts to build a futures market on a trial basis to enable the futures market to rely on the wholesale market, introduce some mechanisms of the futures market to the wholesale market, perfect the functions of the wholesale market, and enable the futures market to grow more mature.

"Without rules, nothing can be in good order." If we do not formulate relevant rules for a futures market, it will be impossible for us to avoid a futures market "deformation." Therefore, we should take precautions beforehand and formulate relevant laws as soon as possible with a view to enabling all the legally qualified grain purchase and grain wholesale businessmen, peasant grain marketing cooperatives, grain marketing and wholesale businessmen and agents, and large-scale grain processing and production enterprises to enter the Grain Exchange on condition that they have sufficient funds,

no criminal records, professional experience, necessary facilities, and good commercial credibility. However, individuals should not directly enter the Grain Exchange.

### **Grain, Hog Prices Increase in March**

*40060628b Beijing NONGMIN RIBAO in Chinese  
8 May 89 p 2*

[Summary] According to a survey of more than 200 counties, cities, and regions, in March the market price for grain (rice, wheat, and corn) was 58.25 yuan per 50 kilograms, a 1.8-percent increase over the price of 57.33 yuan in February. The price for rice was 82.74 yuan, a 1.65-percent increase; wheat was 53.68 yuan, a 1.78-percent increase; and corn was 38.33 yuan, a 1.29-percent increase. In March, the price for hogs was 203.87 yuan per 50 kilograms, an increase of 3.38 yuan over February, and the price for piglets was 6.57 yuan per kilogram, a 5.21-percent increase over February.

### **Fishery Industry Uses Foreign Funds**

*HK2505160889 Beijing CEI Database in English  
25 May 89*

[Text] Beijing (CEI)—China has so far used 170 million U.S. dollars of foreign funds in fishery. About 110 million dollar aid were given in gratis.

The funds were offered by the World Food Program, the World Bank, the World Food and Agriculture Organization of the United Nations, European Community and a number of foreign countries.

Since 1983, China has built 22,000 hectares of fish ponds and more than 3,000 hectares of shrimp farms with foreign aid and loans. 17 fish feed factories are in operation. Cold storages and a marine fishery information center have been set up.

### **Hubei Issues IOU's to Peasants**

*40060626d Beijing NONGMIN RIBAO in Chinese  
24 May 89 p 1*

[Summary] In 1988, because of a shortage of funds, rural areas in Hubei Province issued as much as 1 billion yuan in IOU's for the purchase of farm and sideline products. According to agricultural bank and government leaders, unless effective measures are adopted, the problem of issuing IOU's will be even more serious in 1989. Tianmen City needs funds of more than 85 million yuan. Part of these funds are needed to repay cotton farmers the 40 million yuan issued in IOU's last year and to advance 18.3 million yuan for future cotton purchases, and supply and marketing cooperatives need 5 million yuan to purchase production materials. However, the city does not have the money. Other cities and counties in Hubei face the same situation.

### **Shandong Officials Meet on Summer Grain Production**

*SK2705050589 Jinan Shandong Provincial Service  
in Mandarin 2200 GMT 23 May 89*

[Text] The provincial party committee and government held a provincial meeting on 23 May to make arrangements for summer planting, harvesting, and field management, and to mobilize the people throughout the province to lose no time in successfully carrying out summer planting, harvesting, and field management, and to lay a good foundation for a bumper summer grain harvest and an increase in production in the autumn.

Zhao Zhihao, deputy secretary of the provincial party committee and provincial governor, presided over the meeting. He said: "Thanks to the attention of the whole party and people to agriculture, wheat seedlings in our province, in general, have grown better than last year, despite numerous serious disasters. All prefectures and cities should eliminate ideological obstruction, do a good job, and should not hesitate to attend to economic work. At present they should devote more efforts to summer planting, harvesting, and field management."

Provincial Vice Governor Wang Lequan gave a major speech at the meeting. He said that the growth of wheat seedlings, spring sowing and, in particular, cotton production, began to show a turn for the better this year. However, the entire agricultural production is still confronted with many difficulties and problems. Due to numerous disasters this spring, there will not be a large increase in wheat production. The production increase quota of the whole year will be fulfilled mainly through production in the autumn. However, the agricultural situation is still rather grim because the means of production, particularly pesticides, needed in autumn production, particularly cotton production, are in short supply and high priced, and there are threats from a lack of funds, drought, and insect pests. The summer planting, harvesting, and field management of this year will decide whether we will have a bumper agricultural harvest. Therefore, we should emphasize the following work. First, we should devote the next half month to the preharvest management of wheat fields and strive for a bumper summer grain harvest. All localities should adopt all possible means to do a good job in irrigation during the period when grain is growing, to prevent insect pests, and should actively prepare for summer harvesting, pay close attention to selecting and storing good wheat seeds and returning straw to the fields. Second, we should plant and manage autumn crops well, and launch large-scale campaigns for increasing autumn production. We must firmly carry out the major key measures for increasing production. An urgent task for the present is to carry out wheat field interplanting, raise the multiple crop index, and increase per unit yields. Meanwhile, we should race against time to plant well directly seeded summer grain in the right season. Third, we should perform antidisaster work in trying to reap a bumper harvest and make good preparations against

both drought and floods. All localities should base themselves on antidrought work in carrying out summer planting and protecting seedlings. Meanwhile, they should make good preparations against floods so that drought and floods are combated whenever they occur.

Wang Lequan also spoke on the requirements set forth by the provincial party committee and government on the material supplies for summer planting, harvesting, and field management, the policies related to summer grain production, and leadership over summer planting, harvesting, and field management. He said: "During the period for summer planting, harvesting, and field management, all localities should muster their leading force, efforts, and time and go all out with this work. This constitutes an important embodiment of the unity with the party Central Committee under the current situation.

Relevant leading persons of party, government, and army organs of the province, including Lu Maozeng, Liu Zhongqian, Wang Shufang, and Li Chunting, and responsible persons of various city, prefectures, and relevant departments attended the meeting.

### **Silk Exports Up in Shandong**

*40060609f Beijing JINGJI CANKAO in Chinese  
24 May 89 p 2*

[Summary] From January to April, Shandong Province earned \$29,720,000 in foreign exchange from silk exports, an increase of 28.9 percent over 1988.

### **Shandong Issues IOU's to Pig Farmers**

*40060628a Beijing JINGJI RIBAO in Chinese  
5 Jun 89 p 2*

[Summary] According to the manager of the Food Product Corporation of Jimo County, Shandong Province, since the fourth quarter of 1988, IOU's have been issued to procure pigs because there are no funds to pay farmers. At present, the company still owes more than 3 million yuan to 6,000 to 7,000 rural households. Other counties and cities in Shandong have issued IOU's worth 5-10 million yuan to purchase pigs.

### **Sichuan Reports Good Grain Crop Prospects**

*HK2705021189 Chengdu Sichuan Provincial Service  
in Mandarin 2200 GMT 24 May 89*

[Excerpts] [Passage omitted] On the question of the current situation in Sichuan's grain production, our reporter has interviewed comrades of the agricultural departments, who said that the general situation is relatively good. The spring harvest was up to last year's level and showed a slight increase, and the progress of sowing has been smooth. Increased output is in prospect this year. However, there are also many problems and difficulties in production, and hard work is still needed.

This year the spring-harvested grain area was 43 million mu, an increase of 1 million mu over last year. [passage omitted] In the face of various natural disasters, cadres at all levels from provincial party committee Secretary Yang Rudai and Governor Zhang Haoruo down to the principal leading cadres in the localities visited the disaster areas to find out the situation and mobilize and organize the masses to take remedial action, thus reducing losses to the minimum. [passage omitted]

The province is sowing 100.9 million mu of spring-sown grain, an increase of 880,000 mu over last year. The

quality of sowing is everywhere better than last year. [passage omitted] Provided there are no major natural disasters in the second half of the year, there are good prospects for reaping a bumper grain harvest in the province over the whole year.

However, we must also realize that the province's agriculture still faces difficulties in capital shortage, aging installations, incomplete service setup, and insufficient supplies of materials. The whole province must make still greater efforts in order to reap a bumper harvest.



**Corrupt Practices Targeted by Anticorruption Effort**

40050492 Hong Kong CHING PAO [THE MIRROR] in Chinese No 141, 10 Apr 89 pp 38-41

[Article by special correspondent Li Fei 2621 7378: "What Exactly Should We Fight When We Fight Corruption?"]

[Excerpt] [Passage omitted] What kind of corrupt phenomenon is plaguing mainland China today? What should be the targets of the present anticorruption movement?

Not long ago, delegated by the CPC Central Commission for Discipline Inspection, the "Party Tendency and Party Discipline" Study Group of the State Scientific

and Technological Commission's Research Center for the Promotion and the Development of Chinese Science and Technology, in cooperation with the Chinese Social Survey Institute, conducted an in-depth, extensive public opinion survey on the subject of party tendency and party discipline. The survey sent out questionnaires and collected 1,750 samples, 1,694 of which were valid samples where analyzed. The survey grouped the existing violations of discipline and law by communist party members and party and government cadres into 18 categories and listed them by percentages according to whether they are considered "conduct most detested," "conduct with the worst effects," and "conduct most disapproved" by the people. The result of the survey is shown below:

**Public Opinion Poll Concerning "Party Tendency and Party Discipline"**

The People's Opinion of Improprieties in Party Discipline and Party Tendency, in Percentages

Conduct	Most Detested Conduct %	Conduct With the Worst Effects %	Most Disapproved Conduct %
1. Abuse of official power to engage in graft and accept bribes	23.5	7.2	3.9
2. Helping relatives and friends on such matters as jobs, cadre recruitment, college entrance, allocations, job or rank promotion, transfer out of the agricultural sector, getting permission to go abroad.	11.2	14.9	6.9
3. Neglect one's duty and give blind direction and make haphazard decisions on domestic or foreign economic matters, causing serious economic losses	8.9	5.8	13.6
4. In selecting cadres, promote only friends and relatives, drawing factions and forming cliques	10.7	9.1	8.3
5. Feet dragging, shirking responsibility, and fighting over trifles	5.0	5.8	13.6
6. Repress democracy, seek revenge, bring false accusations and frame up innocent people	8.5	5.9	8.9
7. Resort to deceit and trickery and seek honor through fraud and deception	4.2	6.5	10.5
8. Making gifts out of public properties and funds and line one's own pocket	4.6	8.1	7.3
9. Use official power to do business, approve foreign exchange for one's own children and relatives recklessly, and make a profit out of loans or scarce goods	6.8	7.8	4.4
10. Abuse the power of the office to appropriate land, building materials, transportation equipment and so on to build one's home	5.2	4.8	2.6
11. Go for the ostentatious and the extravagant and squander money	1.2	3.9	4.2
12. Engage in immoral sexual relationships	2.0	3.3	3.7
13. Forming factions and cliques and disrupt party unity	1.5	2.0	5.0
14. Ossified thinking and stand against reform	2.3	1.7	4.3
15. Gambling and pandering	1.5	3.5	1.9
16. Oppose the four basic principles and advocate bourgeois liberalism	1.7	2.4	2.1
17. Holding elaborate and extravagant ceremonies at weddings and funerals	0.8	2.7	2.6
18. Engage in feudal or superstitious activities	0.5	1.5	1.6

From the list above, we can see that among the violations of law and discipline by party and government cadres, the one conduct "most detested" by the mainland people is "abuse of official power to engage in graft and accept bribes." The people feel that "the conduct with the worse effects" is "helping relatives and friends on matters such as jobs, cadre recruitment, college entrance, allocation, job or rank promotion, transferring out of the agricultural sector, getting permission to go abroad." And tied as conducts "most disapproved" are "foot dragging, shirking responsibility, and fighting over trifles," and "neglect of duty and give blind directions and make haphazard decisions on domestic or foreign economic matters, causing serious economic losses." It is also obvious that conducts which are "top-ranking" in each of the three categories of "most detested," "worst effect," and "most disapproved" received much higher percentage points than the conducts that rank second in each of the respective categories. This shows that the people's attitude and opinion are focused on more or less the same things. Although the scope of this survey is limited, and the list of party member and cadre behavior which violate law and discipline is neither complete nor accurate, it nevertheless is of great value in guiding the direction of the anticorruption movement in mainland China today. It shows people exactly what to attack when they fight corruption.

#### **First, Attack Graft and Bribery**

Corruption and acceptance of bribes by workers in party and government organs not only is the phenomenon most detested by the people on the mainland, it is also one of the most pernicious and pervasive corrupt phenomena in China today. People say, "today in the mainland, almost no official is not greedy, no official is not corrupt." This may be extreme and exaggerated and may not be entirely true, but, it shows from a different perspective that graft, bribery, and corruption are prevalent in China today. In a speech by Wei Jianxing [1414 0256 5887], director of the Ministry of Supervision, delivered on 24 December of last year at the close of the national supervisory task conference, he said, "among the corrupt phenomena, graft and bribery are the most serious. Among cadres above the county and department level who have been sanctioned for disciplinary violations, graft and bribery are the most common offenses. And the tendency is growing and spreading."

In addition, at last November's national procurator work conference, Liu Fuzhi [0491 1788 0037, procurator-general of the Supreme People's Procuratorate], disclosed that graft and bribery are "a serious problem indeed" on mainland China today. Statistics show that since 1982, procuratorial organs nationwide have investigated as many as 120,000 cases involving graft and bribery; 21,000 of those are major graft cases involving more than 10,000 yuan and more than 3,400 cases are major bribery cases. As much as 1.9 billion yuan of the state's direct economic losses have been discovered and subsequently returned to the state. From January to

August of last year, nationwide, 11,026 corruption cases and 3,062 bribery cases have been placed on file for investigation and prosecution. They account for 66.32 of all economic crime cases filed in those 8 months. Liu Fuzhi also disclosed that in the 3 months since the mainland implemented the citizen reporting system, the 2,156 reporting centers nationwide have received more than 47,000 leads; more than 17,000 of the leads pertain to graft and bribery; they make up 36.17 percent of all leads being reported. So far, sufficient evidence has been collected on more than 1,600 cases; they have been filed and are pending investigation, and more than 520 criminal elements have been arrested. Among the suspects charged with graft and bribery, more than 13,000 are state employees, and more than 4,700 of those are CPC party members, and more than 900 are cadres above the department level. Almost all of these people have real power in hand and are cadres in charge of people, properties, and materials in their units.

It goes without saying that the above statistics have underestimated by far the actual incidents of graft and bribery, but even by those figures, we can see how rampant and serious graft and bribery are in the mainland today, and justifiably, the masses are resentful and the higher level government is worried. For this reason, when the mainland engage in anticorruption struggles today and in the future, cracking down on graft and bribery should be the main itinerary and the focus of their efforts. This is not just what the people want but is also imperative under the circumstances.

#### **Second, Crack Down on the Abuse of Official Power To Obtain Personal Wealth**

Another corrupt phenomenon which is even more widespread and more common than graft and bribery on the mainland today is the abuse of official power to obtain personal wealth. As the popular saying goes, "power not used expires on specified date," and so many party and government cadres, state employees, and numerous factory supervisors, managers, and contractors use the power in hand as capital to reap private gains and line their own pockets. They not only try to benefit their own family and friends on matters of jobs, cadre recruiting, college entrance, allocation, promotion, raise, transferring out of the agricultural sector, and getting permission to go abroad, they also try to make a profit for themselves in things such as housing, cars, land, tickets, transfer and promotion, and exchanges. They even use their power and connections to intercede in matters of enlisting in the army or joining the party or evading legal censure, and they practice nepotism on a grand scale.

The once rampant and still not yet eradicated practices of "officials doing business" and "official profiteering" are typical products of abuse of power for private gains. Last year, at a meeting of CPC party representatives in a certain county in Shaanxi Province, each "party representative" and personnel in attendance could get, at parity price, 80 kilos of chemical fertilizers, something

extremely hard to come by at that time. A total of 136 tons were sold, which equalled to more than one-fifth of the county's stock earmarked for the grain-for-fertilizer exchange program. What did the "party representatives" who live in town do with the chemical fertilizers? In the "solemn" assembly hall, "heated" profiteering and speculation went on as the party representatives compete to sell their lot of fertilizers, turning this "unity and victory" meeting of party representatives upside down, touching off public outcry. Former governor of Jiangxi, Ni Xiance [0242 3759 4959], gave away \$600,000 in foreign exchange, a king's ransom in China, in an extravagant gesture to impress his mistress. After the case was cracked, Ni was sentenced to a mere 2 years in jail. No wonder he was still cocky as ever on the day he was sentenced. In Hunan Province's Hanshou County, some county ju-level cadres had the audacity to appropriate goods and materials earmarked for flood control to build their own homes. The county party committee secretary even personally wrote a note approving the county CPPCC vice chairman's diverting lumber earmarked for flood control to build his private residence. The chairman of the county people's congress, the deputy county magistrate, the deputy head of the county party committee united front work department, and the deputy director of the county finance and trade department too act as "leaders" in "borrowing" goods and materials earmarked for flood control to build their own homes, ignoring the interests of the state and the people's lives and properties, provoking a furious uproar. Hunan's Dayong City and Sichuan's Shizhu County and other localities are well-known "old revolutionary bases, minority nationality regions, border areas, and poverty-stricken regions." Many people still do not have enough to eat or wear, but many cadres are building homes there. Since 1983, as many as 53 county corps level cadres and 162 department and bureau level cadres and many ordinary cadres have built homes in Dayong which is just a small city. "Only 1 out of 10 city party committee members has not 'taken a little advantage' and built a house there." Even the supervisor in charge of the CPC Dayong Work Committee which has just been formed to organize a prefecture-level city said, "Dayong's cadres resort to many devious means to get their houses built. The people are outraged, and it is a bad influence. This is testimony to the abuse of power to obtain private gains." In Sichuan's Shizhu County, cadres have built beautiful private homes next to each other along a street several hundred meters long. The street is known as "Bureaucrat Street." In sharp contrast to this luxurious "Bureaucrat Street" is the fact that many of Shizhu's people still live in dark, damp, leaky caves along the cliff. They are known as "hilltop cave dwellers," and they still live like cavemen. Many people angrily say, "these cadres earn only a hundred yuan, or two hundred yuan at the most, a month. Steel, lumber, cement, and building materials are very scarce these days, and even if they are available, where do they get the money to build these beautiful homes that cost at least tens of thousands yuan!?"

The root source of corruption in mainland's party and government organs and among party and government personnel is the special privileges they enjoy. As a world-famous saying goes, "absolute power leads to absolute corruption." No doubt, special privileges are the source of corruption. China has several thousands of years of history of feudalism. Feudal privileges, class system are deeply ingrained. Even today, even in the 20th century, in the 1980's, China is still well-known for her strict maintenance of the class system and for keeping many ranks. Officials of different ranks receive different treatments, and even the kind of money they get has "different gold-content." Under this old system of "bureaucratic departmentalism," those who have official positions have power, and those who have power have everything. And that is the basic reason why, today, countless people are eager to get a government post, willing to give everything to become a government official. Once these people become officials, they will resort to every means to usurp their power to obtain private gains, and they use that power "skillfully, amply, and completely." For example, preliminary statistics gathered in Jiangxi in 1988 show that 82 percent of all cases of violation of discipline investigated by the province's discipline inspection departments at all levels are economic cases, and major cases that involve more than 10,000 yuan and where the violators are county-level or higher ranking cadres account for 48 percent of all the economic cases. More notable is that one-fifth of these economic violation cases where power is traded for money involve new cadres who have just been promoted. The seriousness of this situation is obvious.

It is because of this system of special privileges which separates top and bottom and makes a clear distinction between classes that many units or individuals can flaunt their "impressive connection and strong backing" and consciously or subconsciously raise themselves above the people and the law of the country. Thus, during the recent investigation of the nation's taxes, finances, and prices, facing a small tax office in Beijing Municipality, the general manager of the illustrious Kanghai Information Property Company simply ignored questions and yelled, "your tax office has no right to examine my books. If you want to examine them, tell you bureau chief to give me a call first." His rude and peremptory attitude is still vivid. But this situation is common everywhere around the country; people hear about it all the time. Thus, in the mainland's anticorruption movement, opposition to special privileges, especially cracking down on those who use power to reap private gains, is an important itinerary and urgent task.

### Three, Crack Down on Bureaucracy

In recent times, human relationship no longer counts on the mainland. It is next to impossible for the common people to get anything done for them. It is sad. The root cause of this is that many "public servants" have turned themselves into masters; they are acting like lords and masters.

Years ago, people already were saying, "when the common people need something done or an injustice redressed, they either have no place to turn to, and even if they find the right 'yamen,' they will soon learn that 'the door is not open, the person is not around, the face is not friendly, and help is not available.'" Today, this not only has not changed, it has become even worse. For example, last July, a magazine reporter from Inner Mongolia lost his 30,000 yuan camera at the train station in Baotou. He was terribly upset and went to the police station and the public security office at the train station, and he went to the local public security bureau, the local antitheft group, the transportation police station. He went to five units and spent close to 5 hours, just to "report and file" the case. As another example, last October, tobacco growers from Guizhou's Panxian Special District who have to haul their cured tobacco many miles away to the purchasing station had to wait 3 days and 3 nights to sell their tobacco. First, they had to wait in line for "tobacco sales tickets" and then stand in line to sell them. Some had to wait 5 days and 5 nights, and many of the weak got sick afterwards. They complained that "we worry if we don't have a crop, but we worry more if we have a crop." Even worse is the situation in Henan Province. Some chemical plants have been dumping huge amounts of toxic waste materials into the river, contaminating the fish ponds and everything downstream, and the peasants have suffered huge losses. The peasants cannot stand it and join together to petition the higher authorities. The lawsuit was brought from the township to the district to the county and all the way to the prefecture, and it has taken 2 years, and still nothing has been done. The peasants wept all the way to the province and said, "if this goes on, we are done for."

The way the organs drag their feet and shirk responsibility, their bickering, and their low efficiency are beyond imagination; often, their productivity rate is negative. This is not just a headache for the common people, it has also scared away many foreign investors. For example, at one time, if a foreigner wanted to set up an investment project worth between \$5 million and \$30 million in Shanghai, he would need to go through 4 committees and 19 bureaus to get 41 stamps and seals before the project was considered valid; it could even require as many as 126 seals. And Shanghai is considered the least troublesome city. Not long ago, the media disclosed that when an organization, not even a large one, tried to start a project in Guangzhou, more than a thousand official stamps were required; travelling expenses incurred just to get those stamps was astounding to say the least. A factory on the mainland needed urgently to import certain technology and more than 500 official seals were required. It took over a year just to get all the seals, running down a car in the process, and that was considered "speedy." That is why, today, there are "specialized households" that get official seals for a price; they have become "seal contractors." These sound like tales from the "Arabian Nights," but in fact they are life's bitter satires. They probably are the best footnotes to the question, what is "corruption"?

The corrupt mainland "bureaucrats" not only treat the common people like dirt, they have no respect for the state's properties either. They give blind directions, make reckless decisions, and are grossly negligent of their duties, and they have led to innumerable disastrous consequences and caused inestimable property losses. From the sinking of the Bohai-II in 1979 to the huge forest fire in the Greater Xingan Mountains, every incident exposed the stubbornness, corruption, and serious and extreme danger of bureaucracy in the mainland. This is also one of the corrupt tendencies most abhorred by the people. Statistics show that up to the end of last November, of the more than 4,900 cases which the state's supervisory and police departments have taken disciplined, 494 cases involved bureaucratic dereliction of duty. It ranked second only to graft and bribery as the most prevalent offence and accounted for as much as one-tenth of all cases. Although the actual number of cases is small, because most of the culprits are local or departmental leading cadres, they have a lot of power, are in charge of a wide area, can cause a lot of damage, and can generate very bad effects, and so they have brought serious and immeasurable damages to the state and the people's lives and properties. This is far beyond what ordinary corruption and bribery can compare. So, eradicating bureaucracy, correcting at the roots the relationship between "master" and "servant," and putting the people's interests ahead of everything else should also be at the heart of the mainland's anticorruption struggle and her long-term mission.

#### Other Corrupt Practices

From the above party tendency and party discipline investigation list, and judging by the actual situation in China today, it is clear that besides graft and bribery, abuse of power for private gains, and bureaucratic tendencies which are the three worst evidents of corruption, other practices such as using public funds on food and drinks, extravagance and wastefulness, drawing factions and forming cliques, suppressing democracy, seeking revenge, deceit and trickery, embezzling, official profiteering and speculations, smuggling and trafficking, depravation and moral degeneration, malpractices to seek private gains, gambling and pandering, ossified thinkings, and immorality have also become a part of the corrupt phenomena and have become very serious and are deeply detested and abhorred by the people. [passage omitted]

#### Paper Discusses 'New Enlightenment'

HK0706071689 Beijing RENMIN RIBAO in Chinese  
26 May 89 p 6

[Article by Wang Yuanhua 3769 0337 0553: "A Discussion on New Enlightenment"]

[Text] Since their publication last October, the collected essays on "New Enlightenment" have only been published four times in a space of 6 months. But they have nevertheless attracted attention from all quarters. With

recreational books for popular consumption rapidly squeezing out serious readers, the publication circles are now in a difficult position. Under such circumstances, the collected essays were published with the aim of enlivening the academic atmosphere, promoting theoretical studies, and improving cultural quality. The collected essays neither comment on current affairs nor are they purely academic. They endeavor to explore, from a high cultural vantage, theoretical issues which are of interest to all people and of practical significance. The aim of publishing the first volume of "Collected Essays" was carried in the "Editor's Note." There was also added: "The life of theory lies in courage and sincerity."

The collected essays are called the "New Enlightenment." It is strange that nobody deems it wrong to mention "New-Confucianism" but people are very sensitive at the words "new enlightenment," saying that they do not know the point of raising this question now. Soon after the birth of this little periodical of collected essays, which is like a young shoot just breaking from the ground, it received the attention and support of many warm-hearted friends. We have been both grateful and ashamed about this. On the other hand, the periodical has also aroused some people's misgivings: What are you up to?

In fact, our purpose is precisely, as the name of the collected essays points out, new enlightenment or the new enlightenment movement. The enlightenment is also an ideological emancipation movement. Democracy, science, legality, humanism, reform, opening up, and modernization—these are related to enlightenment. Are they something to be afraid of? China's reform is now facing a crucial moment. We are firmly opposed to the idea of complaining that the reform has gone wrong and of wanting to take the beaten track. It is not strange that we meet this or that problem in our reform because there is not a straight road in reform. The problems cropping up in reform can only be solved in the course of conducting further reforms. The force of reform should be protected and it is wrong to take the beaten track under any pretext. Our reform is all-directional, including political reform, economic reform, and conceptual reform. Conceptual reform represents conceptual upgrading, ideological emancipation, or cultural enlightenment. Although we are lacking in strength, we should strive to make contributions in this field. In fact, the formulation of "new enlightenment" is not a new one. Before and after the war of resistance against Japanese aggression broke out, some progressive theoretical workers put forward this formulation. At that time, many progressive books and periodicals aired their views on the question of enlightenment. After the 3d Plenary Session of the 11th CPC Central Committee, Zhou Yang said that the 3d Plenary Session was another ideological emancipation movement in the wake of the May 4th Movement. By regarding the ideological emancipation movement after the 3d Plenary Session as new enlightenment we simply want to say that the current ideological enlightenment is an enlightenment movement which

has not only carried forward the May 4th Movement but also deepened it. The May 4th enlightenment movement basically followed the Western enlightenment ideas in the 18th century. For example, XIN CHAO [NEW TREND] was a periodical as influential as XIN QINGNIAN [NEW YOUTH] at that time. As recollected later by the persons concerned, the name XIN CHAO came from enlightenment, but the word "Renaissance" was used instead of "Enlightenment" as the English name of the periodical. Today, we use New Enlightenment because we do not want to remain at the level of the Western enlightenment ideology in the 18th century. Both have the relationship of one carrying forward the other. They also have a common nature, such as opposing feudalism and affirming human value. However, in today's enlightenment we should not, as the enlightenment thinkers in the 18th century did, take "thinking comprehension" as a yardstick to judge everything. The ideological enlightenment movement today is based on practice being the criterion for testing truth, opposition to personality cult, criticism of the ultra-leftist trend of thought, and opposition to the two "whatevers," as put forward at the 3d Plenary Session of the 11th CPC Central Committee. This is why we call it "new enlightenment" to differentiate it from the May 4th enlightenment movement.

It is naturally wrong to totally exclude the spread of Marxism from the May 4th new cultural movement. At the same time however, we should also recognize that only by implementing the policy of letting a hundred flowers bloom and a hundred schools of thought contend is it possible for Marxism to develop and grow stronger. The formulation of letting a hundred schools of thought contend has directly carried forward the spirit of academic freedom and free discussion in the May 4th Movement. Since a hundred schools of thought are allowed to contend, we should not define Confucianism as the only venerable idea, which is something opposed during the May 4th era. A hundred schools of thought refer to academic pluralism. In the past, letting a hundred schools of thought contend was regarded as contention between the bourgeoisie and the proletariat. It was later summed up as a school of thought. This not only resulted in a situation, in which "10,000 horses were all muted," but also led to the stagnation and rigidity of Marxism itself. When we talk about the spread of Marxism in China, we should not dodge these experiences that must be remembered. On issues which are closely related to the May 4th enlightenment trend, such as human nature, principal character, humanism, and self-consciousness, the question of how to apply Marxist viewpoints to reunderstand and re-appraise them instead of negating them in an oversimplified way, is perhaps of great practical significance today. It was only after after the 3d Plenary Session of the 11th CPC Central Committee that the theoretical circles forcefully expounded a principle in the "Manifesto of the Communist Party,"

i.e., "the free development of every person constitutes a condition for the free development of all people," instead of regarding the free development of individuals as individualism; recognized the meanings of "ordinary human nature" and "changing human nature in different historical periods," which were scientifically expounded in "Das Kapital," instead of negating the existence of human nature; and quoted Marx's remark on anti-feudal spirit manifested in the "self-consciousness" put forward by German classical philosophers, as well as his remark in "Deutsche Ideology" that "the duty, mission, and task of all people is to develop all people's ability in an all-round way." In his early period Marx even said: "Deities should not stand side by side with human self-consciousness." We have just come into contact with these issues today and it is still necessary to make further explorations. These are issues which were not touched upon during the May 4th Movement and which were regarded with indifference, and distorted after the May

4th Movement for a long time. But these issues are closely related to our reform, opening up, and modernization. Without people's improvement, and ideological emancipation and upgrading it would be impossible to accomplish socialist modernization program. Of course, ideology cannot solve everything. Contrarily, it is also wrong to hold that as long as the economy develops, the ideology will also change in its wake. In the past, people engaged in the Westernization Movement or Modernization Movement held that the key to changing China's backwardness lay in "changing tools rather than doctrine" and "taking Chinese learning as the principal part and applying Western learning to our advantage." For this reason, they were opposed to ideological upgrading. This shows precisely that the pattern of Chinese thinking (in its traditional sense) does not solve all problems with ideology. Because of this, I think that, as an ideological emancipation movement, the new enlightenment is important.

### Taiwan Blamed for Impeding Academic, Cultural Ties to Mainland

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[Article by Cheng Jui-lin 6774 3843 2651: "What Are the Obstacles to Cultural Exchange Between the Two Sides?"]

[Text] The following fact has been noted since January 1987: Taiwan academicians and cultural personages have come one after another to the mainland to engage in exchanges, yet mainland intellectuals have not been able to go to Taiwan. What is the cause of this unfair situation?

Not long ago, 23 Taiwan scholars signed a joint opinion entitled "Urge the Government To Improve Its Policy Vis-a-Vis Mainland Academic and Cultural Affairs," which called on Taiwan authorities to permit scholars to visit the mainland to participate in academic meetings and give academic reports and to grant the same permission to mainland scholars to come to Taiwan to engage in similar academic activities.

Academic and cultural activities belong to the realm of science and do not have political boundaries. Normal academic and cultural exchanges between the two sides of the Taiwan Strait ought to be realized, and people hope that the abnormal state of affairs that has existed for nearly half a century in academic and cultural relations between the two sides will be brought to an end as soon as possible.

#### Mainland: Actively Promotes Exchange

Not long ago, a responsible representative of the Research, Development, and Evaluation Committee of Taiwan's Executive Yuan stated that Taiwan's policy vis-a-vis the mainland would continue to be liberalized once the "Chinese Communists show good will and a direct, positive response." In fact, even cursory examination reveals that the mainland has long maintained many positive measures on cultural exchanges between the two sides of the strait.

First, the Chinese Communists have not set any preconditions on cultural exchanges between the two sides. Cultural personages, whether members of the Kuomintang, the Democratic Progressive Party, the Worker's Party, or the China Youth Party, all may come if they desire to see the mainland.

Second, visitors' wishes are respected, and visitors are allowed to do what they want. Visitors coming to see relatives on the mainland are given as much convenience as possible also to perform, to put on exhibitions, to conduct news coverage, and to participate in other activities. For example, everything was smoothly handled when, recently, the Taiwan artists Kuan P'ei-shen and Wei Tao-mi exhibited their work in Beijing and

Fuzhou; the Taiwan musician Hsu Ch'ang-hui came to the mainland to participate in the Taiwan Instrumental Music Concert; the renown Shaoxing opera performer Chou Mi-mi came to Shanghai and acknowledged Fu Quanxiang as master; Wang Hsiao-po, chairman of the Taiwan History Society, participated in the "Taiwan History Symposium" sponsored by Xiamen University; Ting Chung-chiang, editor in chief of Taiwan's TZU-LI WAN-PAO, Ch'en Ch'un-mu, reporter for LIEN-HO PAO, and others went to write news stories on the region of Yunnan affected by the earthquake; and so forth.

Third, the mainland proceeds from the status quo between the two sides, uses exchanges to promote understanding and understanding to build trust, seeks to find common ground, and never forces anybody to do anything.

These generous and sincere measures last year enabled 80,000-some Taiwan people to come to the mainland to perform, 100-plus individuals to come to the great mass of the Divine Land to do press stories, and several tens of people to come to put on art and photographic show and to engage in other academic exchanges. Cultural exchanges between the two sides of the strait are beginning to show marked improvement.

#### Taiwan: Qualified and Limited Liberalization

Surprisingly, academic and cultural ties to the mainland, which should have been conducted normally, have never achieved a "breakthrough from zero." The reason for this, besides the fact that some people view this as a bargaining chip to be used in haggling with the mainland, probably should be sought in the lack of "consistency" and "fairness" in the Taiwan authorities' very policy vis-a-vis the mainland.

First, the authorities' policy on liberalizing academic and cultural ties to the mainland is qualified. The authorities still prohibit personnel from public academic and education institutions from going to the mainland, and do not permit mainland scholars to visit Taiwan to engage in academic activities. For example, Taiwan policymakers have used "national security" as an excuse to insist that "Communist Party members may not come." This fundamentally excludes the possibility of normalization of academic and cultural exchanges between the two sides of the strait.

Second, the Taiwan authorities have placed all kinds of restrictions on visits by mainland scholars and cultural personages to Taiwan. For example, the criteria of "great international reputation" and "unique and major contributions" are high and harsh. And the authorities have stipulated that outstanding mainland personages may come to Taiwan only for the purpose of sightseeing and visiting, not to engage in other activities. Fu-jen University invited Tang Yijie, director of the Academy of Chinese Culture in Beijing to participate in the Symposium on International Culture and Ethical Learning

convened in Taipei late last December. Although no one denied that he was an outstanding scholar, Education Minister Mao Kao-wen came out and said that the invitation was to participate in an international conference, which is incompatible with "the purpose of sight-seeing and visiting," so Tang could not come to Taiwan. Such restrictions mean that Taiwan's door has opened only a very tiny bit and that only a very tiny number of mainlanders have gone through the door.

Third, Taiwan has imposed strong political coloring on cultural exchanges. The applications sent to Olympic stars Xu Yanmei, Xiong Ni, and others who were invited by the Taiwan Swimming Federation, and to Jiang Jialiang, Chen Jing, and other ping-pong standouts said, *inter alia*, that they must "abide by the laws and decrees of the Republic of China." In addition, while the authorities have repeatedly stated that "Communist Party members may not come," they have also repeatedly indicated that individuals pressured by the Chinese Communists to leave or who were expelled from the party might be considered.

It is precisely because of these out-of-date, insincere measures that the recent invitations extended by the New Atmosphere Cultural Center to Beijing opera, cross talk, and folk art form stars Yuan Shihai, Du Jinfang, Hou Baolin, Ma Ji, and Jiang Kun, and by Taiwan's Sheng-ta Chuang Art Gallery to Li Keran and Wu Zuoren and a series of other cultural exchanges for which Taiwan compatriots have eagerly been hoping also could not be pulled off and have come to naught. Nevertheless, the cultural soul of compatriots on both sides of the strait is not limited by space and time. On 18 January this year, the supplement of Taiwan's LIEN-HO PAO ran a special issue entitled "Mainland Writers Send New Year's Greetings Across the Sea"; carried the best wishes for the new year extended by several tens of famous mainland writers and poets like Xu Jie, Li Rui, Gu Hua, and Cong Weixin; and once again demonstrated that the trend toward normalization of cultural ties between the two sides of the strait must always smash manmade barriers and is manifested in this or that way.

#### **The Taiwan Authorities Should Do Something Positive**

Normalizing academic and cultural ties between the two sides as quickly as possible has long been the common aspiration of the people from both sides of the strait. Popular opinion both at home and abroad believes that Kuomintang members, who rule Taiwan, should "make innovative breakthroughs" and do something constructive in this area.

First, the Taiwan authorities should adapt to the trends of the time. There are auspicious signs of peace throughout the world, and the two areas in which the Chinese people are concentrated should even more turn their hostility into friendship and find greater happiness in natural blood ties than in eternal life. Mr Chiang Ching-kuo once said that "Times are changing, trends are changing, ideas must also change." Continued adherence by the Taiwan authorities to an "enemy versus us mentality" and refusal to accept reconciliation between the two sides of the strait will only create new barriers to normalized academic and cultural exchange between the two sides and evoke universal condemnation.

Second, they must change their policies. When the Kuomintang first lifted the restrictions on visits by Taiwan citizens to their mainland relatives, the party insisted on using the National Security Law and the Regulations Governing Punishment of Armed Rebellion as the basis, and on "using stasis to check turbulence." Only when it became clear that this approach would not work did the Kuomintang decide to study and draw up new regulations. On 1 February this year Taiwan's Ministry of Justice promulgated the draft "Provisional Regulations Governing Relations between the People of the Taiwan Area and of the Mainland." These draft regulations, on the one hand, were more flexible than the original regulations, providing, for example, that individuals who have participated in the Communist Party and its satellite organizations "may, upon receipt of approval, enter the Taiwan area" and that applicants who make truthful declarations will not be liable for prosecution or punishment. But, on the other hand, the draft regulations did not abandon the applicability of the Regulations Governing Punishment of Armed Rebellion with respect to normalization of cultural exchanges between the two sides of the strait. This contradictory policy vis-a-vis the mainland is clearly detrimental to the normalization of ties between the people of the two sides, and the specific measures that are drawn up on the basis of this policy can only be like a young girl walking on bound feet—movement is difficult and painful.

The Kuomintang authorities have repeatedly boasted that "Taiwan is a pluralistic, open society" that is tolerant of people of different statuses and holding widely differing views and that all kinds of people have their own value of existence on this "free" and "democratic" plot of land. Hearing these words and watching for action, people are waiting to see whether or not the promises of the Taiwan authorities will be carried out in the academic and cultural intercourse between the two sides of the strait.