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GENERAL

Conditions 'Not Yet Ripe' for Proposed East Asian Economic Circle

40050400 Hong Kong LIAOWANG [OUTLOOK]

OVERSEAS EDITION in Chinese

No 4, 23 Jan 89 pp 26-27

[Article by Shi Min 0670 2404: "The World Trend of Regional Economic Blocs"]

[Excerpt]

Ideas on Forming Economic Organizations in the Asia Region

Asia has nearly 60 percent of the world's population, a very large amount of land, and rich natural resources. The economy of the east part of Asia has developed the fastest and is at present and will be for a considerable time to come the most active economically developing region in the world. By the end of the century the gross national product of just Japan, China, and Asia's "four little dragons" will approximately equal that of the

United States. As early as the mid-1960s, people proposed that there should be broad economic cooperation on a Pacific-wide basis. In recent years there have been various proposals to establish an "East Asian Economic Circle." In these proposals some people include Japan, Asia's "four little dragons," and ASEAN, but not China. Others propose a "Northeast Asian Economic Circle" made up of Japan, China, the eastern part of the Soviet Union, and North and South Korea; some propose including China's Taiwan Province and Hong Kong. Still others propose a "Chinese Economic Circle" composed of the mainland of China, Taiwan, Hong Kong, Macao, and Singapore.

There are great differences in the resources of the various countries and regions of East Asia. Furthermore, these countries have already formed multilateral economic structures. Hence their mutual complement is already fairly strong. At present, however, the conditions in East Asia for the formation of an economic body such as the EC are not yet ripe. It is better to push forward Asia's economic development by cooperating bilaterally and multilaterally.

Yang Rudai as Possible Candidate for Next Vice-Premier

40050253 Hong Kong CHAO LIU [TIDE] in Chinese
No 23, 15 Jan 89 pp 27-29

[Article by Yang Mei 2799 3780: "Will Yang Rudai, 'The Secretary in Sandals,' Be Promoted to Vice-Premier in Charge of Agriculture?"]

[Text] Recently I was in Beijing where I talked with some old classmates who happen to be sons of high-ranking cadres. They were saying that Yang Rudai, the current Secretary of the Sichuan Provincial Chinese Communist Party Committee, will soon be promoted to "State official," taking up the post of State Council Vice-Premier and replacing Tian Jiyun as the person in charge of agriculture. This transfer of personnel is still under "consideration." It is said that Chinese Communist Party Secretary Zhao Ziyang is pressing hard to promote Yang to the post "in charge of agriculture" but, because Yang doesn't have many connections in the "Politburo," it is still uncertain whether Deng Xiaoping will give "final approval." However, it is said that Chen Yun, champion of the view that "without grain there can be no stability," has "expressed" considerable admiration for the way Yang stressed agriculture in Sichuan.

Zhao Ziyang's Two Beloved Sichuan Generals

Zhao Ziyang was first secretary of the provincial CPC committees in both Guangdong and Sichuan. He held the post in Guangdong for quite a while. However, in recent years most of the high officials he has promoted have been cadres from Sichuan. Tian Jiyun rose the quickest, jumping from Sichuan Province finance bureau director past the posts of vice-governor and governor up to deputy secretary general of the State Council and then up to secretary general and vice-premier and a few years ago he was admitted into the Political Bureau. Zhao's second beloved general is Yang Rudai who, in the course of 10 years, has risen from county party committee secretary to prefectural party committee secretary to provincial party committee secretary and who, in 1987, also became a member of the Political Bureau.

According to those old classmates of mine who are sons of high-ranking cadres, it is highly probable that Yang Rudai will be promoted to Vice-Premier in charge of agriculture for three reasons:

1. According to the rules, the Chinese Communists put one Vice-Premier in charge of agriculture. Prior to the Cultural Revolution Deng Zihui and Tan Zhenlin held the post, and after the Cultural Revolution it was manned by Wan Li and Tian Jiyun. In recent years Tian Jiyun took over foreign trade responsibilities from Gu Mu and at the same time held the top agricultural spot. With the trade post keeping him really busy and with Zhao Ziyang asking him to give it all he's got to launch the "coastal development strategy" or the so-called

"putting both ends abroad and large scale importing and exporting" which is known abroad as the "great international circuit," there is a need for someone to take sole responsibility for agriculture.

2. In recent years there has been a huge reduction in agricultural investment, particularly in 1988 with the poor "agricultural situation," there have been grain and oil shortages all over, and panic buying of agricultural by-products has been a repeated occurrence. In 1989 many disaster areas could face grain shortages. In the face of this predicament, agricultural construction must be strengthened. Thus, it is urgent that a Vice-Premier be given the sole duty of taking charge of agriculture.

3. Yang Rudai has lots of grassroots village experience and is familiar with agricultural work. Also, Sichuan is a large province with 100 million people, in recent years the agricultural situation there has been pretty good, grains, oils and meats have been in abundance, commodities are fairly cheap, the prices for grains, oils and meats in Chengdu are far lower than in Shanghai or Beijing and the people of Sichuan, particularly the farmers, have a decent impression of Yang.

There Is No Way Tian Jiyun Will Again Try To Juggle the Agricultural Post

Since 1976, Wan Li has compiled the best record of any "big official" while holding the CPC post of agricultural head.

Prior to becoming Chairman of the Standing Committee of the National People's Congress [NPC] in 1988, Wan Li was Vice-Premier of the State Council Standing Committee and also was in charge of agriculture. Before his transfer to the State Council, he was first secretary of the Anhui provincial CPC committee where he became the proponent of the policy whereby "units are contracted for the completion of a large scale work" in the mainland's farming villages. Ten years ago this policy led the farmers down the path toward "People's Communes" and all the predicaments therefrom, which in turn gave rise to the doggerel "if you're hungry go find Wan Li." After Wan Li transferred over to become chairman of the Standing Committee of the NPC, Tian Jiyun took on the additional job of agriculture. However, Tian didn't have much experience in this area. Most of his nearly 30 years of service in Sichuan was spent doing finance and economics work. In recent years he has been in the limelight for his taking charge of the "profit tax schedule." However, he had never been in a position of responsibility with regard to agriculture prior to this.

At the end of December the CPC announced that Tian Jiyun would officially replace Gu Mu and take up the post of chief of the State Council Foreign Investment Work Leading Group whose members will include a batch of section chiefs and deputy section chiefs. It looks

like Tian will be "going all out" in "foreign trade" and promoting Zhao's integrated plan and thus, there is no way he can simultaneously look after agriculture.

Yang Rudai's Long Term at the Village Level in Sichuan

Yang Rudai hails from Renshou County in Sichuan and is 62 years old this year. Although Renshou is less than 100 kilometers from Chengdu, it is mostly hilly or mountainous land and the life there is pretty tough. In 1950 Yang Rudai joined the Communist Party "land reform work team" in Renshou County and not long thereafter officially joined the Communist Party. In Renshou he successively held the posts of chief of the Land Reform Work Team, regional work member, deputy secretary of the Regional Chinese Communist Party Committee, secretary of the Regional Chinese Communist Party Committee, deputy secretary of the County Chinese Communist Party Committee and secretary of the County CPC Committee. During the Cultural Revolution (1966-76) Yang Rudai was "criticized and denounced" and then later was "liberated." Finally, he was "linked" into the "Renshou County Revolutionary Committee" as its "Vice-Chairman" before he again took up the post of Secretary of the County CPC Committee.

In the early 1970's when Yang Rudai was again taking up his post, he did work in a "National Agricultural Study Camp." And he launched this "movement" in Renshou but, displaying a little "flexibility" in line with the current situation in his region, he managed to establish a "model," namely, the so-called "Fourth Fighting Force," which resulted in the farmers of Renshou having enough to eat during the Cultural Revolution.

In 1975 Zhao Ziyang was promoted to important posts by Deng Xiaoping, assuming the offices of first secretary of the Sichuan Province CPC Committee and chairman of the Provincial Revolutionary Committee. After his appointments, he went out to inspect the farming villages. He went to Renshou and there he discovered that Yang Rudai was a man of considerable ability. So not long thereafter he promoted Yang to the post of secretary of the Leshan Prefectural Chinese Communist Party Committee. After the fall of the Gang of Four, Zhao Ziyang promoted Yang Rudai to a post in the Sichuan Province Chinese Communist Party Committee. When Zhao Ziyang went to Beijing to take a top position in the national government, he promoted Yang to the office of secretary of the Sichuan Province Chinese CPC (replacing "First Secretary" Tan Qilong).

Sichuan is the top agricultural province on the mainland. Its average yearly grain production makes up over 10 percent of the national total and over 25 percent of the national allotments of live pigs and meat products come from Sichuan. Sichuan's agricultural development has a decisive effect on overall development of agriculture on the mainland. In 1987 the Chinese Communist Political Bureau Reform Group arranged for four "local high

ranking officials," namely Li Ximing of Beijing, Jiang Zemin of Shanghai, Li Ruihuan of Tianjin and Yang Rudai of Sichuan. Beijing is the political heart of the mainland, Shanghai and Tianjin are the first and second ranking industrial cities and Sichuan is recognized for its achievements in the area of agriculture. These four persons represent the "entry" of the four areas into the "Political Bureau."

Since taking over as Secretary of the Sichuan Provincial CPC Committee, though he didn't possess Zhao Ziyang's political achievements at the outset, Yang Rudai has preached throughout Sichuan that "pigs and grain will bring harmony" at a time when all the other provinces were renouncing agriculture en masse and were "generating township enterprises." And because of this, he ran into conflict with the two governors of Sichuan, Yang Xizong and Jiang Minkuan who both advocated giving preference to industrial development. As a result, these two men were transferred to the posts of Secretary of the Henan Provincial CPC Committee and Vice Minister of the State Science and Technology Commission respectively. It now appears that Yang Rudai had foresight. Every province that has gone for industrial investment in a big way, particularly the coastal region, has seen its agriculture go downhill, grain and oil shortages and large increases in commodity prices. Sichuan's agriculture, however, is "basically stable," price levels for agricultural by-products have consistently been the lowest of any province, and the "days" of people in Sichuan have passed much easier than those of people in the other provinces. Thus, at the 13th NPC in 1987, with Zhao Ziyang's recommendation and Deng Xiaoping's assent, Yang Rudai entered the Chinese Communist power circle when he became a member of the Political Bureau.

Among those third generation successors to the upper power strata of the CPC where particular value is placed on political blood relations and education, there are in fact very few like Yang Rudai who were born to grassroot level cadres, particularly in the Political Bureau, and there are even fewer who possess Yang Rudai's long experience in farming village work. Thus, it makes sense, under the kinds of predicament that mainland agriculture is facing, to choose an "expert" like Yang Rudai to replace a "novice" like Tian Jiyun for the agricultural spot.

The Cadre in Sandals is a Fairly Honest Politician

Yang Rudai is jokingly referred to in Sichuan as the "Secretary in sandals." It is said that this is the "name" selected for him by his political adversary, former Deputy Secretary of the Sichuan Provincial CPC Committee and Governor Jiang Minkuan. Jiang Minkuan picked up on the fact that Sichuan farmers usually wear sandals and used it to mock Yang Rudai's "peasant upbringing" and "agricultural specialization." Jiang himself is an industrial management cadre born to a professor of engineering and is devoted to industrial investment.

According to a cadre from Sichuan, the "Secretary in scandals," Yang Rudai, only graduated from elementary school. At the close of the 1st plenum of the 13th Party Congress it was officially announced that Yang's cultural level was "comparable to a high school level" which is in fact an "exaggeration." Although his schooling is limited, his work is dependable and steady and he has a good deal of ability. Also, he makes it a point to meet with people at the grassroots level and even though he is now in a high position, he is still regarded as humble and polite. His wife is surnamed Li [2621] and was originally a housewife in a farming village. Not until after Yang took the post of Secretary of the County CPC Committee did she move to the city where she had long worked on a temporary basis. After Yang Rudai took the office of Secretary of the Sichuan Provincial CPC Committee, she went to work in a small, "collectively owned" neighborhood factory in Chengdu packing gauze masks. There she got along well with her colleagues, minded her own business, kept out of trouble and did not assume the airs of a "wife of an official." This is rare among those "madames"—the wives of high ranking officials. Of course, having spent a long time in "officialdom," it would have been difficult for Yang Rudai to not pick up a few bad habits. For example, he likes to mingle with men of letters and pose as a lover of culture. And he likes to sign autographs and get his name put on all manner of memorials. These are some of the evaluations he has received from people in Sichuan. However, Yang Rudai's handwriting is quite poor and this has made him the butt of more than one joke.

At present, the Chinese Communists have decided to put more into agriculture and in this regard, if Yang Rudai does replace Tian Jiyun in the top agricultural spot, this will be a bit more beneficial than when Tian Jiyun replaced Wan Li. However, the current predicament facing mainland agriculture cannot be reversed by simply putting a bit more into it. Resolution of the problems involves commodity price reforms, the conflict industrialization has had on the farming village and the effect development of the commodity economy has had on the farmers' views about production. If the situation is not "tackled in a comprehensive way," then the agricultural predicament will remain unsolved whether it's Tian Jiyun, Yang Rudai, Wan Li, Zhao Ziyang or Deng Xiaoping who attempts the rescue.

Support for Country's Dissidents

40050277 Hong Kong CHENG MING

[CONTENDING] in Chinese No 136, Feb 89 pp 26-27

[Article by Ming Lei 2494 5623, Special Paris Correspondent, "China's Intellectuals and War Criminals"]

[Text]

Fang Lizhi's Actions Hold Historical Significance

Fang Lizhi's [2455 0536 0037] 6 January 1989 open letter to Deng Xiaoping calling for the release of Wei Jingsheng [7614 0079 3932] and all similar political

criminals once again focused the limelight of international public opinion on him. This action of Fang Lizhi is regarded in western countries as holding historical significance, because he is the first Chinese intellectual with an international standing to have dared to confront Chinese Communist leaders directly on the Chinese human rights issue since founding of the People's Republic.

Not Even a Name List of China's Political Prisoners

Ever since the appearance in the Soviet Union of the noted dissident, Alexander Solzhenitsyn, western personages concerned about human rights and democratic freedom have wondered why China has had no dissidents with influence both inside and outside the country. With no Chinese human rights movement or organization holding different political views (not even an underground organization), outsiders find it very difficult to support requests from Chinese in this regard. In his first interview, Fang Lizhi brought up the subject of Chinese political criminals saying, "There is a name list of Soviet political criminals that can be checked, but China does not even have a name list!" This is a fact; however, the reasons for this fact should make a Chinese of good conscience, particularly China's intellectuals, feel ashamed.

Name List of Soviet Political Criminals Put Together by Intellectuals

The Soviet name list of political criminals is an unofficial name list compiled secretly over a long period of time by those in different dissident organizations made up of intellectuals, scientists, and writers, who are responsible for gathering names and other data about political criminals nationwide, which is then passed to western governments. In 1968, the Soviet dissident organization published an underground publication called "Current Affairs Report," which regularly published the names and other data about criminals arrested for expressing political views. This periodical not only circulated secretly throughout the USSR, but was also relayed abroad for publication. It should be noted here that the ability of western countries to intervene boldly and forcefully in Soviet and eastern European human rights issues is helped by the 1975 Helsinki "European Security and Cooperation Conference" accord. In this accord, the USSR recognized the freedom of person and freedom of speech within and among countries in eastern and western Europe in exchange for western European recognition of the USSR in the eastern European sphere of influence. However, the dissident movement in the USSR and eastern Europe was organized as early as the 1960's, with an overwhelming majority of its members being intellectuals and scientists. Later on, the internationally influential Nobel prizewinners Alexander Solzhenitsyn and Andrei Sakharov appeared.

China's Intellectuals Attach Themselves to Bigwigs

In retrospect, since the founding in China in 1949 of the regime that tramples citizens' basic rights, countless ideological criminals have been created as in the USSR;

however, not a single Chinese citizen has been willing to stand up for, or to organize secretly in order to struggle for his own rights or the rights of others. The intellectual stratum keeps quiet out of fear, and a good portion of them regard their attachment to bigwigs and bureaucrats as an honor. Given a slight taste of bureaucratic sweetness, they are overjoyed and deeply grateful fearing only that they are not worthy. During the democratic movement of 1978 and 1979, a number of youths not cowed by power appeared who were willing to make sacrifices for democracy and the rights of the Chinese people; however, before the movement was able to expand, Deng Xiaoping harshly suppressed it. Wei Jingsheng failed in his leadership and landed in prison. He has been cut off from the outside world ever since. Wei Jingsheng's political trial during Deng Xiaoping's era of liberalization caused a stir in both China and abroad, and also aroused the concern of international opinion for China's political criminals. Nevertheless, China remains without a person of social standing who can speak on China's human rights issues. Since China's political criminals cannot attract the concern of their compatriots, naturally efforts of international public opinion to rescue them cannot gain commensurate results. Although China has no Solzhenitsyn at the present time, a Chinese Sakharov who dares to appeal to the leaders on human rights issues will ultimately appear to write a historical page in the Chinese dissident movement.

When the United Nations passed the "World Declaration of Human Rights" about 40 years ago, the western democracies launched a "human rights offensive" against the world's dictatorships, and exerted various kinds of pressure to obtain the release from prison of political criminals who had expressed political views. At the end of 1988, Gorbachev promised Western governments that he would release all political criminals within a short period of time; however, there is a very great difference in the number of political prisoners on the USSR's official name list and the name list provided by Soviet dissidents. Eastern European countries released a group of criminals who had expressed political views some time ago, and Cuba also granted an amnesty for political prisoners on its 30th national anniversary. At the end of the 1980's, in deference to international opinion on democracy and respect for human rights, totalitarian governments on both the left and the right took concrete compromise actions. The Chinese Communists alone not only took no specific actions to show respect for human rights, but in the first campaign held since the founding of the People's Republic in commemoration of Human Rights Day, they invited the "democratic puppet" and chairman of the China Democratic League, Fei Xiaotong [6316 1321 6639], to produce a big fanfare about human rights in China for the Chinese Communists as a means of dealing with domestic and international opinion, simply treating the common people like fools.

Counterrevolutionary Crime Exposes Substance of Chinese Communist Opposition to Human Rights

If concrete facts are used as the basis, the Chinese Communists are one of the world's regimes that most tramples basic human rights. This has certainly been true in the past, and no very great improvement has been made today. For example, a single counterrevolutionary crime suffices to expose the essence of the Chinese Communist regime's opposition to human rights. Seven to nine years later, the counterrevolutionary charge has not only not been removed, but has been formally made a part of criminal law, putting persons who make political statements on a par with criminal offenders. Although Chinese citizens today have more freedom of speech, the Communist Party still retains the right to make speech by a Chinese citizen a crime.

Wei Jingsheng's Defense Against a Counterrevolutionary Charge

In his defense to the court, the internationally renowned Chinese political criminal jailed for making political speeches, Wei Jingsheng, delivered a very brilliant defense against a charge of being counterrevolutionary. He said, "the term counterrevolutionary is a political concept used to look at issues from a historical angle. In the political realm, there are no immutable concepts. Such concepts differ during different historical periods as a result of differences in revolutionary trends, and those to whom the term counterrevolutionary applies also differ. If a certain concept is taken as the norm at any given time, the result can only be to confuse one thing with another. Even during a revolutionary period, the perception of what constitutes counterrevolution may differ because of the limitations of the people's knowledge. Use of this constantly changing political concept as a norm for convicting a person amounts to using willow catkins fluttering in the wind as a standard for measuring elevation. The goal of accuracy cannot be attained." If the Chinese Communists seek to cultivate an image of respect for human rights inside and outside China, and regain the confidence of the Chinese, it will have to immediately get rid of the absurd charge of counterrevolution, or it should make the above defense of Wei Jingsheng against the charge of counterrevolution an attachment to the criminal code to remind leaders and judicial personnel not to improperly charge citizens with counterrevolution.

The year 1989 is one in which an especially large number of campaigns are commemorated. For the Chinese, it is the 70th anniversary of the May Fourth Movement, and the 40th year of the founding of the Chinese Communist regime. Internationally, it is the 200th anniversary of the French Revolution. However, it also is the sad anniversary of Chinese Communist suppression of democracy and liberty, meaning that 29 March will be the tenth anniversary of the arrest of Wei Jingsheng.

The spring of 1979 was the spring of greatest freedom of speech since founding of the Chinese Communist regime. Group after group of youths filled with ardor and ideals, who made the mistake of believing in Deng Xiaoping's "democracy," and supposing that the time had come, threw themselves into a democratic campaign that had risen spontaneously among the people, and published numerous publications that had not been officially authorized. Although some ideas and expressions of political views during this democratic movement were not very mature, and though the level of some publications was not very high, not a single well-read high level intellectual or noted author anywhere in the whole country was willing to, or dared, stand up at that time to speak on behalf of the people. As a result, as happened in the past, the heavy burden of the destiny of the Chinese nation fell on the ardent youth and the common people. In the face of a powerful dictatorial system, these young democratic warriors filled with revolutionary fervor fell one after another. They sacrificed their livelihood and forfeited their careers to fan the sparks of Chinese democracy. After the arrest of Wei Jingsheng, Lu Lin [6424 2651] took over the task of publishing TANSUO [EXPLORATION]. He told me in Beijing that "We fear nothing because we have nothing to lose. What we fear is the silence of the majority." Unfortunately, as they are led to prison in handcuffs, such a silence appears in Chinese society.

Breaking China's Fearful Silence!

During the period of the tenth anniversary of Wei Jingsheng's arrest, persons throughout the world who are concerned with human rights in China will hold commemorative activities, and will call on China's leaders to release political criminals who expressed political views. During the present time when various countries are issuing amnesties for political prisoners, China's political criminals have not been accorded the same treatment. This is in contradiction to the liberalization image that the Chinese Communists seek to present. In taking up the historical task of protecting human rights in China, Fang Lizhi inspires awe by upholding justice, and has changed the pusillanimous image of China's intellectuals. Let us also make an effort to voice encouragement for Fang Lizhi and people abroad to call upon the Chinese Communists to release all political prisoners held for expressing their political views, and break the fearful silence that is traditional among Chinese. If only foreigners are concerned about human rights in China while the Chinese sit idly by with folded arms, what a disgrace that is for our nation!

Mistaken Understanding of Democracy Criticized

40050276 Hong Kong CHENG MING
[CONTENDING] in Chinese No 136, Feb 89 pp 54-55

[Article by Wan Ch'uan-chou 5502 3123 297: "Thoughts About the Mainland's Re-examination of the Concept of Democracy"]

[Text] Forty years ago, on the eve of Chinese Communist acquisition of political power over the whole country,

Mao Zedong wrote an article titled "On a People's Democratic Dictatorship," summarizing the lessons of China's experience during the previous 100 years during which wave after wave of people sought to insure the nation's survival. He said that before the advent of the CPC, countless progressive people learned a lot of bunk about bourgeois democracy and freedom from the west supposing that it could save China, but it failed. China was saved only by the arrival of the Marxism-Leninism of the October Revolution, thereby showing the bankruptcy of western democratic political thinking. Only the "people's democratic dictatorship," i.e., the dictatorship of the proletariat, enabled China's resurgence to become just a matter of time.

Nevertheless, 40 years later, China's reality, particularly the reality of the so-called "democratic politics," mercilessly mocks Mao's thesis. It seems that it is not that the so-called "waning" ideas of democracy and freedom are not suited to China's circumstances, but rather that the Chinese people, principally the Chinese Communist leaders, have misunderstood democratic political ideas, and have misguided China's politics.

Re-examination of Ideas

Not long ago, an article titled "New Realm in the Emancipation of Thinking," written by an editorial writer of the Beijing GUANGMING RIBAO in commemoration of the tenth anniversary of the 3d plenum of the 11th Party Central Committee, candidly said "there is need to courageously draw lessons from" "modern democratic forms" "that have developed in western capitalism" in order to be able to build socialist democracy. The article criticized the "idea of being able to modernize without democratization," and suggested that China's populace has to "make more profound changes" in its modes of thought and value concepts, and realize that "democracy in a modern sense has developed along with the development of capitalism." One might say that this is a re-negation of Mao Zedong's negation of western democratic thinking, and a negation of a negation is an affirmation.

The fact is that even before this occurred, as a result of the serious crisis in which Chinese reform has become mired, numerous scholars have conscientiously re-thought the democratic ideology issue, and articles and discussions have taken place regarding a re-examination of democratic concepts. For example, not long ago more than 20 academic study units and expert scholars in Beijing introduced a discussion of democratic concepts, and re-examined various past perceptions of democratic concepts at the jointly sponsored and convened "First National Theoretical Forum." Some suggested that democracy in which "the minority obeyed the majority" "was of no help to China's political modernization," and they advocated democracy in which "power restrains power." In addition, a newspaper item quoted the words of Thomas Jefferson who said, "the right of the minority to express their views is, to a certain extent, the essence of democracy," in a call

for the democratic "minority doctrine." Another article said that the British "majority decision" concept, by which is meant that "the majority decides" or "the majority rules," has been misinterpreted in China to mean that the "minority obeys the majority." This is an unnecessary addition made by the CPSU and the CPC in order to strengthen the organizational principles of "discipline" and "obedience." It has had the effect of muddling the understanding of democratic concepts among academicians. Clearly, radical reform of democratic concepts is extremely necessary, because scientific understanding of modern democratic politics is a forerunner to modern democratic political reform.

The Essence of Democratic Politics

The concept of democracy emerged more than 2,000 years ago in ancient Greece with the practice of democratic political systems by certain Mediterranean industrial and commercial city-states. This form of political system was antithetical to both monarchical and aristocratic political systems, and its original idea was majority or popular rule. This term, which derived from Aristotle's *Politics*, has been used down to this day. In order to prevent a minority of powerholders from misusing their power, Aristotle also proposed the idea of a division of powers and the rule of law. The combining of democracy with the rule of law was a great advance in democratic political thinking. This rule of law was fundamentally different from the harsh rule of law of the monarchical system advocated by China's legalists more than 2,000 years ago.

The development of democratic political ideas toward modernization was an accompaniment to development of the commodity economy, and was completed following the bourgeois enlightenment movement. The greatest contribution of scholars during the bourgeois enlightenment was to promote the idea of human rights, which acknowledged that all men are created equal, and that all citizens have inalienable basic rights, namely the individual citizen's rights to freedom of thought, freedom of religion, freedom of the press, and freedom of assembly. They also made human rights the basis for democratic political thought, and thus advocated that political opposition factions be openly permitted, and that there be open competition with opposition factions within the limits of the law. At the same time, they developed the classic idea of the division of powers whereby legislative, executive, and judicial powers are separate, advocating the use of power to restrain power, and instituting checks and balances on authority. It was Montesquieu's contribution that was greatest in this regard. Thus, advocacy of checks and balances on authority enabled the minority faction to exist and compete, and protected individual rights and freedoms, including those of the minority. In short, the rule of law, checks and balances on authority, and human rights are the quintessence of modern democratic political thought. Unfortunately, for the past 40 years, the Chinese Communists have covered up and distorted all this.

Chinese Communists Use Administrative Reforms As A Substitute for Political Reform

During the past 10 years, the Chinese Communists have also begun to talk a great deal about democracy, and to talk about a "high degree of democracy." They also speak about the need to democratize political reform. Nevertheless, the things they shy away from most are human rights, checks and balances on authority, and the rule of law. They denounce the recognition of individual equal rights and checks and balances on authority as "bourgeois democracy." Consequently, political reform is never addressed; only reform of the administrative apparatus substitutes for political reform. Actually, the class character of [communist style] democracy lies in which class holds political power, and not in human rights, checks and balances on authority, and the rule of law, which embody the true essence of democracy. Democratic political thought, particularly the idea of human rights and the rule of law, are an advanced political culture that developed from the foundation of a commodity economy, and science and technology. It is a part of modern human society as a whole without distinction as to east or west, and without distinction as to proletariat or propertied class. All classes in all nations can apply it.

During the past 2 or 3 years, the Chinese Communists have also had to begin to acknowledge "human rights"; however, they never admit the existence of human rights questions on the mainland, but rather say that their human rights are "greater" than in the West. Because, they steadfastly carry on the Leninist one party dictatorship ideology, they relegate the subjects of their dictatorship beyond the bounds of human rights. They do not permit an open opposition faction either inside or outside the party, and they arbitrarily repress those having dissenting political views. As for checks and balances on authority, Deng Xiaoping has rejected the three powers as the working of "three governments," contending that the centralization of authority simplifies matters and is more efficient. Actually, as everyone knows, the highly centralized Chinese Communist single party dictatorship is the root cause of mainland bureaucratism, and the serious corruption that bureaucratism creates. So what is efficient about that!

The Chinese Communist so-called democracy that excludes human rights and the rule of law inevitably pits democracy against stability, and democracy against efficiency. In their view, advocacy of human rights, and safeguarding of individual democratic freedoms, and particularly allowing the existence of an opposition, inevitably leads to the destruction of stability. Advocacy of the rule of law, with the practice of a separation of powers and checks and balances on authority inevitably impairs efficiency. Thus, they would rather have so-called "stability" and "efficiency" than democracy.

Given such an ideological perception, it is no wonder that Chinese Communist political reform halts at administrative reform in the performance of just a little window dressing. Recently the Chinese Communists sought

out some people from democratic factions and without party affiliation with the intention of recommending them to leading positions in various ministries and commissions of the State Council, while making no reform of the political system. This amounts to turning political reform into political decoration. Were there not former precedents in Fu Zuoyi becoming minister of water conservancy, and Zhang Naiqi becoming minister of grain? Were the politics of that time democratic?

In summary, if China is to institute true political reform, and clarify the concept of democratic politics, first of all it will have to re-examine Mao Zedong's "On a People's Democratic Dictatorship," because the source of all the misconceptions and misguidance with regard to democracy lay hidden here.

Editorial Group Commends Learning From Works of Li Xiannian

40050286a Beijing GUANGMING RIBAO in Chinese
19 Feb 89 p 3

[Article by the editorial group for *Selections From the Works of Li Xiannian*—"Learn From the Fine Ideology and Working Styles of the Proletarian Revolutionaries of the Previous Generation"]

[Text] Although it cannot be considered large, the *Selections from the Works of Li Xiannian* that is now available to readers fundamentally reflects the course of hardships and glory during the author's more than half-century revolutionary career.

Just as the reader will be able to see clearly in the "Selections," Comrade Li Xiannian shares with many other older proletarian revolutionaries the fact that he has dedicated the energy and effort of his entire life to the party, the state, and the people. By examining the nature of his work, his history of revolution may be divided into three periods.

Comrade Li Xiannian has been involved in revolution since 1926, when during that 23-year eve before the liberation of the entire country, he was primarily engaged in armed struggle. He was part of the heroic undertaking that was the world famous Long March of the Red Army. In fighting with the Western Route Army, he wrote a solemn and stirring page in the history of the combat of the Chinese Red Army of workers and peasants. During the early period of the War of Resistance against Japan he led dozens of cadres south from Yan'an to northern Henan and southern Hubei, where they set up arms for resistance against the Japanese and established a base area. Under conditions of a very complex environment and fighting of extraordinary hardship, he used the strategies and tactics of guerilla warfare that had been demonstrated by Comrade Mao Zedong and the principles and tactics of the uniform line of resistance to Japan to unleash and rely upon the various levels of masses opposing Japan. He made use of expedient and flexible methods of warfare, resolutely striking out

against the Japanese forces of aggression and hindering that army at the same time as he was carrying out a rational, beneficial, and measured struggle against the KMT anti-Communist reactionaries. In less than a 7-year period, he had built a Henan-Hubei base area of major strategic significance that had a main force contingent more than 50,000 strong, a militia of 30,000, a range of 1,000 li, and that surrounded Wuhan. We learn from the "Selections" that at this time Comrade Li Xiannian could initiate efforts on his own initiative in a complex environment, that he could command warfare over a large area, that he could lead the masses of a large area in combat, and that he had become a more mature proletarian revolutionary.

From 1949 to 1954, Comrade Li Xiannian was in charge of party government efforts in Hubei Province at the same time as he was involved in leadership activities at the South Central Bureau. Faced with a new revolutionary mission, the author systematically surveyed the situation in his area and quite effectively accomplished the various tasks presented to him by the CPC Central Committee. From this he established the political authority of the people's democratic dictatorship, and he restored and developed the economic, cultural, and education efforts there. He was particularly attentive to becoming familiar with agricultural production and building efforts, especially when it came to the construction of field irrigation, which laid a firm foundation for Hubei's later becoming one of the more important agricultural production bases in the nation. Comrade Li Xiannian is similar to many other older proletarian revolutionaries in that after the victory of the revolution he followed the leadership of Comrade Mao Zedong, was not arrogant and self-satisfied, and did not cease his efforts, but rather with determination studied the many things he did not understand. At the same time, during that early period as the nation began, when neglected tasks had yet to be tended and burdens were quite heavy, he was able to stick to central tasks, but still get beyond those to develop his efforts in other directions. He was the "team leader" for a provincial leadership group, and he led and drew together all members of the group to work together, where each task was accomplished with vigor. At this time, Comrade Li Xiannian had become a rather prominent leader in that he was able to command all aspects of a region.

In 1954, Comrade Li Xiannian was ordered transferred to the Central Committee, his primary responsibility being to lead efforts in such sectors as finance, banking, commerce, foreign trade, and pricing. During the period of the Cultural Revolution, and after he had been "out of the way" for awhile, he was able to help Comrades Zhou Enlai and Deng Xiaoping deal with economic matters, doing all within his power to stabilize the national economy and the lives of the people. After his selection at the 3d plenum of the 11th Central Committee to be an important leader of the party, he still continued to run the economy together with Comrade Chen Yun. Everyone knows that financial efforts are much more complex than the specialized

departments, and that they must also be more specific than with the general departments. If the major relations among the proportions within the national economy become unbalanced, this will first be reflected in finances and credit, and in markets and pricing; but in adjusting and coordinating the relations of those proportions, one must begin with the income and stable markets and prices of balanced finances and credit. Comrade Li Xiannian became conversant with these conditions and rules quite early on and became good at this, by which feat he has played an active role in ensuring the stable development of the national economy. His writings from this period constitute about two-thirds of the "Selections," and the subject matter of this part is the richest and most vivid portion of the book.

Over a long period of time, in his work on economic construction, Comrade Li Xiannian has always advocated the principles of keeping finances out of the red, strict controls on currency distribution, matching the outflow of foreign currency to its receipt, and keeping stability in market prices. He believes that capital construction must proceed in accordance with evaluation of capacity, that improvements in the lives of the people must be in keeping with the growth of production, and that we should not be involved in things for which we are not strong enough. To ensure that the national economy would continue to develop stably, he insisted that national economic planning must undergo a comprehensive balancing, primarily that for finance, credit, goods and materials, and foreign currency, and that this would be linked according to fiscal years to avoid generating large fluctuations. Comrade Li Xiannian believes that planned proportionality is a rule that must be followed in a socialist economy, one that can never be violated under any circumstances. He actively advocated developing a commodity economy, making use of the laws of value, and insisting upon the restructuring, unleashing, and the invigoration of the economy. He realized at the same time that developing a commodity economy is, generally speaking, to develop a planned commodity economy that is based upon public ownership. In the situation that includes restructuring, liberalization, and invigoration of the economy, we should pay even more attention to strengthening overall control, and this includes production pacing, scales of capital construction, and levels of consumption, as well as to such things as finance, credit, markets, and pricing. To this end, the relinquishing of authority should be when appropriate, in order to avoid situations getting out of control. He has also resolutely advocated that at the same time as we strengthen our material culture, we must also enhance the building of our spiritual culture, which requires that we cannot let up in the least on our ideological and political effort, nor in the least can we weaken the leadership of the party.

Comrade Li Xiannian believes that during the building of a socialist economy, we cannot afford to lose sight of the course that consists of planned proportionality. Developing a commodity economy also requires planned proportionality. Common sense will tell people that the commodity economies of capitalism also demand proportionality,

for when proportionality is upset, a crisis appears, and when seriously upset, this gives rise to serious crises. Since the international Great Depression of the 1930s, government leaders and economists in many capitalist countries have been looking for ways to avoid crises, and one of the most effective ways has been to strengthen overall control and regulation measures. This has been done largely by adopting regulation of tax revenue, credit, and budget allocations, and some have even operated through legal rules and regulations and through administrative means. Ours is a socialist country, and it is even more necessary and appropriate for us to work in this way, so we cannot see planning as an impediment to the development of productivity. As for the problems with the planning system in the past and deficiencies in planning efforts, such as excessive centralization and controls that were too tight, these should quite naturally be restructured and improved. Not long after the 3d plenum of the 11th Central Committee, Comrade Chen Yun proposed that economic activity should not be exclusively planned, but that it should also have a component that is market regulated. Among the writings gathered for the "Selections," Comrade Li Xiannian often discusses the relations between planning and the markets. Experience has shown that with a uniform planning that is realistic and over which overall control can be taken, which also includes a market regulation that is able to enhance the vigor of the economy, our mission of economic construction flourishes and develops, and can then attain its fundamental pledge.

One can see by looking at the contents of the three periods of the "Selections" that Comrade Li Xiannian has experienced a long period of revolution and reconstruction, and that he has had abundant experience, for which reasons he has been able to more completely and deeply grasp Mao Zedong Thought, to have made outstanding contributions to the cause of the people, and to continue to make those contributions. This is the basic reason why Comrade Li Xiannian, and indeed all older proletarian revolutionaries, has received the respect of the entire party and all the people of China. Their resolute party and self-sacrificing spirit and excellent working styles are all worthy of ardent study by party members at large and by cadres. This is especially important for the younger cadres of responsibility who are in leadership positions at all levels. To pass along generation after generation the fine tradition of our party that has been won with the blood of innumerable heroes, and to maintain and improve the political confidence in the party by the masses and public at large would be an important guarantee of the success of the socialist modernization that has been China's effort.

As far as his study and usage of Mao Zedong Thought is concerned, there are some outstanding facts about Comrade Li Xiannian that made a deep impression upon us as we compiled his works, and that moreover have taught us much in this field.

First, Comrade Li Xiannian has resolutely carried out the correct decisions and directives made by the Central Committee, he has done so thoroughly and completely,

and he has done so unswervingly. As he has carried out these things, he has not done so by indiscriminate following of a hard set of rules, but has always energetically integrated these moves with the reality of the place or activity he has been directing. He first did thorough investigations, understood the situation, and only then did he proceed in view of that reality in undertaking his work. We mean by this that whatever he has done, he has done in strict respect for the principle that truth must be sought from facts. The great success he had during the 1940s in building an anti-Japanese base area behind enemy lines in northern Henan and southern Hubei was primarily because of his thorough familiarity with enemy and friendly conditions in all aspects; to his thorough familiarity with the revolutionary potential strength of the people of the area, as well as with local customs and feelings and with the geographic conditions; to his ability to proceed from reality; and to his creative implementation and execution of all party principles and policies. His leadership of efforts in Hubei during the 1950s was also like this. Not long after he had arrived in Wuhan, that is, in November 1949, he wrote a report entitled "The Characteristics of Hubei and Current Policies," in which he did a specific analysis of the economy and social conditions of Hubei. At that time and in view of such facts as that the rural feudal base was still intact and that urban industries relied upon agriculture, he carried out the principle that the countryside focus on consideration of the cities, from which he gained outstanding results. After he became part of the Central Committee, in his leadership of financial and trade efforts he similarly began with the facts as he implemented the decisions of the Central Committee. He always relied upon true data from the areas over which he had control, such as finance, credit, commerce, and foodstuffs, to promptly propose ways in which to implement the policies of the Central Committee, and also to promptly advance recommendations and opinions to the Central Committee and to Comrade Mao Zedong, among which were arduous efforts to overcome certain errors and omissions. This method of working in accordance with the facts was in complete compliance with the spirit of Mao Zedong Thought. Seeking truth from facts is the quintessence of Mao Zedong Thought, and is the principle that should be strictly observed in all efforts.

To proceed from reality and to carry out one's work creatively is easily said but not easily done. In every effort, generally speaking, leaders are subjectively wishing to work in that way, but for various reasons, such as when taking charge of conditions that are not secure, there are errors in thought and methods, even those concerning personal gain, with the result that those original desires cannot be realized. There has been much historical experience and lessons regarding this problem. The key is in being able or not to thoroughly maintain a modest and cautious attitude, at all times and places being willing to look into matters with an open mind, and upholding the principle of placing greatest importance upon the people's welfare and upon truth. Overall, our party is a party that is mature in ideology and

politics, and that also is organized and disciplined. The party leadership is a body that implements a centralized democracy, that is correct in line and in principles and policies, and when political life within the party is normal, as long as they are themselves modest and cautious, they are generally able to do their work in compliance with reality. Problems occur in those abnormal conditions when internal party political life is not normal, and when then it is far more difficult to maintain that search for truth from facts. In the atmosphere during the mid 1950s of opposition to rightist reactionaries, Comrade Li Xiannian promptly offered an opinion that sought to inhibit rash advances. During the later "Great Leap Forward," he and the finance and trade department that he led certainly got caught up by events, but by the first half of 1959 he had seen the problem more soberly, and he hastened to "put on the brakes." During the time of the Lushan Conference, in his reports to the Central Committee he was clearly suggesting the root of the problems and their seriousness, and he offered an opinion on adjusting the economy (see the piece entitled "Problems in Current Finance and Banking and Measures for Adjustment"). This report was later criticized, but his outlook has not actually changed. During the 3-year period of economic difficulty, he actively led efforts at economic adjustment. In the Spring of 1962, with the support of Comrade Liu Shaoqi he headed the drafting of two well-known resolutions, one on the strict control of currency distribution and the other on strict controls of financial management, which papers played a good role in bringing about a turnaround in the difficult situation of the time. A similar situation to this was in the Spring of 1979 during the second adjustment of the national economy, when he held firm to his advocacy of the second "eight-character policy" that centered on adjustments, for which he prepared detailed reports. In this report he sincerely summarized the experiences of China's economic construction, which in a few short words, held that the national economy would continue to develop stably, that it would not experience any significant upheavals. All these things are quite commendable.

We can see from the facts just presented that seeking truth from facts and insisting upon truth are actually one and the same thing. By achieving that truth from facts, one is insisting upon truth: and only by daring to insist upon truth can one reach truth through facts, which is then not affected by negative factors.

The second point is that in his work, Comrade Li Xiannian has well been able to rally the cadres, allowing everyone to relax and himself to make the most of his intelligence and creative spirit. In the process of compiling this book, we have listened to what many comrades under his leadership have had to say, and whether from the period of his work in Hubei or from that with the Central Committee, through several political movements the regions and departments he has led have exerted themselves to avoid expansion, few people have been hurt, and everyone has praised his ability to tirelessly take good care of cadres. In

times of peace, before resolving problems he will solicit various opinions to bring together a collective wisdom. He can even accept opinions that differ from his own, which makes his consideration of problems all the more thorough. If he discovers that a particular cadre has made an error, or that he has problems in ideology or working spirit, Comrade Li openly criticizes him, and sometimes that criticism has been quite severe. But Comrade Li has always based himself upon the desire for unity, has always had good intentions, and has looked at the qualities and accomplishments of cadres in an historical and overall manner, never arbitrarily correcting people nor giving favors to those who fawn upon him. Therefore, to work under his leadership is to have a definite sense of confidence and security, and with these points, comrades with party spirit can make the most of their enthusiasm, giving their all in the effort to serve the people.

One can see from the "Selections" that at each different period, Comrade Li Xiannian has excelled at uniting the larger group of non-party cadres and democratic persons and progressives in each faction of the party. He has especially paid attention to bringing intellectuals within the fold. Long ago, when he was building the base area in the Henan-Hubei area, he went all out in expanding the unified line of opposition to the Japanese, striving to and succeeding in uniting all those among the masses who demanded resistance to the Japanese, and all those people who were patriotic, including the landlord and gentry classes, from which he effectively implemented the party policies of developing a progressive force, striving for a central power, and isolating recalcitrant powers. He paid much attention to bringing together at the base area those from many fields who had knowledge, and he worked to strengthen the unity between industrial and agricultural cadres on the one hand and intellectuals on the other, which resulted in his fostering a large group of cadres during the process of developing the base area. When he was working in Hubei, in 1950 Comrade Li Xiannian wrote an excellent article, the "Efforts to Strengthen the Unified Line" that appears in the "Selections." In that article he demands that organizational and leading cadres of the party overcome their closed-doorism, that they handle the question of religion carefully, that they hold representative meetings for many different fields of interest, and that they integrate all revolutionary delegations on the basis of a shared program, so that they might all join in the reconstruction efforts. At the same time as this was happening, he wrote a memorandum on the problem of intellectuals, namely, the "Resolutely Carry Out the Party Policies on Intellectuals" that is included in the "Selections." With great foresight, he emphasizes the importance of attracting intellectuals of all types to join in the reconstruction efforts, and he sharply criticized the ignorant attitude and poor working spirit of certain persons within the revolutionary ranks who despised intellectuals.

Sincerely uniting the broad mass of cadres, and not upbraiding people without reason; employing cadres on good principles, and not because of connections; trusting

highly those cadres having both talent and outstanding qualities, giving them the freedom that allowed them to make full use of their creativity; and truly carrying out the policy of unity—criticism—unity toward those cadres who had erred. Things such as these are not small matters, but instead are major problems for the work of leaders, and they are an important component of the party working spirit that must be upheld and fostered. Comrade Li Xiannian may serve as a model in this regard.

The third point: Comrade Li Xiannian is prone to learning as he works, especially his learning from a constant review of experiences and from practice, nor is he afraid to criticize himself. In the process of compiling the "Selections," and through the life story of this proletarian revolutionary of the previous generation we gained a deep impression of the Chinese Revolution and the task of reconstruction; that it is a long-term task, and that it is an extremely arduous one. This long period and complexity has included constant changes in the objective situation that have given rise to phases of the process, as well as to an alternation between struggle and formation. This has demanded that each revolutionary, and especially the party leadership, constantly review his experiences in terms of the principles of Marxism-Leninism and of Mao Zedong Thought. They have had to diligently learn from practice, which has included learning from both defeat and setbacks, to modestly seek out the objective regularity in different circumstances, and to come to grips with the modes of struggle and forms of effort that are appropriate to this regularity.

Many articles in the "Selections" exhibit this spirit of Comrade Li Xiannian that learns from experience. Faced with each new situation and task, he has always been both sure to boldly confront the situation and also to review his experiences at any time. At that base between Henan and Hubei, not long after he had connected and organized many disparate forces in the guerrilla warfare he had developed and supported that was resisting Japan, he immediately convened a meeting at which to review their experiences ("The Guerilla Warfare in Resistance to Japan in the Henan-Hubei Region"). That review allowed the objective situation to be more completely and systematically analyzed, allowed the scattered and isolated combat experiences to be brought together, and allowed the existing difficulties and faults to be exposed. This unified the thinking by fault to further exploit the warfare and to clarify directions. There was a similar situation during the period he worked in Hubei. During the period when he was with the Central Committee in charge of finance and economics, the many important speeches he made and articles he wrote on matters of finance and trade are nearly all reviews of work experience during a particular time. Several important writings during the mid 1950s are initial reviews of the experience our socialist economic construction during the first few years, and are also initial attempts to undertake a restructuring of some of the shortcomings that had just appeared in the socialist economic system that had been so rapidly constituted.

Some of the important pieces from the end of the 1950s and early 1960s are lessons from the errors of the 1958 "Great Leap Forward" and the experiences of overcoming 3 years of hardships. Some important pieces from the end of the 1970s and the early 1980s are reviews of experiences from adjusting the economy during the new historical period. Several speeches to foreign guests in 1987 are reviews of some experiences concerned with the restructuring and the liberalization. When he is reviewing those experiences, he not only boldly faces facts, analyzes past errors, and achieves an understanding that is more in compliance with the objective laws, but also proposes suggestions for further efforts based upon that understanding, sometimes including clearer principles and specific limitations for future efforts.

Comrade Li Xiannian often says to people that he came from a small family that was illiterate, that at the age of 10 he began studying carpentry, that after his joining in the Revolution he was long in a combat environment with little time to study, and that he therefore has a lower level of education and understanding. These words not only express a thinking and feeling that respects knowledge and cares for intellectuals, but also explains the reasons why throughout his life he has committed himself to the valuable virtues of arduous study and reviewing experiences. For a life such as he has had, one important thing that has enabled him to quickly become familiar with command in warfare so soon after joining the Revolution, to so quickly become familiar with political rebuilding after the founding of this nation, and to so quickly become familiar with finances and economics after going to work with the Central Committee, has been his devotion to the study of Mao Zedong Thought, and his propensity to learn from practice.

In that process of reviewing experience and learning from practice, Comrade Li Xiannian has boldly exposed problems existing among our efforts, has acknowledged errors in those efforts, and has boldly carried out self-criticism and assumed the responsibility for that for which he should be responsible. Whether a review of the errors of 1958 or the overcoming of difficulties after that, or a review of the disorientation of the national economy before and after 1978 and subsequent adjustment efforts, he has always thoroughly analyzed the situation, presented problems in a forthright manner, and still managed to carry out his analyses with a positive spirit, affirming what should be affirmed so that the enthusiasm of the masses can be maintained, and also condemning what should be condemned as he sought out ways to overcome these problems. This is one major reason why he has been able to constantly learn from new things and new experiences, and why he has

been able to rise from an emotional awareness to a theoretical understanding. This attitude and methodology has been inspirational for the many cadres in leadership positions. In our efforts at construction, which include the restructuring and liberalization, we should be sincerely reviewing our experiences, as Comrade Deng Xiaoping pointed out not long ago. By 'sincerely' is meant to treat seriously any problem that comes up. We have our own history of nearly 40 years of socialist construction, which includes efforts at reconstruction and liberalization over the past 10 years, experiences that are quite rich. As we review our experiences, we should be discovering several fundamental principles that accord with the reality in China and that also reflect an objective regularity, and we should be using this to guide future activities of the party so that we might avoid mistakes, lessen wasted effort, follow the great path of socialism, and more smoothly reach our near- and long-term goals.

The characteristics that have been presented above: the seeking truth from facts, the unification of cadres, and the learning from practice, are all things that were long ago discussed by Comrade Mao Zedong, and are all important aspects of Mao Zedong Thought. The valuable point here is that Comrade Li Xiannian has sincerely and soundly worked in accordance with these aspects, and what is more, he has done it well. Naturally, there are even other good ideological and working spirit characteristics about him that are worth study by others, but that need not be explained point by point here. Careful readers can benefit greatly from the "Selections," especially members of the Communist Party, who by studying this book can improve their own party spirit and can enhance their own self-cultivation.

In the process of compiling this book, we have better understood the conclusion that "Mao Zedong Thought is an application and development of Marxism-Leninism, consists of correct theoretical principles and summations of experiences concerned with the Chinese Revolution that have been proven in practice, and is a crystalization of the collective wisdom of the Chinese Communist Party." One point from this has been particularly enlightening for us. That is, that Mao Zedong Thought will itself develop with its broader practice, and it will thereby be improved. But its fundamental principles, the stand, viewpoint, and methods it takes from the Marxism-Leninism of which it is an embodiment, its fundamental directions, namely, the three great matters of substance: that truth be sought from facts, the mass line, and independent autonomy, will long lead our actions, and will forever follow the victorious path that has been won by the people of China.

NATIONAL AFFAIRS, POLICY

Creating Favorable Conditions for Deepening Price Reform

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[Article by Zhang Dexiu 1728 1795 0208: "Improving the Economic Environment and Actively Creating Favorable Conditions for Deepening Price Reform"]

[Text] I. We Must Improve the Economic Environment While Implementing Price Reform.

Generally speaking, price reform should not be implemented under inflationary conditions. This is correct; otherwise, fuel might be added to the flames, causing runaway inflation.

However, the reality which we are currently facing is that currency inflation cannot be resolved in one fell swoop, while price reform cannot remain at a standstill for long. Since price reform cannot be gotten around, it may now be possible, proceeding from the overall economic situation, to temporarily slow it down or even temporarily suspend it. However: (1) The original irrational price system has not been fundamentally resolved, and new distortions have appeared in recent years; freezing prices again may cause problems to increase. (2) Many prices have already been decontrolled, and changes have already occurred in other conditions affecting prices, such as the implementation of contract management by enterprises and the existence and development of individual and private economy; these may set off price fluctuations, and even if we want to freeze prices, we will not necessarily be able to do so. (3) The effects of the currency inflation of the past few years, and particularly of 1988, are likely to continue; currency flow is still excessive and will inevitably affect the price level of 1989 and the year after.

Therefore, we must control the rate of inflation and gradually reduce it, but we do not necessarily have to wait until after currency inflation is eliminated before implementing price reform. During the next 2 years, while making the control of inflation our main task, we must at the same time adjust those commodity prices which most need adjusting; afterward, we must implement appropriate price reform while gradually reducing the rate of inflation.

II. Price Reform in the Next Few Years Must Focus on Controlling Aggregate Demand, Promoting Industrial Structural Adjustment, and Increasing Aggregate Supply.

The key to improving the economic environment while implementing price reform is to make price reform promotes improvement of the economic environment. With regard to how this must be done, I feel that we

should consider combining price reform with adjustment of the industrial structure. In past discussions of ideal price indicators, there was a lack of consensus in theoretical circles; many people advocated determining the amount of profit based on the average profit rate on funds or comprehensive profit rate. I believe that, with regard to the question of standards for straightening out prices, we should stress supply and demand and reflect the requirements of industrial policy, rather than using a clear-cut average profit rate on funds or comprehensive profit rate. In adapting the price profit amount to slanted industrial structural adjustment, the profit rates of industries or products whose supply must be increased should be higher than the average profit rate on funds or the comprehensive profit rate; otherwise, the profit rate should be lower than the average profit rate on funds or the comprehensive profit rate. How high or low the profit rate is to be can be determined by considering the needs of the industrial structural adjustment policy. Combining price reform with industrial structural adjustment can very effectively increase aggregate supply and reduce the disparity between aggregate demand and aggregate supply. For example, the communications and transportation industry is currently a weak link; transportation prices are excessively low, which is both unfavorable to controlling transportation demand and causes state revenue funds to shift to individual entrepreneurs, putting them in the hands of the rich and preventing the communications and transportation industry from obtaining funds needed to implement technological renovations. Appropriately raising transportation prices will not unduly increase the burden of users, and may increase the revenue of communications and transportation departments and duly improve transportation conditions. Prices of important capital goods such as energy sources and raw and processed materials should be adjusted primarily through state planning in the next few years; this should not be carried out in a single step, but rather should be divided into several steps, in a relatively concentrated manner.

III. We Must Adopt Multiple Measures, Including the Use of Price Levers To Absorb Excess Purchasing Power

Recently, due to the appearance of "panic purchasing," many people, from the standpoint of absorbing excess purchasing power and allowing the masses to protect value without rushing to purchase commodities, have advocated stepping up the pace of conversion to the shareholding system and private ownership of housing. I believe that the shareholding system can be tried out and private ownership of housing can be gradually implemented, but whether this can resolve currency inflation, or whether it can become the main method for resolving currency inflation, is very much worth discussing.

(1) Who will issue shares? If enterprises issue shares, this portion of funds will come under the control of the enterprises, and if enterprises use these funds for fixed

asset investment, it will expand the scale of fixed asset investment. If the funds are recouped by the state, this will not fit the nature of shares, and enterprises would lack enthusiasm.

Moreover, many of the shares being issued by enterprises are not shares, but rather high-interest bonds. For example, from the shares recently sold by Shenyang's Jinbei Automobile Corporation, within 5 years (i.e., before 31 November 1992), shareholders can enjoy fixed share earnings of not less than 16.5 percent annually. At the same time, there may be a 5 percent rate of appreciation, so that by buying 100 yuan worth of shares, one can earn 11.5 yuan. It is also stipulated that if the state imposes an individual income tax on excessively high individual dividend earnings, the tax burden will be borne by the company. This kind of high-interest share is liable to expand inflation of the consumption fund.

(2) How many people would buy shares? Of the people who withdrew deposits from the bank this time for "panic purchasing," a considerable portion are people who have deposits of several thousand yuan and have been saving for several years with the intention of purchasing a number of durable consumer goods, or have been saving for an emergency or old age, and want a hedge against inflation. Therefore, when these people use their savings to buy shares, they are likely to buy a few but not too many. Raising the interest rate on bank savings deposits would be more attractive to them than selling shares.

(3) Under the present circumstances, in which the share exchange market is still undeveloped, the volume of shares issued is itself limited. Absorbing idle capital overseas by issuing shares is one method of resolving currency inflation. However, we must not forget that overseas share exchange markets are more developed and can conveniently transfer ownership. We are unqualified in this respect.

The idea of resolving currency inflation through putting housing under private ownership may not be very realistic. Many people could not afford to purchase housing, to say nothing of the fact that the greater part of the funds for buying housing are often in savings deposits. But what is important is that measures for putting housing under private ownership are uncoordinated. A saying has been circulating among the masses: "What you can afford to buy, you cannot afford to live in or repair." I advocate raising rent gradually, rather than implementing rent reform in a single step.

Then how are we to absorb excess purchasing power? I believe:

(1) Raising the interest rate on bank deposits by a fairly large degree should protect the value of one-year deposits at present. The state, through the banks' absorption of deposits, can centralize utilization, and this is one respect in which this is superior to shares.

(2) Premised upon maintenance of the basic stability of prices of the people's basic daily necessities, prices of nonessential goods and service charges should and must be adjusted; high prices or a consumption regulation tax can be imposed on certain commodities. However, careful consideration must be given to the specific degree.

(3) We must vigorously develop agriculture, light industry, and the textile industry, particularly providing the necessary assurance of electric power and raw and processed materials needed by light industry and the textile industry, and enabling light industry and the textile industry to supply the market with abundant, diversified commodities in order to absorb purchasing power.

(4) We must vigorously initiate the collection of individual income taxes and put into the hands of the state the money which should go to the state. This may both increase state revenue and reduce the purchasing power of certain commodities.

(5) The state may also issue some bonds to absorb excess purchasing power.

Papers Presented by Noted Economists at Theoretical Conference

[Text]

Editorial Note

Last year, the Theory Discussion Symposium was held in Beijing to commemorate the 3d plenum of the 11 CPC Central Committee. A total of 191 articles were presented at the symposium. These articles pertain to theories on socialist commodity economy, the state of the nation, and research on the restructuring of the system and so on. This column has selected several articles and will publish a series of abstracts for the benefit of our readers.

Modern Forms of Enterprise System

40060329 Beijing JINGJI CANKAO in Chinese
9 Feb 89 p 4

[Article by Wang Jue 3769 3778: "Modern Forms of Enterprise System—Multi-Level Ownership Rights by the Legal Entities"]

[Text] A decade's reform has clearly demonstrated that China's restructuring of the economic system must turn from policy adjustments to the creation of a new system, and the most basic goal in creating a new system is to turn enterprises into independent manufacturers and managers.

The Modern Enterprise System Furnishes an Ideal Mode of Public-Ownership System

The transformation of the traditional form of public ownership system signifies the creation of a new system of enterprise organization. It calls for the establishment

of a modern enterprise system which guarantees that publicly-owned enterprises in the socialist commodity economy are autonomous, responsible for their own profits and losses, and are capable of restrained behavior. This system must have the following characteristics:

One, subject to the separation of enterprises' ultimate property rights and their property rights as legal entities, enterprises' property relationship is clearly defined. Two, on the basis of the separation of owners from managers and ownership rights from management rights, enterprises' internal organization and structure are stable and standardized, and the owners, the managers, and the workers are clearly mutually dependent, and they interact with one another. Three, enterprises' assets are typically organized in the form of corporations. In this form, diversification of enterprise investors or property owners coexists with concentration of enterprise internal management. An enterprise property right owner's financial obligation to the enterprise is limited to the number of shares he holds.

It is entirely possible to create a modern enterprise system dominated by the shareholding form of enterprise asset organization. This system can establish the role of publicly-owned enterprises as independent producers of goods and managers via the system itself, and it can also provide new and effective mechanisms which facilitate market allocation of economic resources, and in turn, resolves the incompatibility between the traditional public-ownership system and the commodity economy and socialized production.

Establishing the Modern Enterprise System Amid Reforms

In view of the objective economic needs and realistic conditions in China, to establish a modern enterprise system, we have to start with the large and mid-sized state-owned enterprises.

To popularize the modern enterprise system in large and mid-sized state-owned enterprises, first we must examine and verify carefully the amount of state-owned assets in the hands of these enterprises. Then we need to separate out these enterprises by asking whether the state-ownership system is appropriate for them from the economic point of view. All enterprises which should not or need not adopt the state-owned system may issue stocks to the public, creating a non state-owned shareholding system.

On this basis, the state should set up state-owned asset management commissions at the central and local levels to exercise property rights over state-owned enterprise assets on behalf of the state. The commissions should be independent government administrative departments responsible to the people's congresses at their respective levels. In this way, the state's function as property owner,

its function as macroeconomic regulator, and its function as administrator and government are separated, and the ownership of state-owned enterprise property rights is defined.

The state-owned asset management commissions are recognized by law to represent the owner of the ultimate property rights, but they do not manage the state-owned assets directly. For this reason, we need to have some state-owned asset investment companies to act as management agents. The relationship between the state-owned asset management commissions and the investment companies is a property trust relationship. The investment companies are asset management organizations which are legal entities. They act as agents in managing the state-owned stocks and assets on behalf of the state-owned asset management commissions, and their goal is to maximize the capital gain of those assets. Meanwhile, we must have enough state-owned asset investment companies to allow effective competition among them. The state-owned asset management commissions should select these companies based on their competitive business performance and allow several companies to handle the investment trusts. On this basis, using the investment companies to invest in different enterprises, we have created a state-owned enterprise shareholding system. Enterprise stocks are held by several investment companies, and the board of directors is comprised of representatives of the individual shareholders—the investment companies.

In this state-ownership structure where the ultimate property rights and the multi-level legal entity property rights are clearly defined, the property rights over state-owned assets and the economic manifestation of those rights are fully realized, maximization of capital gain is guaranteed, and a sound market-competition mechanism becomes a part of the circulation of state-owned asset. The setting up of the modern enterprise system in the form of multi-level legal entity ownership rights in state-owned enterprises is probably a wise choice.

The establishment of a modern enterprise system lays the foundation for the new, market-oriented economic system. It furnishes the basis for the reform of the state's macroeconomic adjustment method and of the market itself, and therefore, in the process of implementing more thorough reforms, the establishment of a modern enterprise system must be the central link.

(The article was originally entitled "China's Prosperity Demands a Modern Enterprise System.")

Pluralization of Public Ownership

40060329 Beijing JINGJI CANKAO in Chinese
9 Feb 89 p 4

[Article by Tian Yuan 3944 3293 and Zhu Yong 4281 7167: "Pluralization of the Public Ownership System"]

[Text] Our reform mission encompasses reform of the economic mechanisms as well as reform of the property right system. On the whole, the goal of China's reform of

the property right system is not to convert state-owned assets into privately-owned assets but to change the centralized state-owned property right system to a pluralistic publicly-owned property right system and put the management of state-owned assets on a high-efficiency track.

The existing state-owned property right system does not give play to the law of value, and therefore the principle of exchange at equal value does not apply. This is because China's existing financial system is based on the centralized state-owned property right system. The financial system serves a powerful redistribution purpose. The present state-owned property right system is the root cause of bloated investment and low return. The state-run economy's centralized internal property right system prohibits the proper flow of property rights which in turn obstructs the optimal combination of key productive elements. The present state-owned property right system is the economic basis for the central-versus-local separatist system.

The main characteristics of China's new property rights system should be:

One, the centralized state-owned properties should become pluralistic publicly-owned properties. This means we should use legal means to divide the state-owned property rights among the central, provincial, and urban county governments, with the urban counties at the primary level, and redefine the existing management rights at each level as property rights.

Two, the administrative and management functions of the government at each level should be separated gradually from its proprietary function. There should be many different publicly-owned asset management entities, that is, different kinds of asset management company (investment companies, foundations, etc.) While they retain the right to assess the capital gains and are entitled to a share of the profits and have the right to choose the leaders of the asset management entities, the central and local governments which own the property rights to publicly-owned assets must delegate all of the management rights to the asset management entities. These management entities operate entirely as enterprises and are responsible for their own profits and losses. They are legal entities which stand equal and are not administrative subordinates. Their basic duty is to propagate the assets, and basically, their business is to make investment decisions (including setting up new enterprises, buying state-issued or company-issued stocks and bonds, and buying and selling enterprises.) They also assume the risks and are responsible for assets gained or lost.

Three, competitive asset management markets should be set up to let the asset management entities and even enterprises compete with one another, and let the superior eliminate the inferior and adjust the asset structure continuously in the process. The property right market can work within the shareholding system, that is, manage the

assets through buying and selling stocks, or it can also work within a non-shareholding system, that is, make direct investments by forming new enterprises or buying and selling existing enterprises.

Four, the asset management earnings should be divided among governments at all levels, the asset management entities, and enterprises based on public benefit and need.

(The article was originally entitled "On Reform of the Property Right System")

Enhancing Theory of Separation of Rights

40060329 Beijing JINGJI CANKAO in Chinese
9 Feb 89 p 4

[Article by Zhou Shulian 0719 0647 5571: "Theory of Separation of Rights Needs To Be Amplified and Developed"]

[Text] The separation of property and management rights is the theoretic basis of enterprise reform. But the separation of rights is still unclear in the following areas:

One, how to handle the relationship between the government's management rights and the state's property rights. For some time now, we have been talking about the separation of property rights and management rights, but we have not addressed the relationship between government management rights and the state's property rights. Yet, if we continue to lump the government's management rights and the state's property rights together, enterprises' management autonomy cannot be guaranteed, and in turn, they will not be able to take care of their own profits and losses.

Two, how to draw the boundary between the state's property rights and enterprises' management rights. Complete property rights include management rights. Management rights are an integral part of property rights. The separation of rights so far has stipulated that the state has property rights and enterprises have management rights. But what kind of management right the managers have has never been clarified. If enterprises have no property rights, their management rights are not guaranteed.

Three, how to handle the relationship between enterprises' internal property rights and management rights. The existing relationship between property rights and management rights which is based on the theory of separation of rights is something that exists entirely outside of enterprises. If property rights exist only on the outside and is absent internally, then either those property rights cannot satisfy their own needs, or management rights are not really separated from property rights.

To build a scientific theoretical foundation to support enterprises' autonomous management and financial responsibility, we need to amplify and develop the theory at least in the following three areas:

One, separate the government's management rights from the state's property rights. This means separating the state's function as economic manager and its function as proprietor of state-owned assets. Someone has suggested concentrating the key economic policy tools such as pricing, taxation, interest rates, and exchange rates in the hands of the central government which shall adjust and guide the economy and which shall treat enterprises under all ownership systems as equals. The central government shall not directly control the state-owned enterprises' property rights; instead, relevant management organs or publicly-owned financial institutions will function as proprietor. I think this is a sound suggestion.

Two, separate the state's ultimate property rights and enterprise's property rights as legal entities. This means apportioning the state's property rights. The state would retain the ultimate property rights, and enterprises get the property rights as legal entities. Enterprises not only have possession rights, use rights, and disposal rights but also property rights over assets which the state has vested in them for management and administration. In this way, enterprises become property owners, and they have property ownership rights, and their management rights are backed by these property rights, and as principal property owners, enterprises can take care of their own profits and losses. This kind of ultimate property right is similar to the stock rights of shareholders in the joint stock companies of the West.

Three, separate enterprises' internal property rights and management rights. Enterprises must also separate property rights from management rights within their organization. This separation primarily is the clarification of the rights, responsibilities, and privileges of the owner and the manager. On the whole, an enterprise owner is responsible for formulating the enterprise's charter, setting the enterprise's overall goals, appointing and dismissing the board of directors, taking and distributing the capital gains, approving the annual reports, and protecting the integrity of the assets and ensuring their propagation. As representative of the legal entity, the enterprise manager's primary duties include taking responsibility for the enterprise's profit or loss, allocating and utilizing the assets, making the everyday management decisions and directing the everyday business, reporting to the owners on the business situation, and hiring management personnel.

(The article was originally entitled "Enterprise Reform and the Separation of the Two Rights")

Limited Reform Objective

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9 Feb 89 p 4

[Article by Xiong Yingwu 3574 2503 2745: "Reform Objective Preferably Should Be Limited"]

[Text] China's reform should have limited objective. In the past, we promised ourselves heaven with an "ideal planned economy." We were rebuffed. Today, if we seek paradise with the "ideal market economy," we will fail again.

The near-term (3-5 years) and mid-term (to the year 2000) limited reform objective may include the following elements:

We should make radical changes in the state organs, establish a clean and effective government and a fair and authoritative legal institution, and promptly create the normal social order essential to the reform effort.

Product prices should be decontrolled category by category, and we need to foster and perfect the market step by step. All products which have balanced supply and demand and products whose supply can be increased rapidly given the right prices (pork, for example) can be decontrolled and make the transition to the market economy. Products whose supply cannot be increased and which will continue to have a monopolistic hold on the market in the near-term (steel and nonferrous metals, for example) may continue to be priced according to planning. I support double-track pricing of different products but oppose double-track pricing of the same product.

More and more enterprises should be turned into citizen-owned, citizen-run businesses. Only in this way can we produce business entities which are truly independent and financially responsible. Within the foreseeable future, we should continue to have some state-owned, state-run enterprises, but they should be limited to the following categories: (1) public utilities and infrastructure; (2) high-tech industries; (3) large enterprises or mega-enterprises beyond civilian means.

A few coastal regions can turn to developing the export-oriented economy, but I am afraid that the vast interior region must concentrate on the domestic market. Of course, the interior provinces should try their best to attract foreign funds and develop economic and technical cooperation with foreign countries too.

(The article was originally entitled "Theoretic Thoughts on China's Reform")

Function, Limitation of Market Mechanism

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9 Feb 89 p 4

[Article by Zhang Zongtao 1728 1350 3447: "Functions and Limitations of Market Mechanism"]

[Text] 1. To lean towards the market mechanism in the selection of economic mechanisms is a historic inevitability, but we must not idealize the market mechanism. The market mechanism has a limited use, at least in the following aspects: one, we cannot rely entirely on market mechanism to adjust the industrial mix and establish new industrial sectors to ensure harmonious economic development. Two, the market's spontaneous adjustments in allocating resources may not satisfy social preferences and cannot guide consumption properly. Three, the market's spontaneous adjustments cannot guarantee overall macroeconomic balance; we must rely

on planning to adjust the distribution of the national income quantitatively at the macroeconomic level. Four, the market mechanism cannot maintain ecological balance or prevent environmental pollution. Five, we need to weigh the cost and benefit of market mechanism which promotes efficiency but may not ensure equity in society.

2. *There are prerequisites and conditions to satisfy before market mechanism can function properly to allocate resources, and its effectiveness also depends on the time, the place, and the situation. We cannot expect "decontrol" to be the panacea that cures all ills.* In view of China's present productive level, and because land is limited, we cannot treat "decontrol" as the only effective way to resolve the shortage of agricultural products or remedy the inelastic supply of some industrial products.

3. *The market environment which gives full play to market mechanism's positive functions.* China's theorists disagree on whether a buyer's market is essential for giving play to the positive functions of market mechanism. To a large extent, the growth of the socialist planned economy is constrained by its resources; acute shortages and bottlenecks are typical. If what we pursue is not just accelerated increase in output value but also continuous economic growth on the basis of improved economic performance, then our goal should be to develop a buyer's market where the supply exceeds demand by a slight margin. The buyer's market cannot be sustained forever by administrative measures. To eliminate shortages, we must rely on restructuring the economy at the microeconomic level, but we cannot deny that short-term macroeconomic control can ease the supply-demand problem. To aim for a buyer's market and take steps in the right direction to produce that market is consistent with the way the market mechanism works. This does not mean producing a market situation where supply exceeds demand immediately and artificially. We cannot abandon our goal just because there are shortages today, nor can we set the buyer's market against the economic growth objective. Comrades who want to control demand have never ignored the importance of increasing supply. The disagreement is over whether the adjustments should be bilateral or unilateral, whether the focus should be on short-term growth or long-term growth, and whether we should approach the buyer's market slowly or abandon that goal all together.

(The article was originally entitled "The Law of Value and the Market Mechanism")

Journal Article on Enterprise Work Reform System

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[Article by Gui Shuli 2710 2579 4409: "A Successful Attempt at Reforming the Work System of an Enterprise"]

[Text] The Shijiazhuang Industrial and Agricultural Machinery Factory started exploring the working-hour reform system of enterprises in 1985. The main method

adopted was to change the 8-hour working system into a "6 hour—2 hour" work system. That means to spend 6 hours of the 8 work hours per day laboring, and allow staff and workers to spend 2 hours learning a skill and culture, carrying out ideological work, learning democratic management methods, carrying out household duties, and participating in cultural, sporting, entertainment, and social activities, and so on. The practices in the past 3 years proved that this reform has brought valuable results.

First, the "Six-hour—Two Hour" Work System is an Objective Requirement of the Construction of the Two Civilizations

First, it is the need of the enterprise in expanding reproduction where the main theme has been transformed from one stressing scale to one stressing content. Over the years, it has always insisted on following the path of expanding reproduction with an emphasis on content. It has designed, produced, or renovated 56 machines and equipment; it has promoted the application of the 8 new technologies and skills developed by us, and has changed the situation that emphasized on manual labor work. In this way, labor productivity has been greatly increased, and the enterprise has started marching on the path whereby technological advancement is taken as the motive force of economic development. This transformation thus requires that staff and workers must know new technologies. Otherwise, advanced technologies and equipment cannot be fully used. This is one of the reasons for the enterprise to implement the "6 hour—2 hour" work system.

Second, it is a need of the developmental work of the enterprise whereby emphasis has been changed from one that only develops products to one that develops products and brings up talented personnel at the same time. The enterprise has been upholding the practice of grasping these two development's—to develop products so as to create wealth for society; and to bring up talented personnel so as to train a new generation of talented people. This is the purpose of establishing this factory. Real talented personnel not only have acquired sophisticated skills, they should also have a high degree of consciousness, should seriously observe disciplines, and should have good work style. Therefore, at the same time when this factory has stressed raising the technical quality of its personnel, it has also carried out in depth ideological work, and has made efforts in raising the ideological quality and moral character of staff and workers. The original 8-hour work system could not match the carrying out of ideological and political work in the enterprise. The implementation of the "6-hour—2 hour" work system, however, can further raise the time-effectiveness of ideological and political work, and can thus further create conditions for the emergence of talented people. This is another reason for the enterprise to implement the "6 hour—2 hour" work system.

Third, the enterprise needs to transform the unitary management system into a cultural management system. At the same time when this factory was establishing and perfecting various rules and regulations, and enhancing the management of the enterprise, it has been paying much attention to cultivating enterprise culture, and has regarded this as an invisible management method. It has permeated this method with various rules and regulations in the process of production, and has also condensed the strength of every member of the enterprise into a joint force. However, under the 8-hour work system, this formation of this joint force has to be achieved by giving material motivation to staff and workers, and there will not be a high-level spiritual motivation. In this case, the psychological yearn of the staff and workers for shorter work hours cannot be satisfied, and the opportunity for them to take part in democratic management will also be constrained. Moreover, due to the unreasonable work system, the formation of a series of enterprise spirit, such as the value concept, moral standard, and behavioral norm, which the enterprise has advocated, will be delayed. We consider that the enthusiasm of the staff and workers is the basic motive force for farming enterprise culture. When the scope of mental investment is expanded to the reform of the work system, and when more time is provided for staff and workers to take part in democratic management, the enthusiasm of staff and workers can be motivated in a greater degree. Under this situation, enterprise culture can be promoted to maturity, and the perfection of enterprise management can also be promoted. This is the third reason for the factory to implement the "6 hour—2 hour" work system.

Fourth, it is necessary to transform the life-style of the staff and workers from a closed style into an open style. Since the 3d plenum of the 11th CPC Central Committee, the income of the enterprise's staff and workers has been increased by a big magnitude, and they thus have a new demand for spiritual life, and new targets. They not only need a new labor method, but also need a new way of social life, new relaxation and entertainment methods, new ways of social service, and new consumption methods. Under the 8-hour work system, although the life-style of staff and workers has also been changed, most staff and workers are still within a closed cycle—"a struggling morning, a crashing afternoon, and a tired evening." Although such a dull life-style can be compensated by a continual increase in material income, it will easily induce staff and workers to have negative morale, and to generate a tiresome feeling, and a feeling of being tired at work, and it will even affect their work interest and labor enthusiasm. Therefore, it is imperative in implementing the work system reform, and in giving more free time to staff and workers. This is the fourth reason for the factory to implement the "6 hour—2 hour" work system.

Second, the Superiority of the "Six Hour—Two Hour" Work System

Since the implementation of the "6 hour—2 hour" work system, the factory's economic returns and labor productivity have not decreased but have increased in a big way

under the situation where equipment and personnel have not increased, but the raw materials price has increased and this increase has to be digested internally by enterprises. In 1985 after the "6 hour—2 hour" work system has launched on an experimental basis, labor productivity and the amount of profit and tax achieved by the enterprises, when compared with that of 1984, have increased by 10 percent and 13 percent respectively. When a 1986 is compared with 1985, labor productivity and the amount of profit and tax achieved have increased by 9 percent and 14 percent respectively; and 1987 when compared with 1986, labor productivity and the amount of profit and tax achieved have increased by 9.3 and 16.9 percent respectively. Other economic indicators also have been increased. The superiority of the "6 hour—2 hour" work system is mainly shown in the aspects listed below:

First, it has aroused the enthusiasm of staff and workers in learning science and culture. Since the implementation of the "6 hour—2 hour" work system, staff and workers have been able to have time for learning skills, and the enterprise has been able to make an arrangement for its staff and workers to learn skills and to reorganize courses in time and in accordance with production requirements. Moreover, since the knowledge and skills obtained by staff and workers are closely linked with production realities, staff and workers have been able to apply them in production. Due to that staff and workers have less of a household duty burden, they have greater learning enthusiasm. Consequently, implementation of various training systems has been promoted, and positive effects in raising the quality of the training courses has also been brought about.

Second, staff and workers' concept of organization and discipline has been enhanced. Under the "6 hour—2 hour" work system, labor time has been relatively reorganized, and tasks have become relatively condensed. These have exerted an external pressure on accelerating the pace of work, have lashed at the bad habit of neglecting disciplines and the bad habit of ignoring efficiency, have induced staff and workers to concentrate in the process of production, to keep improving and to be conscientious and meticulous, and to stop various discipline-violating phenomena such as being late to work, leaving work early, leaving their post for chatting with others, and so on. At the same time, the time for staff and workers to take part in democratic management also has been increased, and they also have further understanding of the essential nature of strict management. Therefore, they have become more conscious in observing discipline.

Third, work norm and organization of work have become more rational. The implementation of the "6 hour—2 hour" work system has reduced the labor time of each member of the staff and workers per day. In this case, in order to fulfill the production duties originally fixed, the work norm has to be increased; and in order to fulfill or to overfulfill the work norm, all workshops,

sections, and teams and groups have to give play to their strong points, to pool the wisdom and efforts of everyone, and to release the potential production capability into a real production capability. In this way, continuous corresponding readjustment in the work norm and organization of work has thus been brought about, and they have gradually been rationalized.

Fourth, energy consumption has been reduced, and the problem that the factory had to stop production because of insufficient electricity supply has been solved. In the past, the enterprise had been puzzled by two problems on the aspect of energy supply—first is frequent power failure and the result of operating at a under-capacity level, and second is low equipment utilization rate, high waste of energy, and low effective utilization rate of energy. Under the “6 hour—2 hour” work system, the factory operates 2 hours less a day but can also fulfill the tasks that have to be fulfilled in 8 hours a day. This has thus lessened the pressure of insufficient energy supply on the enterprise, and has also blocked the loophole of energy waste.

Fifth, vitality in carrying out ideological and political work in the enterprise has been brought. In the past, ideological and political work was conducted after the 8 hours of work of staff and workers and it was difficult to achieve expected results. Since the “6 hour—2 hour” work system, time for staff and workers to learn and study has been increased, and their burden of household duties, has also been alleviated. In this way, good conditions for enhancing the persuasive power and attractiveness of ideological and political work have been created.

Third, Several Points Learned

First, a work system should match the level of productive forces. Viewed from a phenomenal angle, the work system adopted by an industrial enterprise is the reflection of people's subjective will. However, virtually, the system adopted has manifested the objective requirement of the development of productive forces. Therefore, the length of a work day cannot be adjusted in accordance with one's inclination. The length of a work day is constrained by productive forces and it can help promote the development of productive forces. Since this factory has decided to implement the “6 hour—2 hour” work system, it has been upholding the following principles: (1) It has to proceed from the real situation of the enterprise itself, and it should have a certain level of economic and technical support. (2) It should ensure that labor productivity will not fall, and should ensure that this system is advantageous to enhancing the reserve energy of the enterprise. (3) The principle of grasping the two civilization's at the same time should be adopted, and the idea of raising the cultural and technical quality, and the ideological and moral quality of staff and workers, and enriching the leisure cultural life of staff and workers should be combined organically with that of enhancing the scientific management of the enterprise. It is exactly due to that this factory has upheld these

principles, it has thus been able to enable the “6 hour—2 hour” work system to match the objective requirements of the development of productive forces, and has been able to make itself operate along a healthy path.

Second, the practice of shortening work hours and that of promoting the full-load work method should supplement each other. The “6 hour—2 hour” work system and the full-load work method are effective levers in enhancing enterprise management and in increasing economic returns. Although they are different in form, they are the same at the starting point for solving problems. It is because one of the fundamental aims of implementing the “6 hour—2 hour” work system is to solve the problems of low utilization rate of work hours, irrational organization of work, unscientific work norm, loose work schedule, and the problems of loose disciplines, unemployment, and in effective use of people and material thus brought about. Speaking in this aspect, to implement the “6 hour—2 hour” work system is to implement the full-load work method. Moreover, the “6 hour—2 hour” work system has at the same time lessened the livelihood burden of staff and workers. If the livelihood burden of staff and workers is not reduced at the same time when the full-load work method is being implemented, and when time passes, staff and workers will have a negative mentality, and full-load production will thus be affected. The reason why this factory has achieved good results in the course of the implementation of the full-load work method, and why this method has been welcomed by staff and workers is that it has implemented the “6 hour—2 hour” work system at the same time.

Third, the practice of shortening work hours should be of help in training a new generation of people. Under the “6 hour—2 hour” work system, staff and workers can have more leisure time. However, it does not mean that they can let things drift. Under the present economic and education level of China, effective guidance should be guiding staff and workers to use their increased-leisure time. For instance, time, which will not be allocated by staff and workers themselves, can be set, that means staff and workers have to take technical and cultural training courses organized by enterprises. Practices proved that, at the early stage when work hours are shortened, it is essential to do this, and it is also very beneficial. With the increase in the level of productive forces, the perfection of material conditions in society, and the enhancing of staff and workers' consciousness of being master of society, the portion of the time to be spent on activities organized by enterprises in the increased leisure time of staff and workers should gradually be reduced, and the proportion of time for staff and workers to spend on free activities should be increased.

Fourth, the practice of shortening work hours should be closely combined with the practice of bringing vitality to enterprises. The practice of shortening work hours is also an important way to digest unfavorable factors and to increase competitive capability under the situation

where the raw material's price is increasing, and there is an energy shortage, and increasing severe competition. The current competition among enterprises in fact is competition of returns and vitality. Enterprises are facing similar external conditions, and they cannot only use usual methods to enhance their competitive capability and digestive capability. They should find new methods from that of shortening work hours. In particular for enterprises that cannot operate at their capacity because of shortages of energy and raw materials, or have poor economic returns due to market saturation and piling up of stocks, even though they do not have the conditions for shortening work hours, and thus cannot really implement real work system reform, they can still, as an emergency measure, reduce production of products that cannot realize their value by shortening work hours within a fixed period, so as to alleviate the contradiction of insufficient supply of raw material, and to further find new methods and to search for new and favorable turns.

Economic Reform Outlook for 1989

40050323 Hong Kong CHING PAO [THE MIRROR]
in Chinese No 1, 10 Jan 89 pp 32-35

[Article by Jung Chang 2837 4545: "Rigorous Clean Up, Prudent Reform—Outlook for Economic Reform on the Mainland During the New Year"]

[Text] An authoritative person has disclosed that 1989 is to be termed "the economic readjustment year." This is to include readjustment of the industrial product mix, a slowing of the overly high speed of industrial growth, and maintenance of a sensible national economic growth rate. Restriction of investment, control of demand, and an increase in supply is to be used to attain a nationwide price rise rate of increase markedly lower than for 1988. Action is to be taken in various fields to promote a substantial increase in agricultural production, including grain and cotton output, and foreign trade is to be further expanded. Major efforts are to be made to develop education and scientific and technical endeavors, etc.

With the beginning of the new year, the Chinese Communist authorities made "stock taking and restructuring" their main theme. State Council Premier Li Peng said that effective control of inflation, rectifying the economic order structure, and macroeconomic adjustment will require use of economic, administrative, legal, and disciplinary measures, as well as ideological and political work for its realization. When results can be obtained from the use of economic methods to regulate the macroeconomy, every effort should be made to use economic methods; otherwise required administrative methods are to be adopted, including techniques and methods found to be workable and effective in the past. These administrative actions are not to be simplistically regarded sweepingly as a "retreat."

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product mix, a slowing of the overly high speed of industrial growth, and maintenance of a sensible national economic growth rate. Restriction of investment, control of demand, and increase in supply is to be used to attain a nationwide price rise rate of increase that is markedly lower than for 1988. Action is to be taken in various fields to promote a substantial increase in agricultural production, including grain and cotton output, and foreign trade is to be further expanded. Major efforts are to be made to develop education and scientific and technical endeavors, etc.

Three Major Danger Situations Need To Be Surmounted

In talking about the serious current economic situation, State Council spokesman, Yuan Mu [5913 2606], acknowledged that investment inflation, consumption inflation, and even loss of control over both investment and consumption have led to the excessive printing of currency, too large a volume of credit, inability to achieve financial balance, and the existence of various elements of instability in economic life. In order to counter these problems and difficulties, improve the economic environment and rectify the economic order, and re-establish order, everyone will have to tighten his belt to create better conditions for reform and opening to the outside world.

According to the analysis of an authoritative expert, today's serious difficulties are utterly different from the situation that existed during the 1960's and 1970's, when the economy verged on collapse, in that real economic strength has increased very greatly. Nevertheless, the crisis of confidence among the public at large is certainly not to be treated lightly. In addition, the institution of restrictive policies, and the lowering of the speed of economic growth, while taking stock and restructuring, is to prevent an "overreaction." The use of completely restrictive tactics to the accompaniment of great fanfare might easily produce a large shock leading to a tremendous decline in production, and the danger of an economic slump or even a depression. There is also a danger that increased macroeconomic regulation and centralized control might easily produce a system regression and backtracking, thereby restricting once again the vitality of enterprises' operations, and the vigor of commodity markets that has only so recently appeared. Some people worry that "where it took a full 10 years to enliven the microeconomy, the macroeconomy can be controlled to death over night."

The above three "dangerous situations" increase Chinese Communist difficulties in taking stock and restructuring in order to change the vicious cycle that goes from "loss of control over investment to overheating of consumption, to super high speed production, to inflation to price rises."

Some reports say that gross national product for 1988 may reach 1.3 trillion yuan renminbi, a nearly 20 billion increase over 1987. Nevertheless, the government budget deficit will be larger than in 1987. Not long ago, Minister of Finance Wang Bingqian [3769 0014 0051] said that since 1979, there was a surplus only in 1985 amounting to 2 billion yuan. There was a deficit in the other 9 years. Reasons for this were relatively slow growth of financial revenues and rather fast growth of expenditures producing an extraordinarily pronounced conflict between capital supply and demand. Economist He Xin [0149 2450] pointed out there has actually been a financial deficit for 10 years in a row inasmuch as it makes no sense to carry internal and external debt as income. Borrowed funds and earnings are two different matters altogether, so such handling should be eliminated. Thus, in 6 years the financial deficit exceeded total budget income by 10 percent. Such a deficit budget policy amounts to blind acceptance of the "multiplier" theory in Keynesian economics of encouraging consumption in an effort to make high consumption and high waste spur the development of production. This leads to an inflation of the volume of bank credit and a sharp expansion of the money supply.

Statistics show a steady 30 percent annual inflation of total investment in fixed assets throughout mainland society since 1983. In 1983, total investment was 136.9 billion yuan. In 1988, investment broke the 420 billion yuan mark in an abrupt 70 billion yuan increase over the previous year. Reportedly, nearly half of the country's annual processed steel output was used, either directly or indirectly, in capital construction. In addition, 40 percent of investment was converted to consumption funds. This resulted in the conversion of 168 billion of a total of 420 billion yuan, causing a heavy impact on consumption markets. No wonder that the volume of market currency flow during the past several years has increased 30 percent each year, greatly exceeding the speed of economic growth. This situation of total social demand being greater than total borrowing powered the rapid rise in prices.

Because of an accumulation of inequities in the price system over many years, plus the lack of orderliness in markets occasioned by "official racketeering," "private racketeering," and "barriers," the Chinese Communists decided on a courageous reform plan. In this connection, State Council Deputy Premier Yao Yilin [1202 0181 2651] said that the Beidaihe conference had considered undertaking price and wage reforms first, and that it had fully considered the difficulties in doing so, namely how to get out of the present predicament. Following this conference, the central leadership and study units explored this problem more deeply, everyone expressing quite a number of opinions. Problems that had appeared in the economic climate, and the turmoil, corruption, etc. that had occurred in the process of developing from a product economy to a commodity economy were also studied. The extent to which capital construction should be held down was also studied, and various actions were

proposed to solve the problem of orders and proscriptions going unheeded. Once there were multiple benefits to be gained, each trade and industry had its own interests, and each jurisdiction had its own interests unlike the past when they had to obey commands. Once authority was delegated, macroeconomic control did not keep pace, and a mechanism for self-limitation was not built at the lower levels. As a result, some matters are extremely complex, and not very amenable to solution. Understanding a problem may require repetition, and repetition of practice. Changes have occurred in the assessment of situations from Beidaihe to the 3d plenum of the 11th CPC Central Committee. In the discussion of price and wage system reform, the more discussion, the deeper it went, and it was felt that there should be complete reform and integrated reform. Price reform alone was not workable.

By paying just a little attention, one can discern that the first draft of the wage and price reform plan that the Chinese Communists first announced in 1988 as having been approved in principle at the Politburo Conference in Beidaihe, and which was supposed to be openly discussed by all the masses, has been temporarily shelved. In its place has been a series of strong State Council-announced renovative measures. Since the 1st session of the 7th National People's Congress, when he was elected premier, Li Peng has recently demonstrated more and more his authoritative position among the heads of government in China in taking charge of political affairs. Now he has announced that the speed of increase in industrial production for 1989 will be maintained at around 8 percent.

Readjustment of the Structure To Insure Supply

At the national planning conference and the economic system reform work conference held at the end of November 1988, Chinese Communist General Secretary Zhao Ziyang proposed the need to seize the opportunity for economic readjustment in order to score new achievements in rationalizing the industrial structure. Although Li Peng's blunt readjustment of these words did not sound as well as development; nevertheless, a realistic attitude left no doubt about what was to be done, and that everything could be handled well. Since this was to be a readjustment rather than a development, certain things would be taken away and certain things would be gained; there was to be neither development of everything nor the preservation of everything. Only by giving up certain portions temporarily could the economic climate and order be brought under control to achieve stable development of the next step in the economy.

In order to avoid situations such as occurred in the past when failure to take associated actions at the time power was delegated led to individual chiefs going their own separate ways, dividing up markets, or even engaging in various kinds of trade "wars," the Chinese Communist top leadership decided to take back some authority.

Reportedly, the central government's percentage of financial revenues was more than 30 percent 10 years earlier, but by 1988 it was less than 20 percent. After local governments at all levels instituted financial contracting, local withholdings of funds outside of the national budget amounted to 227 billion yuan, while 10 years previously it was only 45.3 billion yuan. Li Peng proposed a somewhat greater centralization of funds to increase the central government's financial strength. According to some reports, the central government percentage of national income was to gradually rise to 28 percent, between 60 and 70 percent of it being central government financial income. Certain tax preferences accorded local government were to be abolished, and disbursements of funds for specific projects were also to be reduced. Limited funds were to be used to improve the industrial structure, and to increase effective supply in society.

Beijing University's renowned Professor Xiao Zhuoji [5618 3504 1015] believes that a policy of "using reform to advance" must be followed by improving the economic environment; lowering the speed of growth of production cannot be done "with arbitrary uniformity." All high demand, high return, high technology, and high foreign exchange earning projects should be developed vigorously; projects that must be protected in basic industries such as energy, transportation, and raw and processed materials industries must be safeguarded; and the industrial mix must be optimized. Other projects such as buildings, halls, centers, and institutes, and the mindless development of duplicatory processing industry projects, including up to 100 production lines for color television sets and refrigerators when consumption appears saturated, should be strictly curtailed.

In the decision of high level Chinese Communist leaders to greatly curtail investment in capital construction during 1989, Li Peng advocates cutbacks totaling more than 50 billion yuan. In addition, he wants to take rigorous action for vigorous curtailment of the purchasing power of social groups, and to call a halt to luxury and extravagance. During the autumn of 1988, after Li Peng personally signed an "urgent notice," the sale of 29 different high quality specially controlled products was restricted; however, social group consumption of daily necessities, foodstuffs, and medicines that are not specially controlled continued to increase. Consumption figures for the whole years are estimated at 66 billion yuan, up 19 percent over 1987. The State Council intends to reformulate total wage and bonus amounts for state agencies, state-owned enterprises, and public agencies to carry out a two level control by the central government and provinces, municipalities, or regions, rigorous supervision being exercised by banks, financial, auditing, and procuratorial units. In addition, various actions are to be taken to channel, shift, and delay public consumption. All possible means are to be used to stabilize the currency, to control the printing of money and the size of credit, to make available savings accounts that protect value, bonus savings accounts, savings

account for major purchases, and savings accounts for houses, to issue debentures and stock shares, and to operate all kinds of insurance industries in the widespread soaking up of idle funds in society.

Chinese People's Bank Advisory Office Deputy Director Shen Rixin [3088 2480 2450] suggests that banks should promote the sale of negotiable securities in order to reduce the amount of currency in circulation, accelerate the circulation of capital, reduce charge accounts and payment delinquencies, safeguard enterprises' credit standing, and help in the collection of taxes and audits. At the same time, flexible use should be made of gold reserves in keeping with the laws of value and in accordance with market conditions. When the price rises, the sale of gold should be considered instead of waiting until foreign exchange is needed before selling gold. The amount of gold allocated and supplied in China for the production of jewelry should also be increased as a means of withdrawing currency from circulation.

Cleaning Up the Economic Environment To Advance Reform

Yuan Mu maintains that during the new year, stock taking and restructuring of the chaotic situation in the commodity circulation realm is of crucial importance. The various state-owned companies must be determined to clean up. Failure to separate government administration from enterprise management, failure to halt government-run commerce, speculation and profiteering, middleman usury, abuse of official position for private gain, offering and accepting bribes, graft and corruption, and violation of the law and party discipline are to be strictly punished. Various rules and regulations are to be established to increase market control over the means of agricultural production, grain, processed steel, and non-ferrous metals. The cornering of resources, monopoly prices, making purchases for the purpose of resale at a profit, hoarding for the purpose of profiteering, and such illegal conduct is strictly forbidden. Reportedly the authorities concerned have prohibited profiteering in the sale of 22 different commodities including petroleum, motor vehicles, processed steel, tractors, motorcycles, copper, aluminum, lead, zinc, tin, nickel, pig iron, lumber, cement, soda ash, solid caustic soda, rubber, plastics, chemical fertilizer, cotton, sheep wool, cashmere, agricultural pesticides, plastic sheeting used as mulch in agriculture, newsprint, and colored television sets.

Market exchanges are to be carried on openly, receipts are to be issued, and payments are to be in cash. They are also to be conducted in accordance with normal procedures and the law in order for greater ease in exercising supervision more effectively. Some reports say that the rise in prices is attributable primarily to increases in procurement prices for various agricultural and sideline products including grain and cotton. The Beijing municipal government has ruled no change in prices during 1989 for resident's rations of grain, cooking oil, meat, eggs, and sugar in order to calm public concern.

Reportedly the focus of reform is on enterprises once again. This is the recommendation of Li Yining [0632 0110 1337], and numerous other renowned students of the problem, in the deepening of reform. Full coordination among the three links of state readjustment and control, the market mechanism, and the enterprise mechanism is needed in the operation of the economy, as well as an emphasis on first improving enterprises' own decision making about how their enterprises are run. The authorities will push further for a separation of government administration and enterprise management, and for perfection and development of contract responsibility systems for operations. They will promote openness in the operations of enterprises, responsibility for their own profits and losses, offer rewards for the superior and eliminate the inferior; and they will support enterprise mergers and partnerships for the development of enterprise groups. Statistics show that since the "Bankruptcy Law" went into effect in November 1988, more than 400,000 enterprises have gone bankrupt, and some experts estimate that another 300,000 will merge or fold.

The enterprise stock share system, which has been tried out for several years, has recently become a hot topic of conversation once again among people in the field of economics. Currently more than 6,000 medium size and small enterprises around the country use the stock share system. Reports say that during 1989, share certificate test areas will be set up in Guangzhou, Shanghai, and Shenyang. Zhang Yanning [1728 1750 1337], a deputy director of the State Restructuring of the Economic System Commission, believes that, as a form of organization for enterprises, the stock share system is a reflection of property relationships just as the contract system is a management form for enterprises that reflects the relationship among responsibilities, rights, and returns. Enterprises practicing contract systems may use the stock share system as a means of raising capital to develop production. Enterprises using the stock share system should also set up contract systems in which a responsibility system is the centerpiece. At the present time, the state is not prepared to promote the stock share system across the board; it will have to actively run pilot projects, and devote its energies primarily to further perfecting and developing the contract system.

Need To Address Civilization Building

Following his return from a visit to Europe not long ago, Chinese People's Political Consultative Conference member Luo Yuanzheng [5012 0337 6927] issued an appeal. He said that because of the increasingly great emphasis on the economy, improvement of the quality of the citizens' knowledge and ethics has been neglected. The development of society is a form of systems engineering in which reform must be conducted in an overall way. There must be a cleaning up all around. He said that, without exception, all the developed countries of Western Europe devote plenty of attention to the education of their citizens. Overemphasis on the economic objective of attaining a "reasonably well off" standard of

living by the end of the present century, and on what per capita income will be etc., without giving sufficient thought to overall development of the society, politics, the economy, and culture as a whole will lead to worrisome problems about "social ethics," "fair-mindedness," and "impartiality." Social progress should not be measured solely in terms of productivity, but also in terms of social, spiritual, and political standards. The CPC Central Committee resolution of 1986 on establishing socialist spiritual civilization was a fine statement, but it was not diligently carried into effect. Today a new "thesis about the uselessness of studying" is running rampant once again. From primary school pupils to middle school students, college students, and on to a small number of professors, there is a craze to do business. Campuses have become marketplaces in which knowledge is being devalued. At the same time, without a high degree of cultural information and science and technology, a modern society cannot be realized.

The Chinese Communist upper echelon is attentive to this problem. During 1989, it will take forceful actions to develop general education, and the pay and emoluments of intellectuals concerned are also to be suitably improved. According to an authoritative person, the present low pay and emoluments is not just limited to intellectuals but also applies to cadres and public servants in state agencies. The state does not have the resources to raise the pay and emoluments of a portion of its personnel very much, while at the same time attention must be given to how much all levels of society are able to bear.

Hu Qili proposes the strengthening of propaganda about the building of a spiritual civilization; the human factor as well as material factors should be taken into account. In talking about patriotism, the United States also speaks of selfless contribution, so how can our socialist society not do the same? Once a nation loses its cohesiveness, it has no hope. One has to realize that a psychology that rejects reform has existed for a long time. When difficulties are encountered, this psychology may become more prominent. The four basic principles cannot be lost, and hopes that we might abandon any one of them is an illusion. People should have self-respect, be self-possessed, and have self-regard, but they should not be too self-important, think of oneself as the wisest person on earth, improperly belittle oneself, or needlessly humble oneself.

Gu Xiulian on 10 Years of Reform

OW0603113889 Nanjing XINHUA RIBAO
in Chinese 17 Feb 89 p 2

[Article by Governor Gu Xiulian: "The Great Reform of 10 Years—Preface for '10 Years of Reform in Jiangsu'"]

[Text] Beginning with the 3d plenum of the 11th CPC Central Committee in 1978 and until the present, China's economic restructuring has been going on for 10 years.

—Ten years of reform has greatly advanced the development of Jiangsu's rural economy. The wide introduction of the contracted household responsibility system with remuneration linked to output; the continuous improvement of the two-tier operation system; the emergence of many specialized households and specialized groups; and the rapid expansion of all kinds of economic associations have greatly stimulated the intelligence and enthusiasm of the vast numbers of peasants in production and business. Rural productive forces have been further released, the structures of agricultural production and agro-industry have been corrected, and the rural commodity economy has been developing on all fronts. The percentage of the output value of rural enterprises in Jiangsu rose to 44 percent in 1987 from 20 percent 10 years ago. This historic change has engineered a fundamental transformation in Jiangsu's rural economic structure and has played an important role in advancing agricultural development, promoting changes in the rural workforce, increasing the incomes of peasants, speeding up development in small towns, and narrowing the gap between agriculture and industry.

—Ten years of reform have brought great changes to the outlook of Jiangsu's industrial and commercial enterprises. Economic restructuring has centered on stimulating enterprises. After simplifying administration, delegating power to lower levels, placing enterprises under the control of localities, reducing taxes, sacrificing profits, and many other reforms to stimulate large and medium-sized enterprises, we moved on to separate the two powers in enterprise, focusing mainly on the contracted managerial responsibility system, and entered the phase of reforming the managerial mechanism, leadership structure, and internal distribution system of enterprises as well as expanding lateral economic associations. This has enabled enterprises to strengthen, during operation, the mechanisms for making decisions, seeking profits, acting with restraint, and engaging in fierce competition. It has changed the past practice of enterprises living off the state and workers living off enterprises. In particular, it has gradually changed the overconcentration of administrative power in the state, and allowed enterprises, during their production and operation, to change from relying on the state for planning, marketing their products, and supply of raw and semiprocessed materials. Enterprises have moved from the stage of a product economy to that of a relatively independent commodity economy. The idea of market has improved greatly. To adapt to competition in the new situation, enterprise groups, business conglomerates, and joint-stock enterprises have emerged one after another. Mergers, leases, and auctions continue to increase. From 1987 onwards, state and collective-run enterprises introduced the contracted managerial responsibility system on a broad scale. This has provided better incentives for enterprises in their production and operation, bringing greater economic returns and social benefits.

—Ten years of reform has caused a new pattern in Jiangsu's urban economic construction to take shape. In 1983, the State Council approved a new system whereby all counties in Jiangsu were placed under the leadership of cities. From 1984 onward, urban reform unfolded throughout Jiangsu after experimentation. Thereafter it changed the long existing and inhibitive practice of vertical administration, running from the central authority downward. From production, urban and rural economic associations expanded to include circulation, technology, communications, and finance. This helped to advance the optimized combination of the factors of production, and gradually correct the structures of industries, enterprises, and product composition, playing an important role to further stimulate enterprises and develop the urban economy in an all-around way. As lateral economic associations increase, the service and radiating functions of cities strengthen increasingly. All types of commodities trading centers and specialized markets prospered. A new type of operation mechanism in which "the state regulates the market, and the market leads the enterprise" began to emerge. This has greatly increased the ability of cities to adapt themselves during the development of a commodity economy and strengthen the stamina of Jiangsu in economic development.

Ten years of reform have accelerated the shift of science and technology in Jiangsu toward production. As the restructuring of science and technology intensifies, it effectively strengthens the rapport between scientific research and production. During the last 10 years, the extensive application of practical and advanced technologies in the various spheres of industry and agriculture has reaped obvious economic returns and social benefits. Important technical projects for key areas of economic and social development, technical breakthrough, implementation of the "Spark Program," and development of high technology industry have all shown progress. Research in software sciences for scientific decision-making and modern administration has gained more attention, and played an increasing role in actual application.

—Ten years of reform has promoted the change of Jiangsu's economy into an export-oriented one. Jiangsu has a better material foundation and a natural geographic environment to develop an export-oriented economy. In particular, the opening up of the two coastal port cities of Lianyungang, and Nantong, the cities of Suzhou, Wuxi, and Changzhou, and the prefectures of Jiangning, Zhenjiang, Yangzhou, and Yancheng has provided favorable conditions for developing the export-oriented economy. Currently, nine cities and 40 counties in Jiangsu have been opened up. They are hard at work implementing the party Central Committee's strategy for developing the coastal regions. Overseas economic and technical exchange and cooperation are also on the increase, as are foreign trade and the introduction of foreign capital. All these will become the new growth areas in Jiangsu's economy.

—Ten years of reform have washed away some of the old views that have stifled the minds of people for a long time. Through practice, people were able to break away from “leftist” thoughts and influence; overcome the narrow concepts of a natural economy, a product economy, and a small producer; form the concepts for developing a socialist commodity economy; and improve their ideas about market, competition, time, information, and profits. The mentality and thoughts of people have undergone great changes. All these greatly help to intensify reform and free the productive forces.

Looking at the 10 years of reform, China has scored successes recognized by the entire world. Like other regions in China, Jiangsu's economic development and improvement in living standard is owed very much to reform. However, we must also note that reform has entered a crucial phase and that the old and new systems exist side by side. Therefore, it is inevitable that friction, contradictions and problems are present during this transition. Reform is facing many difficulties. Particularly, ever since last year, inflation and excessive price increases have appeared in our economic life. Complaints from the people have been many. The 3d plenum of the 13th CPC Central Committee has resolutely drawn up the policy for improving the economic environment, rectifying the economic order and intensifying reform all-around. This indicates that reform has entered a more profound, complicated, and difficult phase. Reform requires the spirit and courage of striving for a new cause, and acting as pioneers. We must proceed with a full understanding of the difficulties ahead, promote the transition from the old to the new system, and work for the establishment of a new economic structure that holds sway on all fronts.

Article Urges Pursuing Retrenchment Policy
HK0303133189 Beijing JINGJI RIBAO in Chinese
7 Feb 89 p 2

[Article by Tian Yuan 3944 3293, Zhang Wenzhong 1728 2429 0022, and Zhu Jun 2612 6511: “The Situation, Retrenchment, and Countermeasures”—first paragraph is JINGJI RIBAO introduction]

[Text] How should we view the 1988 economic situation? How should we assess the merits and inadequacies of the present retrenchment policy? As of now, what direction will China's reform and development take? Based on a vast amount of materials and data, several young economists of the State Council's Economic, Technological, and Social Development Research Center offer here their analysis and conclusions on these problems, which are being closely watched at home and abroad. In their view 1988 was a most dramatic year. Because of the continually adjusted macroeconomic policies, the national economy was abnormally active and unstable. One major problem, among others, was the creation in the population of the expectation of price increases, which widened the gap between market

demand and supply and resulted in exceedingly steep increases in prices. The central authorities, in this situation, adopted the extremely necessary and timely policy of retrenchment, the effects of which are now beginning to show: the growth rate of industrial production has slowed down. But from an overall point of view, the objective of the retrenchment policy is far from being fulfilled. Many items were not cut back as they should have been, and consumption funds have continued to expand, giving rise to many other problems. If not handled properly, there is a possibility that stagflation may occur. The most important thing at present is to stick to and carry through the retrenchment policy, and not to allow it to be scrapped half way. At this critical moment, we should examine the times and gauge well the overall situation, foster confidence, and in this way cause localities and enterprises now adopting a wait-and-see attitude to fall in line with the central authorities. This will also bring round the masses and put them into a more congenial frame of mind. Once the masses are relieved of the expectation of inflation, even without any new macroscopic policies, inflation will probably abate.

I. The Situation: Retrospection and Analysis

Economic developments in 1988 made it a most dramatic year. As macroeconomic policies were continually adjusted, the national economy was abnormally active and unstable.

1. *Level of economic activity kept rising and structural distortion intensified.* In 1988, industrial production in our country grew rapidly: Gross industrial output value was 17.7 percent higher than in the previous year, a growth rate second only to that of 1985 over the last 10 years. But, at the same time, fluctuations intensified. The average monthly growth rate in 1988, compared with the same periods in the previous year, was hump-shaped. October, with the highest rate and at the top of the hump, was 5 percentage points higher than July, whose rate was relatively lower.

As industrial production grew quickly, the supply of energy and raw materials correspondingly became more strained. The ratio between the power generation growth rate and the industrial production growth rate in the 11 months from January to November 1988 was 1:0.62, down 0.11 compared with the 1987 ratio of 1:0.73. The ratio between the industrial growth rate and the growth rate of railroad goods turnover was 1:0.25, down 0.29 against the 1987 ratio of 1:0.54. The important feature of economic development in 1988 was the high speed of economic growth and the resultant inadequate supply of energy and raw materials.

2. *The creation in the population of the expectation of price increases widened the gap between market demand and supply, resulting in sharp price hikes.* Since 1985, price indexes in our country have stayed at a relatively high level for several years in a row. In 1988, the repeatedly stressed “crashing through the gate pass of

prices," which painted an exaggerated picture of the risks involved in price reform, and the fact that the price index broke through the double-digit point, further fueled people's expectation of price hikes. The demand-supply contradiction has been further aggravated by serious extra distribution of national income in recent years.

Retail sales of social commodities in 1988 totaled 744 billion yuan, a 27.8 percent rise over the same period of the previous year. Changes in monthly growth rates were basically hump-shaped. The 38.6 percent peak growth rate value reached in August was nearly 10 percentage points above January's 19.3 percent, bringing about nationwide panic buying of commodities. And as panic buying over wide areas continued, price levels, compared with the same periods in the previous year, were climbing upward on a monthly basis. Between February and July, the retail price index for the whole society remained at double-digit level, and in August it broke through 20 percent. There was a similar growth in the worker living expenditure index, but the 20 percent breakthrough took place 1 month earlier, in July. Overall, the annual retail price index rose by as much as 18.5 percent. Meanwhile the aggregate amount of savings of the urban and rural population since April had dropped below the level of the same period of the previous year. During the peak of panic buying toward the end of August bank runs appeared in many areas, with the result that the month-end balance of savings of the population in August dropped by 2.6 billion yuan.

3. *An enormous increase in the money supply, leading to an enormous increase in money in circulation and loans for circulating funds.* The volume of money supply in our country went far beyond the planned target in 1988, and as a result both money circulation and loans for circulation funds increased enormously over the previous year, and in particular the growth in loans for circulation funds was anomalous. The trend over recent years has been that, regularly, the balance of circulation funds loans goes down from month to month in the first 5 months, but stops decreasing and starts to pick up in June. The increased loan amounts in June, July, August, and September occupy about 50 percent of the annual loans increase. And of this increased amount of loans, over 80 percent will be taken up in the last 3 months. But 1988 saw a different situation: The balance of loans for circulating funds in the first 5 months did not go down. It went up, the amount of loan increases occupying over 35 percent of the annual plan. The excessive loan increases continued up to August 1988. Toward the end of August itself, the increase in loans for circulating funds was 684 percent over the same period of the previous year, that is, 82.6 percent of the annual plan. Results of quantified analysis indicate that the increase in loans for circulating funds was directly proportionate to the industrial growth rate, with the tendency that the increase in loans for circulating funds in any 2 months would be most closely proportionate to the industrial growth in the month immediately following those 2

months, while the proportionate relationship between increases in loans for circulating funds and industrial growth within the same month was less close. Therefore, excessive capital input was an important cause of the overheated industrial growth.

4. *Economic results are improved but the economy is still in the low-level, extensive stage.* Industrial production results in 1988 improved, in particular the scope of increase in realized profit taxes (realized profit taxes of industrial enterprises listed in the budget between January and November grew by 17.3 percent). This had mainly to do with increases in product sales caused by panic buying and increases in product prices. On the other hand, enormous price increases in energy and raw materials resulted in a rise in costs, and more enterprises suffered from deficits (between January and November the amount of deficits for industrial enterprises listed in the budget grew by 12.7 percent and costs of comparable products, 24.9 percent). The portion of profits eaten up by rising energy and raw material prices was more than compensated for by profits gained from increased product prices. There was only a limited number of cases where an enterprise absorbed the rising energy and raw material prices by improved production management or technical progress. The increase in profits was due mainly to excessively vigorous market demand, which made possible increased sales prices and sales volumes and therefore the ability of enterprises to shift the losses caused by rising energy and raw materials prices.

5. *Excessive rate of increase of investment in capital construction and consumption funds.* In 1988, the amount of fixed capital investment in our country increased by 18.8 percent over the previous year. Of this amount, investment in local projects grew by 25.3 percent, and in four provinces and autonomous regions the rate of increase in local project investments grew by as much as 40 percent. Total wages for workers were up by 22.1 percent over the previous year, and this did not include the material goods granted to workers under various designations. The double expansion of investment and consumption seriously worsened the extra distribution of national income, and had unfavorable effects on the interests of both the population and the state.

Therefore it was extremely necessary and timely for the central authorities to have adopted the retrenchment policy. The consequences would be dire if the situation were allowed to develop of its own momentum.

II. Retrenchment: Progress and Inadequacies

Since the 3d plenum of the 13th CPC Central Committee, revolving around the basic direction of improving the economic environment and rectifying the economic order, various departments have adopted a range of measures which are beginning to realize the objectives of the macro-reduction policy of "controlling money and stabilizing finance." This has been demonstrated mainly in:

1. *Industrial production growth rate has begun to slow down.* October 1988 saw the growth rate of gross industrial output value at 20.4 percent. In December it was down to 18.3 percent. According to projections by related departments, it is possible for the January 1989 industrial growth rate to fall to 14 percent, and in months that follow the growth rate is expected to continue to fall.

2. *Panic buying has gradually eased up.* Since October 1988, panic buying on a nationwide scale has gradually quieted down. Urban and rural markets have begun to stabilize. The growth rate in the total retail amount of social commodities has fallen over 10 percentage points from the 38.6 percent level in August 1988.

3. *Savings of the urban and rural populations have started to climb back.* Since September, the savings of the urban and rural populations have started to climb back. In October 1988 the growth rate for the amount of savings was 22.7 percent higher than for the same period of the previous year. Toward the end of December the balance of urban and rural population savings reached 379.8 billion yuan, halting the passive trend of a falling monthly savings balance in August.

4. *Control over the scale of credit is beginning to show effects.* Beginning in September 1988, the growth rates for various categories of loans have fallen significantly compared with August. Absolute amounts of various loan categories in October fell compared with September. And compared with October, November fixed capital loans are lower still.

But, while there have been certain achievements, problems still exist. Viewed overall, the objectives of the retrenchment policy have not yet been achieved. Many projects that should have been cut have not been. Consumption funds are still growing, giving rise, moreover, to many other problems. Without proper handling, there is a possibility that stagflation may occur.

i. *Macroeconomic situation has not been improved at the root level.* In the 10 years of reform our country has undergone great change. Diverse main economic bodies have nullified methods once effective in dealing with economic anomalies. Because different main economic bodies occupy different economic positions, there exists a "temperature lag" and a "time lag" in their responses to the economic situation. When the economic growth rate is too high and inflation heats up, many signs of this will be reflected first in various macroeconomic indexes. Some leading indicators may reveal that the economy is already suffering maladies, but people may not be able to feel all these in their daily lives. For instance, an overheated economy may already be posing a serious threat to the long-term and stable development of the national economy. But the direct perception of local governments and enterprises may still be that the economy is prospering and both purchases and sales are doing well, and so they will continue working hard to expand the scale of

production and of fixed capital investments. Owing to differing evaluations of the situation, some local governments and enterprises cannot fully understand the central authorities' direction and policy. Their understanding of reducing the scale of capital construction and slowing down the economic growth rate may not be deep enough. Furthermore, as a result of past experience, many local governments and enterprises are worried that the retrenchment policy may be dropped half way, and that they would be the first to come to grief if they took the lead in implementing retrenchment.

The present economic situation has its adverse side. Although the central government has been very determined to improve the economic environment and rectify the economic order, owing to lowered policy efficiency the objectives of retrenchment have not been completely achieved. Despite a slower growth rate in fixed capital loans, the scale of capital construction has continued to expand. The pace of construction for many projects has been stepped up in a bid to push the amount of investment in the projects beyond the required 60 percent investment quota to ensure continued construction. Of the projects suspended in various localities, 75 percent had not begun construction at all.

ii. *Large and medium-sized enterprises enjoying good economic results have become the main targets of the retrenchment policy. Banks and enterprises begin to experience a credit crisis.* According to a survey carried out by the relevant department in nine provinces and cities such as Shanghai and Sichuan, industrial loans in the categories of restructuring, settlement of tied loans and bad debts, and the cutting back of various fly-by-night companies and so on have all been recovered. The recovered loans constitute about 30 percent of the total amount of loan reduction. But the remaining 70 percent of the cutback should not have been in the category of reductions and cuts in the first place. According to a survey conducted in 2,997 large and medium-sized state-run enterprises in 12 provinces and cities such as Liaoning, the total amount of loan reduction from these enterprises occupied 80 percent of the total loan reduction of all state-run industrial enterprises.

As banks tighten the money supply, credit relationships between banks and enterprises and among enterprises themselves begin to grow chaotic. Because many banks now only accept deposits and no longer give loans, many enterprises do not settle their accounts through banks and do so directly in cash, and so further enhance the pressure of the demand for money. Many local banks, to protect the interests of enterprises in their own regions, stall on advancing loans to enterprises outside their regions and thus lower the capital circulation rate. Among enterprises the phenomena of arrears and loan advancing coexist. These two different aspects indicate a worsening of credit relationships among enterprises. They also indicate that enterprises are having trouble with funds and are unable to conduct normal production and sales activities. What deserves notice is that the

present difficulties for enterprises are not created by the pressure of the market. The numerous cases of loan advancing indicate that overheated demand is not being effectively curbed. In the present domestic market, there are serious shortages and demand is still greater than supply. Although the central government hopes for a reduction in capital construction, the building materials and construction machinery markets are still very active.

iii. *Inadequate circulating funds in enterprises have retarded the growth of supply.* The enterprises' shortage of circulating funds is beginning to affect the provision of raw materials for them. Because of a lack of capital, raw materials needed in normal production are not purchased on schedule. According to statistics on the 26,929 state-run enterprises of industry and communications throughout the country, their reserve funds have gone down by 1.23 billion yuan.

iv. *There is a risk of the retrenchment policy being scrapped half way.* To avoid a production slide in 1989 (many comrades think that it may occur in the 2d quarter) and to resolve the difficulties enterprises have run into, a suitable degree of adjustment in the retrenchment policy is necessary. But retreat must be guided by principle. In some localities the economy heats up again after a brief spell of downward adjustment in a boom period. This tendency should receive serious attention. It seems that under pressure from various quarters, the risk of the retrenchment policy being scrapped half way is still there.

III. Measures and Choices

1. *Uphold the general direction of the retrenchment policy.* Although the retrenchment policy is beginning to take effect, some fundamental problems have yet to be resolved. Not only has the expansion of demand, capital construction, and consumption not been put under effective control, but also there is a tendency toward further expansion. Numerous localities and enterprises are now poised to make a move and all they need is some signal. The experience of the 1988 failure of the retrenchment policy has proved that once the retrenchment policy is abandoned people will rush headlong into mass action, creating new and greater expansion.

It is quite normal that some enterprises find themselves in a relatively difficult position in a time of retrenchment. One of the objectives of the retrenchment policy is to force enterprises in a poor condition to go bankrupt and to hit hard at fly-by-night companies. However, the production and sales difficulties now experienced by state-run large and medium-sized enterprises is a result of improper selection in carrying out the policy of retrenchment. But this cannot prove wrong the fundamental direction of the retrenchment. These problems can be satisfactorily resolved through suitable adjustment in the retrenchment policy.

2. *Steadily and safely adjust the ongoing retrenchment policy to ensure key construction and effective supply.*

i. While control over loans for fixed capital investment will continue, temporary loans with attached conditions will be given to enterprises with relatively good economic results. This is done to ensure that these enterprises will have a normal flow of circulating funds and can re-establish their credit relationships, so that a big slide in industrial production will not occur.

ii. In strict accordance with the production priorities laid down by the State Planning Commission, conditional support should be given to production items with good economic results. Strict control should be exercised over the scale of loans granted by various financial institutions. The number of projects undertaken depends on how much money is available. The retrenchment will be unified with structural adjustment.

iii. A loan priority order will be set up based on differing degrees of need for loans in different industries and enterprises. Priority for loans should be given to state-run large and medium-sized business and industrial enterprises with good economic results. Suitable care should be given to some new enterprises which have just started production.

iv. The implementation of retrenchment will cut not only capital construction, but also production. Some of the enterprises not doing well in their economic results, or whose product sales are bad, should stop production or go bankrupt. We should grasp this opportunity to bankrupt a batch of poorly performing enterprises so as to release funds for economically superior enterprises.

v. Selective support should be given to commodities related to national livelihood or capable of reabsorbing currency in abundant quantities, for an increase in effective supply is one important link in our way out of the difficult situation.

3. *Gauge and grasp the extent of retrenchment cautiously.* We have conducted monthly analyses on the 1985-1986 data and, supported by statistical tools, reached the following preliminary conclusions: For every 1 percent increase or decrease in the money circulation volume, there will be, respectively, a 0.22 percent increase or decrease in gross industrial output value; 0.222 percent in that of light industry; and 0.218 percent in that of heavy industry. This will in turn lead to a 0.155 percent rise (or fall) in the average retail price index; 0.194 percent in the consumption price index; and 0.569 percent in the rural trade price index. Therefore, in using the tools of retrenchment to improve the economic environment, decisions and analyses should be made well. That is, there should be a more explicit understanding of the effects and time period for every important decision. We cannot hasten and make decisions blindly. Instead we should handle the extent of retrenchment cautiously and scientifically.

4. *Adopt a firm but flexible money policy.* First, we must do everything we can to withdraw surplus money. If we want to do this, we must find out exactly where the money has gone. According to a survey of typical cases, at present, cash held by the population occupies about two-thirds of the present total cash flow volume, and one-fifth of it is held by individual households. So cash held by the population and individual households will be targeted in the withdrawal of surplus money. For the cash held in the hands of the population, the more practicable way at present is still withdrawal through credit. But there should be adjustment in the method used. For individual households, on the one hand we should provide every convenience to encourage them to settle their accounts through banks, and on the other hand we may practise the "persuasive purchase" policy, causing them to absorb more government bonds. Second, if, in case the surplus money withdrawn is not sufficient, in no way will we sacrifice the survival of enterprises (in particular those performing well) in order to rigidly reduce money inputs. As long as an enterprise meets the above-mentioned requirements, then however much money it needs, it will receive it. Otherwise the national economy may lapse into stagnation and we will be forced to pump in much more money if we want to set it moving again.

5. *Regulate and control savings and loan rates rationally.* Recently, the People's Bank of China has raised interest rates on loans and savings respectively. But interest rates on loans still tend to be low. As to the theory that raising interest rate on savings will have a significant influence in attracting savings, it is doubtful. It looks as though it is better for interest rates on savings to remain unchanged. But raising loan rates may have a notable effect.

Will raising interest rates seriously affect the production and operation of enterprises? Since interest occupies a very small proportion of the present cost structure of enterprises, a sharp increase in loan rates will not affect them much, with the exception of material supply enterprises. But even there the influence will be very small. When raising interest rates, distinction should be made between loans for fixed capital and those for circulating funds. Right now the core of the problem is the expansion of fixed capital loans, and so interest rates on them should be raised. Circulating funds are employed mainly in an enterprise's ongoing production and operation, and play a more significant role in maintaining effective supply. So the loan rates can be set lower than those for fixed capital.

At this critical moment of retrenchment, we should examine the times and gauge the overall situation well and stay calm. There is a process to go through before the inflation rate can be lowered. Even a far better economic policy would not be able to resolve all the problems immediately. We should have patience and wait for the retrenchment policy to show its effects. As for the difficulties enterprises are now facing, detailed analyses

are needed. Difficulties in enterprises which are economically superior should be tackled, whereas the difficult situation in which poorly performing enterprises now find themselves is precisely one of the hoped-for results of the retrenchment policy. But even in setting out to resolve difficulties for enterprises which are performing well, we should not undertake any drastic action. Right now the most important thing is maintaining confidence. If the central authorities uphold a correct retrenchment policy, this will, on the one hand, cause localities and enterprises adopting a wait-and-see attitude to change their stand and fall in line with the central authorities and, on the other hand, put the masses into a more congenial frame of mind. Once the masses are relieved of the expectation of inflation, then even without any new macroscopic policies, inflation will probably abate.

Economist on Mixed Ownership as Direction of Reform

OW2802212589 Beijing XINHUA in English
1535 GMT 28 Feb 89

[Text] Beijing, February 28 (XINHUA)—Today's ECONOMIC DAILY devotes half of its third page to an interview with the economist Liu Guoguang on China's economic readjustment and the direction of the country's reform program.

Liu, who is the vice-president of the Academy of Social Sciences of China, pointed out that there are two different views about the difficulties the reform program is facing.

Some people hold that only by re-exerting unified management can the economic order be rectified and price rises be controlled; others think the reform has approached its end within the framework of the public ownership system and that only by privatizing the ownership system can the reform go further.

In Liu's opinion, both views are groundless.

The report quotes him as saying that it will not do for the country to go back to the pre-reform situation, because the old system could not eradicate historical abuses.

As for privatization, Liu said, this is not appropriate to China's conditions. Neither is the capitalist model.

He said that the socialist economy is a planned commodity economy and the direction of the reform is to establish a socialist economy with a marketing mechanism under micro controls.

He explained that the system of pure state ownership will make it difficult to get rid of the shortcomings of the product economy, while the private ownership system will lead China to a bureaucratic capitalism under the present economic and political structure.

Therefore, he concluded, the mixed ownership system should be the direction of China's reform.

PROVINCIAL

Fuzhou City Promotes Industry, Agriculture
*OW2802222589 Fuzhou Fujian Provincial Service
in Mandarin 1100 GMT 21 Feb 89*

[Text] The total value of industrial and agricultural output in Fuzhou City exceeded 10 billion yuan for the first time and reached 13.3 billion yuan in 1988, increasing by 33 percent over that of the previous year.

According to a report on the results of economic and social development in Fuzhou City in 1988 released by the Fuzhou City Statistical Bureau today, in the past year, Fuzhou City seriously implemented the guidelines of the 13th CPC National Congress and the 3d plenum of the 13th CPC Central Committee, adhered to the policy of deepening reform, actively carried out the strategy for developing the coastal economy, and thus achieved new success in economic and social development. Fuzhou City registered comprehensive development in industrial and agricultural production, the market was brisk and prosperous, the development of export-orientated economy was stepped up, actual economic power was further strengthened, new development was also made in the fields of science, technology, culture, education, public health, and sports.

The gross national product value of the city in 1988 reached 7.2 billion yuan, an increase of 14.6 percent over the previous year. The total value of agricultural output was 3.4 billion yuan, an increase of 11 percent over the previous year. The total value of industrial output reached 9.97 billion yuan, an increase of 37 percent over the previous year. The per capita cash income of urban residents reached 1,197 yuan, an increase of 22 percent over the previous year. The per capita net income of peasants reached 689 yuan, an increase of 28.8 percent over the previous year.

The Fuzhou City Statistical Bureau's statistical report pointed out that, during 1988, the main problems of the city in developing national economy include the following: Total demand exceeded total supply, the supply of energy and raw materials was in short supply, the range of increase of commodity prices was too big and thus created a situation of inflation, and the retail prices of durable commodities including refrigerators, television sets, washing machines, tape recorders, electric fans, and bicycles rose by more than 28 percent over the previous year, due to crash buying of those commodities by the people. The index of living costs of staff members and workers rose by 28 percent over the previous year. The index of retail price of commodities rose by 29 percent over the previous year. Since the beginning of the fourth quarter in 1988, Fuzhou City has done a lot of work in improving the economic environment and rectifying the economic order and has achieved initial good results.

FINANCE, BANKING

State Council Decides To Levy New Tax
*OW2502182589 Beijing XINHUA in English
0831 GMT 25 Feb 89*

[Text] Beijing, February 25 (XINHUA)—The State Council has decided to levy a tax that will create a budget regulatory fund to strengthen control over the economy. It applies from January 1, 1989.

The regulations require that all state-owned enterprises and institutions, governmental bodies, army units, and local governments turn over to the state funds from their extra-budgetary resources.

The tax will apply to the incomes of all collectively owned enterprises, private businesses, and self-employed industrial and commercial entities after the deduction of profits and payment of income tax.

The regulatory fund will account for 10 percent of all revenue in the fiscal year.

The items that are exempt from the levy include incidental expenses in middle and primary schools, income from work-study programs, funds for colleges and vocational schools, repairs expenses in businesses, maintenance expenses in coal mines and oil fields, and tree-planting funds of forestry departments.

The exempt items also include those that already enjoy exemptions allowed by the State Council and the Ministry of Finance.

According to the regulations, governments at various levels will arrange for the introduction of the tax and the taxation bureaus will be responsible for its collection.

The fund that come from central institutions and 50 percent of the amount raised from local enterprises and institutions will go to the central financial administration.

Problems of Collecting Taxes From Self-Employed Businesses
*40060348 Beijing JINGJI CANKAO in Chinese
8 Feb 89 p 1*

[Article by correspondents Deng Quanshi 6772 0356 2457 and Yang Zhengwen 2799 2973 2429: "Undercurrents in the 'Small Tax Category'—Report on Tax Collection From Commercial Households"]

[Text] *Editorial comment: In the last few years, China's individually operating industrialists and traders have developed tremendously and come to play an important role in social and economic life. However, there has also appeared a general undercurrent—a large proportion of commercial households do not presently pay legally prescribed taxes. Many reasons are responsible for this situation, but the consequences of it are all the same: the*

state incurs financial losses, while the commercial households enrich themselves in this way, some even to the extent of becoming immensely rich upstarts. The masses resent very much the unfairness in distribution resulting from their illegal activities. Two reporters of this newspaper recently investigated this issue in Central China and studied the causes of the phenomenon and methods of possible solution. Their abundant facts and data show that the problem of tax evasion and resistance to taxation by individual entrepreneurs in industry and commerce has reached a stage where something simply has to be done in the matter. It is only by effectively straightening out and rectifying order in township trade fairs and markets, taking strong measures against law-breaking individual entrepreneurs in industry and trade, and the earnest implementation of all tax laws and regulations, that individual entrepreneurs in industry and trade can look forward to a healthy development in China.

"Small Tax Category," Large Illegitimate Profits

Tax from commercial households and tax from country fairs in townships are now generally referred to as "small tax category."

"Small tax category" accounts for a very small proportion of China's present total tax revenue. According to statistics of the Changsha tax bureau, tax from individual entrepreneurs accounts for a little over 1 percent of the cities total tax revenue. There are 230,000 individual entrepreneurs in Liaoning Province, but their taxes also account for only 5 percent. However, we discovered on our visits to the cities of Wuhan, Changsha, and Xiangtan that much illegitimate profit is made in the "small tax category." Last year, the 7,880 taxable commercial households in Changsha paid over 9 million yuan taxes. The more than 60,000 tax-paying commercial households in Wuhan contributed a tax revenue of over 84 million yuan. Data from these two cities show that China's commercial households are of considerable size, in numbers as well as in the amount of their taxes. Among them, some have developed into large enterprises of 100,000, 1 million, and even several tens of millions of yuan. When it comes to collecting tax from them, it is no more possible to treat them according to our old norms and old methods! And to treat them all uniformly as "small tax category" would also be disregarding the realities of the situation.

At present, various forms of tax evasion by commercial households is an extremely widespread and common occurrence in China's towns and townships, and intensified collections and control of their taxation has become a problem that demands prompt solution. From the State Tax Bureau down to the tax bureaus of Wuhan and Changsha, we were told by "official mouthpieces" that individual entrepreneurs evade about 80 percent of their taxes. However, individual entrepreneurs interviewed in Wuhan frankly admitted that it may even be more. An older individual entrepreneur told us, "One or the other of those 100,000-yuan commercial households

on Hanzheng Street, how did they make their profits? It's nothing but profits from not paying state tax! Getting rich on unpaid government tax! Without such profits, nobody can get rich." "If everybody would abide by the rules, nobody could get rich!" When we asked him what proportion of actual business is generally reported for tax purposes, he said at the most one-third. Another middle-aged man frankly admitted that all he reported was one-tenth. When a young person, who had been selected as a progressive entrepreneur, was asked by others why she qualified as progressive, she frankly said: "My tax evasions are somewhat below average!" Whether one-third or one-tenth, after interviewing and surveying individual entrepreneurs, and people in industry and commerce, in tax bureaus and in the public security bureaus, we believe that the present widespread tax evasion among commercial households is by far more than the portion admitted by "official mouthpieces." As to the extent of the tax evasion—is it 30, 60, or even 90 percent?—that depends on a more specific analysis of the different cities, different trades, and the different commercial households involved.

Some of the acts committed by commercial households to evade taxes and in resistance to taxations are really shocking. A comrade of the Qiaokou Ward tax bureau in Wuhan said that there was a certain entrepreneur by the name of Chen, who traded in hats. Last year, this man organized a clandestine processing place which processed over 300,000 hats at a profit of over 300,000 yuan, and he evaded over 30,000 yuan in taxes. This was later found out by the tax bureau, and he had to pay 70,000 yuan in overdue taxes and fines, which still left him with a profit of not less than 200,000 yuan, so that he is still a "hat magnate." A man from Zhejiang, a certain Zhang, was selling clothes in Hanzheng Street. By "underground" channels he imported clothes from Zhejiang and never kept any accounts of his purchases and sales. Last year one day, the public security, tax, and industry and commerce bureaus jointly went to investigate and confiscate his "black market goods," but the goods had already been disposed of. Under his bed they found several bags with money, containing over 60,000 yuan. Not only had this man never paid his legal taxes, but he even assaulted and abused the tax officers. On Jiaotong Street in Wuhan, there was a butcher, of whom the tax bureau and the procuratorate cadres asked 8 yuan in overdue tax, but he threatened to kill himself together with the law enforcement officers. Later, in a joint swoop, the public security, tax, and procuratorial officials found evidence of large-scale tax evasion, for which reason he was compelled to pay 8,000 yuan in overdue taxes and fines. These acts of disregard for discipline and law show that China's individual entrepreneurs are of a rather low moral quality, and that they have not fostered any concept of an obligation to pay taxes according to law. If the tax authorities would continue to neglect them, because they are of the so-called "little tax category," the problem of tax evasion will become much more serious. This would not only result in a great loss of state revenue, but would also be highly detrimental to

the healthy development of commercial households in industry and commerce, and have a very bad effect on the society at large.

In the last 2 years, Wuhan instituted some investigations of tax evasion by commercial households and stopped up loopholes; they recovered several hundred thousand to over 1 million yuan of overdue taxes. As a comrade of the tax bureau said, that money was "picked up." Wuhan Municipality established check points at road junctions in and out of the city, at wharfs, railway stations, and warehouses, to collect a supplementary "ad hoc tax on sundry goods," whenever commercial households shipped their "black market goods" in or out. By this means alone, 550,000 yuan of overdue taxes were recovered in 1987, and 920,000 yuan were recovered up to November 1988. During the three holidays of New Year, Spring Festival, and the National Day of 1987, Wuhan's tax bureau organized 14,700 men for an assault-type tax investigation of commercial households and in one sweep recovered 1.02 million yuan! These facts fully demonstrate that there is indeed much illegitimate profit in the "small tax category." Don't let these profits drift away freely!

Tax Collection Is Difficult for Many Reasons

When we investigated the collection and administration of taxation of individually operating industrialists and traders in the cities of Wuhan and Changsha, we always met with the response: "These people are hard to deal with, this matter is difficult to handle, these taxes are difficult to collect."

The term "people" that are "difficult to handle" refers to the fact that those who are engaged in individually operated industrial or commercial businesses are a rather mixed crowd, many being persons released from reform through labor and education through labor camps. Some unavoidably revert to their former aberrant ways, and at times it happens that they create difficulties for and offer resistance to tax bureau personnel. Less than 10 percent of them will nicely and honestly pay their taxes, we are told. Their general mentality is "what you can trace is yours, what you can't trace is mine." They drag out things to kill time, purposely put off payment, and show much cunning in their activities.

"This matter is difficult to handle." Here we have to do with the problem of mutual wrangling over trifles, and also the problems of such social irregularities as "pleading for favors for friendship's sake" and "going by the back door." What authority is presently in charge of these self-employed businesses? This is still not quite clear yet. It seems the units in charge are the departments in administrative control of industry and commerce, but these department can only estimate at the detailed business income of commercial households, they say they don't know about it. In the matter of tax collection, the industry and commerce departments are frequently

at odds with the tax bureaus. Moreover, some commercial households illegally trade in foreign cigarettes, high-class clothing, etc. and have these articles frequently sent through the post office. But when the tax bureaus ask the postal and telecommunications departments for inspection and control, while still respecting the citizens' freedom of communications, they run into trouble in some provinces and cities. The various functional departments of the state are sometimes not very cooperative. There is, furthermore, a disparity of tax policies between the various regions of the country, for instance, between Guangzhou, Shenzhen and Hunan, Hubei, and this too is an important reason why "this matter is difficult to handle."

"These taxes are difficult to collect." There are no documents to go by. Most commercial households do not keep account books, and where such are kept they are mostly false, and few are correct. They receive their goods through devious channels. For instance, the commercial households in Wuhan get most of their goods from Guangzhou, Fujian, and Zhejiang; there are smuggled goods, goods traded between commercial households, and essentially no invoices are made out to cover these goods. Equally devious are forms and methods of sales, such as "transactions outside of markets," "black market" transactions, "clandestine processing," and "clandestine wholesale operations." They play "blindman's buff" and "guerrilla war" with the tax officers. It is easy to imagine the difficulties the tax officers have in collecting these taxes.

The "three difficulties" are the objective difficulties in the collection of taxes from individual entrepreneurs. As to the subjective side of the problem, there is the "softness" of China's taxation policy, and the low quality of tax personnel; these are undeniably also real problems.

During our investigations at Wuhan, Changsha, and Xiangtan, we were generally told that our taxation policy lacks "firmness," i.e. that there are no compulsory methods and measures. The industry and commerce departments can order individual entrepreneurs "to cease operations within a certain time limit," "revoke their licenses," "confiscate merchandise," etc. The public security, public health, and epidemic prevention departments can all be much "tougher" than the tax departments. It is only the tax collector alone who is left without any powerful ways and means. This is precisely the opposite of what the situation is abroad. Even if the tax authorities have found out a case of tax evasion by an individual entrepreneur, the "law" according to which he is penalized is extremely "mild," and insufficient as a deterrent. A comrade from the Qiaokou tax subbureau in Wuhan told us that of all larger cases of tax evasion, involving 10,000 or more yuan, since 1984, they have instituted criminal procedures with the judicial authorities in 25 cases. As a result, 7 cases were dismissed without imposing criminal penalties, and in 18 cases the penalty was at most only 2 years, and the lowest half a year. After the tax bureau had made tremendous efforts

in prosecuting these cases, the law was all "leniency and benevolence." The offender was locked up for only half a year and suffered hardly any great loss in his economic strength, which amounts in essence to a failure to properly control those who evade taxes and resist taxation. Some individual entrepreneurs in Wuhan ridicule the tax and public security officers, saying: "You have worn yourself out, but don't get more than a few bucks! I come out after serving half a year and am rich as before."

The tax collecting contingent is "weak" because, for one thing, they are too few in numbers, and, second, they are professionally of low caliber. Taking Changsha as example, among the 170 men in charge of tax collections from individual entrepreneurs within the city, 116 are assistant collectors, hired by the subdistrict offices, some are retired cadres and some are workers. The regular tax cadres of the state mainly devote their time to the collection of large amounts of tax from state-run or collective enterprises and have no time to take care of the small tax category. In 1988, there were 7,880 tax-paying individual entrepreneurs within the city limits of Changsha, and each tax collector had to take care on the average of 46.3 of these tax-payers. The tax bureau of Xiangtan City reported to us that up to 80 percent of the tax on individual entrepreneurs at the basic level is collected by tax collecting agents. They are more familiar with the conditions of these tax payers, and that is most beneficial for the proper assessment of the base figure for business volume, but because of familiarity there have also been problems with bribery and "friendly favor taxation," making it difficult to stop tax evasion. Hanzheng Street in Wuhan is famous throughout the country as a small commodity distribution center and the equally famous and well-managed "Cultured Market." However, there one tax official has to take care on the average of 60 individual entrepreneurs, and the difficulties in doing so can well be imagined. Tax evasion by the individual entrepreneurs of Hanzheng Street is pervasive and serious. It is also not at all a rare occurrence that a few officials of the tax and industry and commerce departments, unable to withstand the temptations, take bribes and break the laws they are supposed to enforce. The comrade from the tax bureau also told us that there are now so many more tax categories, how are we to assess or collect all these taxes? These duties are really not easy to perform.

There Are Ways and Means To Collect Taxes and Administer Taxation

Even though the work of collecting taxes and administering taxation in the case of individually operating industrialists and traders is presently beset with many problems, and the difficulties of doing a good job of it are great indeed, it is not, as some people say, something that, "cannot possibly be well administered." During our investigations, many persons in responsible positions in the tax, industry and commerce, public security, and law enforcement departments expressed the belief that it is still possible to properly administer taxation. In the

course of the ongoing improvement of the economic environment and rectification of economic order, it would be definitely possible to attain a new and improved situation in tax collection and tax administration of individually operating industrialists and traders, if only every relevant department would put state interests above everything else, support the tax departments in their work, effectively coordinate their work, and adopt such forceful measures as:

Cracking down without the slightest softheartedness on all illegal business activities. The way that some individual entrepreneurs suddenly became enormously rich by engaging in illegal business, evading tax, and resisting taxation, the way they lead lives of debauchery, consort with prostitutes and gamble to their heart's content has presently become a problem that has aroused general resentment among the people at large. Only by stern measures against individual entrepreneurs who engage in illegal business can well-disciplined and law-abiding individual entrepreneurs be protected and be assured of a healthy development. On this question, the main trend of action is now too soft. Some people are worried that if we adopt stern measures, many individual entrepreneurs will close down. After our investigation, we believe that this will not happen. Due to the functioning of the profit lever, if one ceases operations, another will start up. Stern measures against individual entrepreneurs doing illegal business can also count on the support and welcome of all law-abiding entrepreneurs. In Wuhan, there are types of unlicensed "individual entrepreneurs," also called "flying tigers," whose operations specialize in racketeering and defrauding their customers. They are the "black sheep" who bring disgrace on the whole group of individual entrepreneurs, and if these black sheep are seized by the public security, industry and commerce, or tax departments, all legitimate individual entrepreneurs would be highly pleased.

Formulation of a taxation policy that suits China's national condition and the realities of the present individual entrepreneurs. The main trend in the present tax policy shows that its penalties are too light, some divorced from reality. It is now necessary to intensify the restrictive measures and powers of the taxation departments.

Replenishing the tax collecting contingent, improving the wage and bonus system for tax personnel. Presently, tax collecting work, especially collecting from individual entrepreneurs, is "eating from the same big pot." More tax collected means more insults and animosity, less tax collected means less trouble and still the same pay. The comrade from the Changsha tax bureau told us that if the policy would be properly adjusted, if tax collectors would be encouraged to earnestly collect the taxes the law prescribes, tax revenue from individual entrepreneurs could at least be doubled!

Joint supervision and administration, open operation of tax affairs. Since administration of individual entrepreneurs, fairs, and markets is jointly exercised by the

public security, industry and commerce, and the tax departments, tax affairs should be handled openly and not by single individuals alone. This could prevent bribery, as it could also ensure a more accurate tax collection. It is also necessary to strictly enforce discipline. Any tax collector found out to have violated discipline or broken the law, or taken bribes, must be severely punished without leniency.

Tax Office Leader Urges Better Enforcement of Laws

OW2302074389 Beijing XINHUA Domestic Service
in Chinese 1456 GMT 20 Feb 89

[Text] Beijing, 20 Feb (XINHUA)—Jin Xin, director of the State Administration of Taxation, revealed at a national meeting of directors of taxation bureaus held today that the State Council has decided to implement dual leadership, with the emphasis on vertical leadership, and to invest taxation organs with the necessary enforcement power.

Jin Xin said that one of the major reasons that taxation organs have failed to safeguard the integrity of the state tax law well and that taxation personnel have not properly performed their duties in accordance with the law lies in the lack of necessary enforcement power. In view of this, the State Council has circulated documents since the end of last year and invested taxation organs with the necessary inspection power to strengthen their enforcement power. This will greatly change the weak law enforcement measures of the taxation organs. He urges the subordinate taxation organs to boldly exercise the enforcement powers in strict accordance with the prescribed procedures so as not to abuse them.

Jin Xin said at the meeting that to ensure that taxation organs will be able to independently exercise their functions and powers in accordance with the law, the documents circulated by the State Council stipulate that dual leadership, with the emphasis on vertical leadership, be implemented among taxation departments. The documents also contain some unified regulations governing such issues as the appointment of directors and deputy directors of taxation bureaus at the provincial level and the establishment of tax bureaus on the basis of economic zones.

Economist on Money, Price Controls

HK2403012789 Shanghai SHIJIE JINGJI DAobao
in Chinese 20 Feb 89 p 7

[Letter form Dai Yuan Chen 2071 0954 2525 to Wu Jinglian 0702 2417 8834: "Concerning Improving the Economic Environment and Avoiding Economic Recession"]

[Text] Practice over the last few years has proved the theory of managing effective demand through monetary control as practiced by countries of the market economic system a failure in our actual application.

To control the quantity of money issuance in China, we must first put effective demand, which is the root cause and origin of the issue, under control. If we attend to trifles to the neglect of essentials, that is forcibly cutting money issuance, it will be enterprises' circulating funds, rather than effective demand, that are cut, and that, in turn, would lead to production "slides."

The Keynesian school does not advocate expansion of effective demand to stimulate the economy under any circumstances. It limits the use of this policy to where effective demand is inadequate while there are backlogs of production materials, capital and labor in the economy.

Comrade Jinglian:

At the present time there are two extremely contradictory phenomena in our economic life. On the one hand there is an overabundant money supply. The 1988 year-end amount of money in circulation increased by close to 50 percent compared with 1987, another peak increase in monetary issue following 1984. On the other hand, there have been severe shortages of funds for banks and enterprises, with the result that "banks are unable to attract savings, draw funds, lend cash, reclaim loans, and send or cash remittances," a situation which is ill-suited to banks as a credit facility and center for receiving and paying out cash. In quite a number of localities payments for purchases of agriculture and sideline products are being settled by writing out a debit note instead of cash. Arrears between enterprises are getting increasingly serious, so much so that normal production flows have been adversely affected. There is every possibility that as a result of shortages of funds, production in the 1st and 2d quarters in 1989 may drop.

So macroeconomic policymakers are faced with a dilemma. The improvement of the economic environment, as a remedy for the former phenomenon, calls for continual tightening of demand so as to control money inputs. But for the latter phenomenon, it seems that we need to loosen money control so as to avoid economic stifling and recession. This difficult dilemma is quite similar to the situation in early 1986. The only difference is that at that time the problem—the overabundant money inputs toward the end of 1984, following adjustment made in 1985, did not pose the dilemma situation until early 1986—took about a year or so to surface, while this time it has taken merely 2 months for a similar situation to appear.

The 1986 policy option was hailed by some economists as a "soft landing" and a show of high wisdom and craft in dealing with such a complicated economic problem, and, not without some complacency, remarked that it was they who timely put forward the "open-gate" policy. I can still remember the debate you conducted with some of these economists. Basically I agreed with your judgment on the situation that "tightening was attempted but no resultant cutback was achieved." If the problem then had not been as you judged, but had been, as judged by

some economists, inadequate demand, it would be extremely difficult to explain the quickness with which excessive expansion of total demand reappeared, and the environment worsened, to such an extent that in 1988 two-digit inflation was witnessed. But what I want to discuss with you right now is, how to study and unearth the deep causes of the present contradiction in which we see the paradox of simultaneous abundant money supply and shortage of funds and find, from such a study, policy options that can be practiced at the present time.

A Complementary Note on "Deregulating Prices and Control Over Money Supply"

Recall that in June 1988 you put forward the policy recommendation of deregulating prices but exerting controls over money." From an economic point of view this was highly perceptive, for it organically combined promotion of market reforms with strengthening of macroeconomic management. Now there are some people who chopped up your originally integrated idea and spread gossip that you have made bad suggestions. This is highly unfair. Because price reform is not wrong by itself. The problem is rather that it is impossible to conduct effective price reform when the macroeconomy was running out of control and demand was expanding excessively. This point was more than once taken up at the early January 1989 "Seminar on China's economic problems for Chinese and American Scholars" by economists from the MIT, the great center of the Keynesian school.

Here I do not want to go into the theoretical validity of this point. Rather I would like to dwell on its practical aspects and talk about the operational shortcomings arising from a misunderstanding of "exerting controls over money." It should be pointed out that "control over money" is the usual means adopted by market economy countries to manage demand. In those countries, except through government financial expenditures there is no direct control over demand. Regulating investment and consumption demands is done by adjusting the quantity of circulating money, which influences marginal profit rates and the marginal propensity to consume. The effects of the method are obvious. This is why those experts at the MIT treat "control over money" and "strengthening macro-control" as one and same thing. But where China is concerned, practice since 1985 has repeatedly showed that management of demand by means of money control has failed in practical application. Over the last few years the central bank of our country has time and again adopted the "control of base [ji chu 1015 4342] money" method, putting strict controls over the re-lending quotas for specialized banks in an effort to limit money issuance. However in China a rise or fall of marginal profit rate does not affect investment incentive. In the meantime the inflationary world is goading people's propensity to consume. Consequently, there is nothing of the kind of effective transference mechanisms of market signals and under this circumstance, adopting a simplified practice of issuing

less money does not resolve the imbedded cause which gave rise to increase in money supply. The total demand in society has not been really reduced.

On the contrary, for many years the primary concern of leaders at various levels has been the maximum amount of investment in fixed assets, belying an ignorance in the fact that enterprise production needs both fixed assets investment and reinjection of circulating funds, as a result not only town and township enterprises, but their state-run counterparts from local to central up have been operating in debts. An overwhelming number of enterprises have been relying on bank loans for their circulating funds. So once banks are short in funds sources, that is when banks are unable to reclaim loans for fixed assets, Banks will start taking back from enterprises loans for circulating funds, even including those budgeted for them. This is why control of money inputs both toward the end of 1985 and 1988 resulted in shortages of capital turnover for enterprises, with subsequent production halt or reduction, arrears between enterprises, and stagnation in the circulation realm. Moreover enterprises with suitable amounts of reserved funds were, precisely because of this reason, the hardest hit, while those with excessive reserved funds could ride over the rough times, the result of which in turn fueled the tendency of stacking up funds, budgeting liberally and spending sparingly; or settling cash transactions through non-banking channels to avoid collection of loans by banks. All these further aggravated the shortages of funds in society.

Therefore, the current phenomenon wherein excessive money inputs coexists with funds shortages, which looks paradoxical on the surface, is in fact an inevitable result of inappropriate regulatory and control measures. And from a theoretician's viewpoint, despite the rich implications in your idea of "control over money," you did not advocate the method of arbitrarily curbing the inputs of basic [ji chu 1015 4342] money. But given the quality of economic staff in our country, it cannot be denied that the idea of "control over money" is liable to some kind of simplification, misunderstanding and arbitrary checks in actual operations. That is why I suggest "control over money by tightening demand" in place of your original thesis. Do you think this is better?

Inflation is a currency phenomenon. Although there are many causes that lead to increases in prices, persistent and general price increases can have only one fundamental cause: excessive amount of monetary issues. Therefore to cure inflation, the amount of monetary issues must be placed under control, making their rate of increase to run in general parallel with economic growth rate. That is to say, your "control over money" is theoretically sound. But how does the money in circulation get increased in the first place? It is not subject to banks' decisions, of how much or how little money there should be. Money in circulation is determined by the difference between total demand and total supply in society. When total demand is greater than supply, circulating money will increase. When total demand

drops, this will be shown in the return of money from circulation. Once we understand this secret, we will understand that to control the amount of monetary issues, we must tackle the problem at its root cause: control demand. If no great efforts are made on cutting back demand and consumption, with the result that total demand in society remains greater than total supply, then we are only attending trifles to the neglect of essentials. Arbitrary checking of monetary issues would not curb demand. It would only curb the circulating funds for enterprises, which will create production "slides." Inadequate supply will then aggravate the imbalance between demand and supply. Precisely because of this understanding, I think it is suitable to rename your thesis.

How To View Price Control of Administrative Nature

Another thing to discuss is: in the current process of improving the economic environment and curbing inflation, many localities have resorted to controlling prices by administrative measures—a move some of the comrades in the economic circles have criticized, calling it a resurrection of old systems and retreat of reforms. However in my opinion, where there is still too much circulating money, the target of considerably reducing this year's inflation rate plainly calls for administrative measures. Furthermore, the control of prices with administrative measures will have the benefit of stabilizing the population's psychology, diluting the population's expectation of inflation, and making them save the money which otherwise would be spent in consumption owing to fear of price hikes. At the same time control with administrative measures can put a brake on the momentum of price spiral and halt the self-propelling movement of inflation. So the use of administrative measures in control of prices has its positive aspects, and should not be condemned out of hand, nor should it be set as an antithesis to the long-term target of deregulating prices. But control over prices with administrative means is a two-edged sword, it has its negative side. It will further distort the already distorted price system, which will in turn provide mistaken price signals, making the target of adjusting and improving production structures difficult to attain. The valid period in which prices are administratively controlled does not last long, while the cost entailed in such a move is not small. So it can only be used as a temporary means to gain a respite, during which the level of total social demand can be lowered, thereafter prices can be deregulated. That way market fluctuation will not occur. As I remember, you were most against price control in the past. I would very much like to hear you comment on this action.

In terms of economic theory, the theory which argues that a high inflation rate can bring about a economic growth has something to do with the worsening of macroeconomic environment. Although voicing of such a theory has grown small recently, I estimate that before long, when production has lowered to a certain level, this theory will again become fashionable. In view of this, the

argument raised by professors from MIT at the recently held "Seminar on Chinese Economic Problems for Chinese and American Scholars," that China cannot afford to pursue the growth-through-inflation policy will contribute much to clarifying views. After all the Keynesian school has never advocated expansion of demand to stimulate the economy no matter what the circumstances are. It strictly limits this policy to where there is inadequate demand and, therefore, a stock of production materials, funds and labor force exists in the economy. Anyone who has read some of the works of this school will readily understand this point. Now that the orthodox Keynesians have finally set it forth, the gibberish of those fake Keynesians is exposed. You were once the target of concentrated attacks by these "Keynesians," and you should feel more deeply about this than me. And so I would very much like to hear your opinion.

There are many problems facing us in improving the economic environment. As an economist we have the duty to make things clear. The above are but my own opinions and as such it is bound to be biased. For vague and misleading points I look forward to your correction.

I wish you, for the spring festival, peace and health.

Dai Yuanchen

(written in Shimi House, Beijing, toward the end of 1988)

MINERAL RESOURCES

Mining Flourishing, Waste 'Serious'
OW2402135389 Beijing XINHUA in English
1313 GMT 24 Feb 89

[Text] Beijing, February 24 (XINHUA)—China is now the third greatest mining country in the world, with an annual output of 1.7 billion tons, but waste has reached serious proportions, today's PEOPLE'S DAILY reports.

The annual mining output is 40 times more than that of the years before 1949, when the new China was founded, the paper says, quoting statistics released by the Ministry of Geology and Mineral Resources.

But the resources have been seriously damaged and wasted by unrestrained mining by collective and individual miners, says the paper, and the usage rate of resources in state-run mines is very low.

It adds that statistics covering more than 3,000 state-run mines in 1986 show that the total rate of recovery of resources in China is 10 to 20 percent lower than that in advanced countries.

Tightened Regulations on Use of Mineral Resources

*OW2402164689 Beijing XINHUA in English
1544 GMT 23 Feb 89*

[Text] Beijing, February 23 (XINHUA)—A senior official said here today that China is stepping up the drafting of relevant rules and regulations in a bid to tighten control of the development, use and protection of mineral resources.

Zhu Xun, minister of geology and mineral resources, disclosed at a national conference that his ministry will send supervisors to some of the nation's large mining areas to ensure full use of mineral resources this year.

He said that the industrialization of China has given rise to rapid growth in demand for mineral resources.

The minister called upon the one million workers and technicians in the field to endeavor to find more mineral resources, especially those badly needed, such as energy resources, precious metals and copper.

According to the minister, 162 kinds of mineral deposits have been found across the country, while reserves of 148 of them have been proven.

FOREIGN TRADE, INVESTMENT

Analysis of New U.S. Trade Bill, Impact

*40060400 Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 1, 27 Jan 89 pp 20-24*

[Article by Wang Yihe 3769 0001 7729 of the Shanghai Academy of Social Sciences: "Analysis of New U.S. Trade Bill and Its Impact"]

[Text]

Background of the Birth of New U.S. Trade Bill

The new United States trade bill, which had been debated for 3 years, vetoed once by President Reagan, and repeatedly discussed and revised by both houses of the Congress, was finally passed on 3 August 1988 and became law after the president signed it.

The new trade bill is a sweeping revision of U.S. trade policy based on the 1974 trade bill. Since the 1974 trade bill was formulated when the world economy was flourishing, the U.S. economy was booming, and U.S. products were very competitive on the international market, it stressed free trade and played a great role in accelerating the development of U.S. foreign trade. But time has passed and things have changed. Two oil crises caused the world economy to plunge into recession and the U.S. economy to collapse, from which it has been unable to recover. U.S. products are challenged on the international market by products of Japan, West Germany, and newly industrialized countries and areas. U.S. exports

have been reduced and imports increased. U.S. trade deficits are increasing year after year. In view of this grim situation, U.S. industries and the Democratic Party, which controls the majority of seats in Congress, repeatedly asked the government to abandon the free trade policy and adopt a protectionist trade policy. This, however, was against Reagan's political and economic principles. The battle between the president and Congress continued for 3 years before an agreement was finally reached. The bill included many protective clauses, but it honored the president's demand and did not levy new taxes. At the same time, it also gave the president greater flexibility in negotiations. Although Reagan was not very satisfied with the bill, due to the pressure from Congress and industrial circles, he finally agreed to sign the measure.

Main Content and Characteristics of the New Trade Bill

The new trade bill has 1,128 pages and dozens of special research reports. It mainly includes presidential authorities in negotiations, standard commodity classification and coding methods, response to unfair trade practices, measures to restrict imports, anti-dumping and anti-subsidy measures, intellectual property rights, telecommunications products, export control reform, agricultural export enhancement plans, foreign investment, international finance, Third World debt, the tiered-aid program, ocean and air transportation, export promotion, greater adjustment assistance for export businesses, training and education of dislocated workers, and technological competitiveness. The clause in which China is mentioned directly is about easing high-tech exports to China. Other clauses that generally apply to other countries also apply to China. One of the special research reports is "Report on the Research of the Market-Oriented Situation in China." Other special research reports concern exports to developing countries, current control of high-tech exports, export trade, violations of patent processes, and "Report on Plans To Expand Exports to Japan, South Korea, Taiwan, and Pacific Ocean Nations." In order to accelerate the smooth development of Sino-U.S. trade, our foreign trade departments, experts, and scholars should also pay attention to and carefully study this bill.

The new U.S. trade bill has the following features:

1. The new U.S. trade bill is an omnibus bill. It sets guiding principles and policies for U.S. foreign trade and adopts concrete measures for implementing these principles and policies. It covers not only the trade of tangible products but also the protection of intangible intellectual property rights. It also covers other trade-related issues such as foreign investment, international finance, ocean and air transportation, workers' training and education, improvement of technological competitiveness. A bill of such a broad scope is quite unusual among the trade laws of all countries.

2. The bill is largely protectionist. On the one hand, it vigorously encourages the exports of U.S. goods and retaliates against countries which use unfair means to impede the exports of U.S. goods; on the other hand, it restricts imports and uses the anti-dumping and anti-subsidy measures to circumvent the competition of foreign products. The dual-line foreign policy is aimed at reducing U.S. trade deficits.

3. The bill places special emphasis on the "reciprocal principle," demanding that both sides of trade must have equal rights so that U.S. companies will not be discriminated against. For instance, the bill prohibits the U.S. government from purchasing goods or services from companies in countries which have not given U.S. companies equal opportunities. It requires the U.S. government to carry out negotiations to give overseas Americans equal opportunities enjoyed by foreigners in the United States. It stipulates that the United States should consider retaliation against such discriminatory practice as denying U.S. goods, services, and investments equal opportunities.

4. The bill stipulates measures for carrying out severe retaliatory actions. Among retaliatory measures against unfair trade practices that violate trade agreements or the international law are: carrying out negotiations, increasing tariffs, limiting quotas, prohibiting sales of products to the U.S. government or in U.S. territory, demanding compensation, and enforcing mandatory import embargo (excluding those covered by other clauses of the bill).

5. The new bill has an obvious political overtone. This bill is obviously hostile toward the state trading system of socialist countries. It directly requires the president to "prevent countries like the Soviet Union which implements a state trading system to join the GATT, unless such countries agree to carry out trade on the basis of free market." The bill also includes "infringement of worker rights" as an unreasonable practice that deserves retaliation.

6. The bill sets forth measures to solve problems concerning countries and areas which have huge trade surplus or trade friction with the United States. For instance, one measure is about how to levy anti-subsidy duty on the European Airbus Industrial Company, another is about imposing sanctions on Toshiba Machine Co. of Japan and Kongsberg Trade Company, and still another is about how to carry out negotiations with South Korea, Taiwan, and Hong Kong, which have a trade surplus with the United States.

Foreign Trade Policy and Measures of U.S. New Trade Bill

1. Strengthen foreign trade leadership and management organs.

A. The bill gives the president broad authorities in negotiations including authority to: 1) carry out bilateral and multilateral trade negotiations; 2) reduce tariffs up to 50 percent; 3) request for extension of the "fast-track" procedures; 4) prevent countries implementing the state trading system from joining the GATT; 5) negotiate on currency exchange rates during negotiations on trade agreements with exchange-control countries; 6) take retaliatory actions against unfair trade practices that violate trade agreements or the international law; and 7) consider retaliation against practices that do not necessarily violate the law but are unfair and unreasonable.

B. The bill strengthens the status of leading organ of the U.S. Trade Representative [USTR] and authorizes it to make determination of unfair trade cases.

C. The bill establishes as two permanent independent agencies the U.S. and Foreign Commercial Service under the International Trade Administration of the Commerce Department as well as the Trade and Development Program under the International Development Cooperation Agency.

D. The bill changes the National Bureau of Standards under the Commerce Department into the National Institute of Standards and Technology and makes it an organ to develop technology and improve the quality and competitiveness of U.S. industrial products. It requires that two or three regional centers be established in the United States. The primary responsibility of such centers is, based on the promotion of automatic production, to transfer to small and medium-sized businesses technologies developed by the National Institute of Standards and Technology and provide them with technical assistance. The bill also expands the Small Business Administration Office of International Trade and increases its funds to develop the exports of small businesses.

E. The bill establishes a competitiveness policy council to make recommendations for improving U.S. industrial productivity and international competitiveness.

F. The bill requires the Agriculture and Commerce departments to work out plans to export agricultural and non-agricultural products to foreign markets and sponsor trade fairs for foreign buyers in the United States.

G. The bill requires the Commerce Department to establish a national trade data bank to provide exporters with export-promotion data and international economic data.

2. Export-promotion policy and measures

To encourage the exports of U.S. products, the bill would adopt a policy of incentives and retaliation. The bill would extend the export enhancement program of the Agricultural Department, which gives exporters surplus commodities as an incentive to make U.S. agricultural

products more competitive against the subsidized agricultural products of the EEC in the market of a third country. The bill would increase to \$2.5 billion, from \$1.5 billion, the value of surplus commodities that may be used in the incentive program. The bill would also increase to \$215 million, from \$110 million, the authorization of funds intended for export-subsidy program to carry out market development and promotion activities. Moreover, the bill would also provide marketing-loans for wheat, fodder-crops, and soybeans, and price subsidies for sunflower and cotton seeds.

To encourage U.S. businesses to invest in foreign countries and expand exports, the new trade bill requires the Overseas Private Investment and Insurance Corporation to provide loans and insurance to U.S. businesses seeking to invest in developing countries. The bill would raise the overall ceiling on the loan-guarantee program from \$750 million to \$1 billion, the lowest limit on the loan-guarantee program from \$150 million to \$200 million, and the lowest limit on annual direct loans from \$15 million to \$25 million.

While implementing an export-promotion policy, the bill would also adopt severe retaliatory measures. For instance, it requires the USTR to investigate unfair foreign trade barriers restricting U.S. exports, identify priority countries, which need to be dealt with first, negotiate with them to eliminate unfair trade barriers within 3 years, and take retaliatory actions if they fail to do so. The bill requires that retaliatory actions be taken against unfair trade practices that violate trade agreements or the international law except in five circumstances. In addition, the United States may take discretionary retaliatory actions in cases involving unreasonable or discriminatory practices which deny U.S. goods and investment equal opportunities. Such practices include export targeting, infringement of worker rights, and foreign cartels. The bill also requires the USTR to investigate priority countries which refuse to import U.S. telecommunications products. If it fails to stop, through negotiations, such unfair practices within 18 months to 3 years, the president should take retaliatory actions.

The bill protects intellectual property rights. The USTR should determine which countries cannot provide sufficient protection for U.S. patents, copyrights, and trademarks and investigate cases that are serious. Domestic manufacturers may petition for restrictions of imported goods and request compensations for losses caused by such imports.

3. Import-restriction policy and measures

Restricting the imports of foreign commodities is another manifestation of trade protectionism. In addition to tariffs and quotas, the president may carry out

negotiations with other countries, set limits on sales, and take other restricting measures within his power. Import-restriction policy and measures included in the bill are as follows:

A. If large amounts of unfair foreign imports cause damage to U.S. products, the United States should restrict the import of such products. Even in cases involving fair imports, the United States may also adopt temporary tariffs, quotas, and trade adjustment assistance on the condition that there is evidence that the involved U.S. products can become competitive or be replaced by more competitive products within the 2-year period that restricting measures are implemented. Otherwise, the president may reduce or terminate such restricting measures. Import-restriction measures may last for 8 years according to the stipulation.

B. The bill stipulates that the anti-dumping law applies to import commodities, which have unfair value and production cost or which are sold at prices lower than original production or third countries. The bill also clarifies that the anti-dumping law applies to the new procedure of dumping through third countries. The anti-subsidy law applies to import commodities which have received unfair government subsidies.

C. The bill prevents circumvention of U.S. anti-subsidy or anti-dumping laws by assembling, fine processing, or making slight changes of commodities in the United States or third countries. The bill also authorizes monitoring and control of dumping materials and components to shift attention from manufactured goods to circumvent anti-dumping duties.

D. The bill would authorize restraints on steel imports from countries covered by voluntary restraint agreements [VRAs], if such products are melted and poured in a VRA country.

E. The bill requires the USTR to negotiate with the GATT to allow the United States to levy 0.15 percent import duty to be used for trade adjustment assistance.

F. The bill provides a method to calculate the market value of commodities produced by non-market economic countries in a dumping law suit.

The policy of the new trade bill is to treat different countries differently:

A. Canada, Latin America, and the Caribbean

Except for a few individual countries, all countries in this area maintain close economic ties with the United States. The U.S. Congress recently approved outlines for a bilateral trade and investment agreement reached between the United States and Mexico. The bilateral free trade talks between the United States and Canada are being carried out. The new trade bill includes Jamaica and Costa Rica in the Caribbean Basin Initiative and

gives them the duty-free privilege of ethanol import. Since Cuba is an enemy of the United States, the new bill requires the USTR to make recommendations for banning all imports from Cuba. The new trade bill would facilitate trade expansion in this area.

B. European Economic Community

The United States and the EEC are allies, but there is trade friction between them, especially in the area of agricultural and heavy industrial products. With regard to such issues as European subsidies to Airbus, West Germany's blockade of U.S. telecommunications imports, the illegal sale of military technology to the Soviet navy by a Norwegian firm, unjustifiable tie-aids provided by France in order to enter the market of developing countries, the bill has caused friction but resolved it through negotiations. Serious friction still exists between the two sides in the battle for agricultural markets.

C. Soviet Union and East European Countries

The bill authorizes the president to prevent the Soviet Union from joining the GATT and allows U.S. businesses to file unfair trade complaints if imports of large amounts of goods from communist countries have created market disorder. These clauses are discriminatory. The bill is friendly only toward Poland. For instance, it has approved the allocation of \$1 million for enforcing a scientific and technological agreement signed in 1987 between the two countries and orders the Agricultural Department to donate surplus fodder to Poland. Income from sales of such fodder will be used by non-government organs in Poland. Furthermore, it has also approved the shipment of \$2 million worth of medical articles and hospital equipment provided by private and voluntary organizations to Poland. This explains that the United States has different policies even for socialist countries.

D. Japan, Southeast Asia, and South Korea

In recent years, large amounts of Japanese industrial products have poured into the United States, resulted in a huge trade surplus, and caused serious economic friction between Japan and the United States. The bill has many requirements especially for Japan. For instance: 1) It requires the USTR to investigate the trade barrier set by Japan to prevent the equipment imports of U.S. construction and consulting services. 2) It requires that an agreement be reached to give U.S.-made large computers more access to the Japanese market. 3) It requires that the issue of U.S. coal exports to Japan be considered during the signing of the agreement on Japanese steel imports. 4) It requires Japan to formulate a plan to increase the sales of U.S. auto parts in Japan. 5) It requires Japan to buy more manufactured goods from developing countries and expand trade with Israel. 6) It requires Japan to remove the barrier set by Japan for U.S. agricultural products, especially oranges and beef.

The bill requires Hong Kong, South Korea, and Taiwan to stop manipulating prices to gain trade surpluses. It also requires investigation into the fact that South Korea impedes the import of foreign cars and encourages domestic cars to enter the United States. It also strongly demands that South Korea import more U.S. beef and reduce import tariffs on beef.

The Trade Policy of the New U.S. Trade Bill Toward China and Its Impact

The social systems of China and the United States are different, and some political problems exist between them, but they have not hindered the rapid development of Sino-U.S. trade. Generally speaking, the enforcement of the new U.S. trade bill does not have any adverse effect on us. However, several clauses in the bill do have some bearing on our current practices and situations, and deserve our attention.

1. With regard to the issue of China joining the GATT, the bill requires that the president prevent a country from joining the GATT if 1) state-run trading enterprises account for a very large portion of trade in this country and 2) if such trade will harm the U.S. economy. However, this clause is directed at the Soviet Union. According to semi-official U.S. sources, if China wants to join the GATT, the United States is all for it but hopes that China can revise its complicated, overlapping, and opaque import protection system. Otherwise, China would not be able to carry out its GATT obligations, said Roy, Assistant Secretary of State for East Asian and Pacific Affairs [as published].

2. With regard to the issue of high-tech exports to China, the bill has lifted the ban and issued a permit for countries under the Coordinating Committee on Export Controls [COCOM] to export to China commodities of green area standards. From now on, China can import more high-tech products from the United States.

3. On the issue of intellectual property rights, the bill requires the USTR to investigate and identify countries which cannot provide sufficient protection for U.S. patents, copyrights, and trade rights. Roy said during a speech: "As far as China is concerned, we especially emphasize the protection of intellectual property rights. Unfortunately, there is much to be desired in this regard in China." This should call for our attention.

4. On the issue of opening domestic market. Since 1979, Sino-U.S. trade has increased markedly. According to U.S. statistics, China has a large trade surplus with the United States. The bill has not mentioned anything about China using unfair trade practices, but it has authorized the USTR to negotiate with countries which have large trade surpluses with the United States. Since the United States will allow more high-tech exports to China, it is all the more necessary for China to open its domestic market still wider to the United States. The

United States also hopes that China will quickly increase the variety of its export commodities to satisfy the demands of the U.S. market.

5. On the issue of restraints and unfair practices. In recent years, U.S. businesses have often complained about restraints and unfair practices in China's trade and investment rules and regulations. Roy held that "there is no doubt that in order to become a responsible member of the international trade system, China needs to participate more enthusiastically in the international trade forum to discuss trade practices so as to suit China's economy to the international trade and investment system, formulate effective strategy, and let the confused international trade negotiation circle understand its point of view." This opinion deserves our special attention.

6. On the issue of Chinese textile exports to the United States. This issue has been temporarily solved after the two sides signed "the Sino-U.S. Textile Agreement" at the end of a 3-year negotiation. However, textile goods account for a very large part of China's exports to the United States. Under the situation of rising protectionism in the United States, the prospect on textile exports is not promising, unless we speed up the reform of China's export product mix and open up new overseas markets.

Shanghai Develops Barter Trade With Soviet Union

HK1703144989 Shanghai SHIJIE JINGJI DAOBAO
in Chinese 20 Feb 89 p 10

[Report by Shu Hanfeng 5289 3352 6912: "Actively Developing 'Border Trade without a Border'—Shanghai's Barter Trade With Soviet Union and Eastern Europe Rose Steadily Last Year"]

[Text] The "border trade without a border" between Shanghai and some localities in the Soviet Union and East European countries is quietly expanding. Since local barter trade with the Soviet Union and East European countries was restored in 1985, the accumulated volume of trade had approached \$60 million by the end of last year, and maintained an upward tendency.

Aside from international trade according to governmental agreements, localities with conditions are also encouraged to shoulder certain tasks of trade with the Soviet Union and East European countries as a positive trial in the reform of the foreign trade system. The state allowed Shanghai and other localities to conduct local-level barter trade with the Soviet Union and East European countries and allowed them to enjoy some preferential treatments similar to border trade.

Such local-level barter trade, which is called "border trade without a border," has brought obvious advantages to both sides. According to some trade officials, the Soviet Union and the East European countries have advanced technology and equipment, which are suited to

the needs, the economic development level, and workers' technical level in our country. The Soviet Union's mechanical and electrical equipment and underground railway technology; the GDR's optical instruments, textile and construction machines; Yugoslavia's optical fiber communications technology; and Poland's ship-building technology and ships, all reach world leading levels. On the other hand, Shanghai's garments, household electric appliances, light industrial and textile products, building materials, machinery, and foodstuffs are needed by the Soviet Union and East European countries. For example, Poland imported 160 machine tools of various models from Shanghai in 1988, and the users marveled at the advanced functions of these machine tools. This year, Poland had increased its order by 50 machine tools. Other countries have also expressed interest in importing Shanghai's machine tools.

Ou Zhiheng, Manager of the Shanghai Municipal Foreign Trade Company which is responsible for such barter trade, said that the barter trade with the Soviet Union and the East European countries will enable the state to use its valuable foreign exchange for meeting more urgent needs, and the barter trade can also promote export-oriented production and export. As some imported goods are exempted from customs duties and industrial-commercial taxes, this will lower the costs paid by the user enterprises.

According to some authoritative sources, the development of trade relations with the Soviet Union and East European countries will promote the normal development of relations with these countries, and will also procure the products and technologies we need, thus promoting economic construction in Shanghai and in the whole country as well. In the 1950's, trade with the Soviet Union and East European countries accounted for above 50 percent of our country's total foreign trade volume; but now it accounts for only 20 percent. So there is still great potential for further development.

People's Bank of China President Comments on Foreign Debt

40060345b Beijing JINRONG SHIBAO in Chinese
15 Feb 89 p 1

[Article by Li Qian 2621 0241: "Continue To Strengthen and Perfect Macrocontrol of Foreign Exchange and Foreign Debt—Areas Are To Take the Interests of the Whole Into Account and According to the Unified Arrangements of the Head Office and State Administration of Exchange Control Strictly Carry Out the Plans, We Cannot Have Areas Solely Concentrating on Their Own Affairs"]

[Text] While attending a meeting of directors of branch bureaus of the State Administration of Exchange Control [SAEC], State Councillor Li Guixian who is also the president of the People's Bank of China pointed out the following during a speech, "This year we should continue to strengthen and perfect macrocontrol measures

for foreign exchange and foreign debt, strengthen the control of exchange earnings from exports, and control the irrational spending of exchange."

Li Guixian, after affirming the achievements in last year's foreign exchange management work, pointed out, "Looking at the situation at the beginning of this year the shape of exports was not very optimistic and our outlays for imports also had an increase, therefore under this tight situation in foreign exchange we must do a good job of management and utilization of foreign exchange. Even with adjustment of foreign trade markets we still must buy our necessary articles. In addition, during 1988 there was good growth in our foreign exchange markets, especially in Shanghai's foreign exchange market. Not only were people in China fairly satisfied but people in foreign financial circles also expressed their admiration. Although it has not fully taken shape and its effect on the entire country hasn't been very great, in the end some progress was made and gave us experience for adjusting our foreign exchange market in the future, especially in regulating the renminbi market. This year we should continue to cultivate and develop a foreign exchange regulatory market, improve management, do a good job in information transfer, and prevent a market crash."

In speaking on this year's foreign debt, he said, "At present the state has already made preliminary decisions on the scope of foreign debt. The SAEC should further perfect its monitoring of foreign debt statistics, get a firm grasp of foreign money lending markets, currencies, interest rates, and unified management. The approval of each contract should be looked at with the thinking of the entire nation being a game of chess. Only in this way will a good job be done in foreign debt work."

Li Guixian made special note that during this rectification and consolidation each area is to take the interests of the whole into account, listen to the unified arrangements from the head office of the Bank of China and the SAEC, strictly follow the plans of the SAEC, and not have each area solely concentrating on their own affairs. Special economic areas and coastal cities that have opened up to the outside also cannot deviate from these specially designated and exceptional policies. He said that in this administration and rectification, the control of inflation must be done along with good management of the renminbi for good foreign exchange management.

The People's Bank of China's vice president, Qiu Qing [6726 2532], also spoke at the meeting. He emphasized four points: (1) At the same time we are controlling inflation, the management of foreign exchange should, according to the needs of the state economic regulatory structure and industrial policies, accurately lead localities, department, and enterprises along a useful direction in foreign exchange. (2) Along with supervising the carrying out of state foreign exchange revenue and expenditure plan we should prevent export revenue from appearing as a great "landfall." Foreign exchange management work should put great effort into supporting

revenue generation from exports, and improve the management of revenue and allocations. (3) With domestic requirements being cut down and the money market tightening, attention should be paid to controlling the reasons why during times when domestic funds are tight we turn to putting excessive demands on the foreign debt, we should prevent the foreign debt from causing a change in the use of renminbi funds, and prevent a situation where on the one hand the scope of the foreign debt increases and on the other domestic currency issuance is increased. This is not a beneficial result for effective control of inflation. (4) A good job should be done in the relationship of strengthening macrocontrol and promoting enterprise vitality. Managing the adjustment of the foreign exchange market will be beneficial to invigorating enterprise and for the use of funds, and can become an arena that provides the means so the state can regulate and control foreign exchange.

New Directions for Domestic Foreign Exchange Markets

40060345c Beijing JINRONG SHIBAO in Chinese
15 Feb 89 p 1

[Article by Li Qian 2621 0241: "China's Foreign Exchange Market Preliminary Set Up—The SAEC This Year Will Formulate Regulations for Foreign Exchange and Set Up a Guiding Format, Establish a Foreign Exchange Regulatory Fund"]

[Text] On 13 February, reporters learned the following at the meeting of directors of branch bureaus of the State Administration of Economic Control [SAEC]: This year the SAEC will further cultivate and develop a foreign exchange regulatory market, and improve measures for the state to regulate and control the foreign exchange regulatory market. This was a goal defined for the SAEC after the State Council affirmed the success attained last year in macroscopic regulation and control of the foreign exchange market.

Last year 39 provinces, autonomous regions, cities, cities with individual planning, and special economic zones established foreign exchange transaction centers, opened up transaction prices, expanded the scope of transactions, made contacts with Sino-foreign joint ventures and state operated enterprise markets, and experimented with allowing individuals to trade in foreign exchange, the preliminary establishment of the foreign exchange market. The SAEC's management of the foreign exchange regulatory market uses "managing both sides, relaxing the center" as its guiding ideology. It conducts a credentials check of sellers coming into the market and strictly controls the product use of buyers. Because the economy experienced marked inflation last year, the cost of transactions became excessive. Following the 3d plenum of the 13th CPC Central Committee, in accordance with controlling inflation, shrinking the excessively large requirements of the general public, and to eliminate the demands of economic fads, the SAEC made timely adjustments to the spending of foreign exchange. First it

ensured the importing of grain, chemical fertilizer, agricultural support materials, and raw materials meant for production of daily necessities. To tighten currency while controlling credit, limitations were put on loans to purchase transactions in foreign exchange. Changes were also made in the individual selection of partners method of completing transactions. With these measures the fad in foreign exchange demands was controlled, rational use of exchange was ensured, and foreign exchange transaction prices were stabilized.

According to statistics, during 1988 the total volume of foreign trade transactions was 6.264 billion dollars, this accounted for 33.85 percent of the foreign exchange retained as profits, and 18 percent of the money China spent on imports during the same period. Among this amount Sino-foreign joint ventures offered 662 million for sell and received 220 million and sold out 442 million. Actual practice has proven that the state can have some effect on the foreign exchange regulatory market, and the state can use macroeconomic measures to guide and influence the foreign exchange regulatory market.

A responsible person associated with the SAEC told reporters that the goals in managing the foreign regulatory market this year are to maintain stable transaction prices, reasonable arrangement of foreign exchange investment avenues, and give full play to the "state regulating the market, and the market guiding enterprise" mechanisms. Continue to strictly control the use of renminbi loans for purchase of foreign exchange transactions. Determine a series of guidelines for exchange transactions investment, and based on varying periods carry out rectification on key points of exchange usage. Foreign exchange administration bureaus at all levels and transactions centers, in accordance with a series of guidelines, must improve the guiding of foreign exchange transaction investment. At present, foreign exchange transactions must be used to ensure stable agricultural production, and stabilize the imports of raw materials meant for production of daily necessity goods, and establishing a foreign exchange transaction fund to be used in regulating the market. Sections that increase in value from doing business in foreign exchange can only use these funds as turnover and not divert the funds for their own use. In addition, we must summarize and improve transaction methods and at the appropriate time announce methods for foreign exchange regulation, strengthen the transparency of foreign exchange regulation and actively promote the flow of foreign exchange among areas. Chinese living overseas and our compatriots in Hong Kong, Macao, and Taiwan are supporting the construction of their native homes by giving individual offerings of exchange, and with the SAEC's approval can enter into market transactions and take steps to expand the scope of foreign exchange transactions. This year local transaction centers, in principle, are not to be increased.

Law Governing Import, Export Inspection Adopted
OW2202085989 Beijing XINHUA in English
1557 GMT 21 Feb 89

[Text] Beijing, February 21 (XINHUA)—A law governing the inspection of imports and exports has been

adopted at the Sixth Meeting of the Standing Committee of the Seventh National People's Congress, which closed here today.

There will be a revision of the categories of imports and exports drawn up by the country's import and export commodities inspection departments, according to the law.

Listed imports which have not been inspected may not be sold or used, the law stipulates, and no listed products may be exported without being checked.

The 32-article law will go into effect in August this year.

Case Study of Problems, Solutions Concerning Export Pricing
40060298 Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 12, 15 Dec 88 pp 31-33

[Article by Cao Hexiang 2580 7729 5046 et al.: "Problems and Solutions Concerning Today's Export Pricing"]

[Text] The suburbs of Jiangsu's Yancheng City are a part of the coastal development zone. In recent years, in the wake of the development developing an export-oriented economy, more and more export products are being produced here, and the total output value has grown as the products slowly break into the international market. In 1986, foreign trade procurement was 67.58 million yuan, 19 percent more than in 1985. In 1987, foreign trade procurement was 85.11 million yuan, 25 percent more than the previous year. Between January and September of 1988, foreign trade procurement topped 68.02 million yuan; it is expected that 1988's export purchases may exceed 100 million yuan. This has truly invigorated the area's economic growth and has laid a sound foundation for expediting the strategic shift to the export-oriented economy.

But because of changes in the foreign and domestic markets, stiffer competition, and thorough price reform, new situations and new problems have emerged in the pricing of export goods:

1. Unreasonable price parities as reflected in high domestic and low foreign prices: It is the rule in setting export product prices to use the sales prices in the domestic market as basis; same quality goods will be priced the same, and everything is priced according to quality. Based on this principle, generally, we should not see low export prices and high domestic prices; however, because at present the price relationship in the domestic market has not been straightened out, and the price of many capital goods and agricultural and sideline products which are the raw and supplementary materials for producing the export goods have surged, and together with the many limitations imposed by the existing foreign trade price management system, there is a discrepancy between foreign and domestic prices of export

goods. A substantial portion of the products are sold at a much lower price if purchased for sale abroad than at home. For example, each MD-model grinder sells for 110 yuan if purchased for overseas sales but 180 yuan for domestic sales; the export purchase price is 70 yuan less than the domestic sales price. Each 880507 non-standard bearing costs 9.80 yuan for the domestic market but only 7.23 yuan for foreign sales. Since April 1988, the average domestic price of knit underwear has gone up 35 percent, but the foreign trade department has allowed only a 25 percent price increase for exports, and as a result, the manufacturers' profit margin has dropped from the usual 10-15 percent to 5-8 percent and annual income has fallen by 1 million yuan. This unreasonable price parity has seriously dampened the enterprises' enthusiasm in producing export goods. Furthermore, because export products have higher quality requirements, many enterprises are unwilling to produce or deliver them. The government had planned to export 19,000 sets of bearings in 1988, but only 95,500 sets, or 50.3 percent of the target, were delivered by the end of September. Similarly, the government had planned to export 150,000 dozen cotton and flannel jersey and trousers, and only 56,100 dozen, or 44 percent of the target, were completed by the end of September.

2. Raw materials are not guaranteed, and production cost has been rising. For 1988, Jiangsu Province has set a 21.60 million yuan foreign exchange earning target for this area: 17 million yuan in foreign exchange are to be kept locally, and 9.68 million yuan will be turned over to the central government. But because of the acute shortages, most of the raw materials are not available, and the supply of what is available is also dwindling, and enterprises have to scrounge for resources and have to pay a high price for the raw materials in order to produce the amount of export goods stipulated by the government's mandatory plan, and as a result, the production cost of export products has risen sharply. Take canned foods for example. The price of scalded meat, a main ingredient, has risen from 2,900 yuan a ton at the end of June 1987 to 5,050 yuan by the end of the year and immediately to 5,200 yuan in 1988; lean meat too which was selling at 7,500 yuan a ton in 1987 had to be brought in from the outside and sold for 11,000 yuan a ton at the peak; tinsplate, a packaging material, costs about 1,800 a ton in 1987, but in 1988, under the state's distribution plan, the price has been raised to 2,600-2,800 a ton, and only one-fifth of the quantity is available at that price; the remaining quantity which enterprises have to gather for themselves cost as much as 4,800 yuan a ton. The production department has estimated that the actual production cost of each ton of canned lunchmeat may be as much as 8,500 yuan, but the current foreign trade procurement price is only 8,200 yuan. The purchase price of partially-cleaned geese needed for canning was 3,600 yuan a ton in May 1988; today, it has risen to 4,500 yuan. Based on actual cost, enterprises lose 2,200 yuan for each ton of roast geese they produce, which is something no enterprise can afford. The government plan called for 200 tons of canned roast geese, but

production was halted after only 6 tons. In 1987, steel needed to produce bearings cost an average of 2,120 yuan a ton; today, it costs 2,700 yuan.

3. Management authority is concentrated, and real prices are obscure. Because there are lingering defects in the existing foreign trade system, and because many enterprises have no direct contact with the international market and cannot do business directly with their foreign counterparts, and on top of that, because at present, exports products are still under the procurement system, the management rights and the right to set export product prices are concentrated in the hands of the provincial foreign trade department. Because the foreign trade department does not disclose the foreign sales prices and changes its domestic procurement prices often, the manufacturers never get to know about export product prices or understand the changing demands in the international market, and they simply let the foreign trade department take charge. For example, in May 1988, the foreign trade department offered to purchase canned lunchmeat at 7,200 yuan a ton. Because of the high price of raw and supplementary materials, the manufacturers were unwilling to produce them. After numerous negotiations, today, the foreign trade department has raised the procurement price to 8,200 yuan. The procurement price of bearings was originally 5.88 yuan apiece; the manufacturers refused to deliver at that price, and the foreign trade department voluntarily raised the price to 7.23 yuan. Unstable procurement prices are mainly the result of fluctuating prices in the international market, but they are also partly due to the foreign trade department's constant attempt to keep the procurement prices down to increase its own profit or reduce its own loss.

4. Foreign exchange retention is credited but unpaid; enterprises are losing their benefits. Foreign exchange percentage retention is a measure used to encourage the localities, departments, and enterprises to earn more foreign exchange for the state, but because the state has abolished the foreign exchange utility quota, the remaining sums of pre-1986 retained foreign exchange belonging to the localities and departments have been credited but frozen. Statistics show that \$1.25 million has been credited to the area for 1987, and the credit quota for 1988 has been set at \$1,505,000. Enterprises' economic benefits have clearly diminished, especially accounts that generate huge sums of foreign exchange. For example, the state has credited but frozen \$350,000 that belong to the food canning factories, \$220,000 that belong to the tennis shoes factories, and the grinder factories as well as the underwear factories have \$200,000 on frozen accounts. Because retained foreign exchange has been credited but frozen, enterprises in turn are having difficulty repaying their foreign exchange loans, purchasing imported raw materials, and repaying the foreign exchange they owe each other in short-term loans, and these have directly affected enterprises which produce export goods.

5. Subsidies are not standardized and most tax refunds are withheld. Today, unfair conditions with respect to

export product subsidies and tax refunds have emerged. First, the irregular financial subsidies. Ever since the Finance Ministry implemented the graded contract system, and because different localities have different financial means, financial subsidies have differed even for the same products. For example, after the price of live-pig was decontrolled in March, Jiangsu Province issued an order to abolish subsidies for pigskin, even though subsidies continued in other provinces, and for a time, everybody was after the product; supply was tight, and prices rose sharply which made it impossible for some enterprises to go into production, and it was only after repeated reports to the higher authorities that a temporary subsidy was reinstated, but the original 90 million yuan has been cut to 70 million yuan, and it has affected the production and export of leather goods. Second, subsidies not calculated in the price are also irregular. A subsidy not calculated in the price is a fixed subsidy given to manufacturers who positively make no profit or little profit on their export goods, or if there is a serious discrepancy between value and price but the manufacturers cannot adjust the price on their own. But the current subsidies not calculated in the price are not determined based on the quantity of goods manufactured nor on the amount of profit or loss, and there is no standard, and things are chaotic: the same product may get little, much, or no subsidies; the actual amount of subsidies is flexible and elastic, and they may vary among different export managing units, different production units, and different business relationships. Furthermore, subsidies not calculated in the price generally are paid at the end of the year. Enterprises do not know what they will be getting, and when they go into production, they hesitate and worry, worry about losing money if they do not get the subsidies. Third, tax refunds are not refunded. To encourage the production of export goods, the state has refunded taxes already paid by enterprises, but at present, the provincial foreign trade department has not returned some of the refunds to the manufacturers, and in fact, much of the refunds are kept by the department, and this will definitely affect the productive zeal of enterprises that earn foreign exchange.

How do we solve the above problems in export pricing? Based on experience gathered in recent years, we suggest that, first, we must resolutely implement the state's general policy to improve the economic environment, rectify the economic order, and implement thorough reform in all areas, and we should deepen the reform process to change the foreign trade management system and the foreign trade price management system and actively promote the foreign trade agency system. At the same time, we should adopt the following measures at the microeconomic level:

1. Apply the law of value and straighten out the domestic and foreign price parities. The foreign sales price of export products should be reasonable and based on the sales price in the domestic market and make reference to prices in the international market. If the foreign sales price of a product is higher than the domestic price, we

should use the foreign market to entice the domestic manufacturers. We should encourage enterprises to increase productive capacity, guarantee quality, export the products to a wider international market, earn more foreign exchange, and generate higher return. If a product's domestic sales price is higher than the foreign price, we need to preserve the foreign market and control domestic prices. We should guide enterprises to target the international market, adjust the product-mix quickly, and strive to raise the foreign sales price. At the same time, we must manage domestic prices more stringently: one, we should encourage enterprises to improve management, expand production, improve quality, and lower the production cost. Two, product planning must complement raw material distribution plans. Raw materials needed for the production of export goods must be guaranteed by mandatory plans. Three, we must reinforce examination and supervision and keep the price level under control. First, we have to control the price of raw and processed materials, especially materials under mandatory planning. Second, we have to control the price of the finished products. In particular, for products which are in short supply and the price of which are fairly high in the domestic market, we can turn the extra profit into a price-adjustment fund to be used to bring domestic and foreign prices in line with each other. As for the export goods which we want to protect but the domestic prices of which are higher than foreign prices in the short-run, we should use the domestic profit to supplement foreign earnings, and we need to formulate economic plans for the domestic and foreign market jointly to enhance the reputation of our products in the international market.

2. Improve price management and set prices democratically. (i) Prices should be managed at separate levels. The procurement price of export goods should be set jointly by the pricing department and the foreign trade department, and prices should be managed at several levels by limiting each level's product pricing jurisdiction. (ii) Foreign sales prices must be made public. Although foreign sales prices are set by the foreign trade department based on international market conditions, prices must be made known to the pricing department and the manufacturers. They should be told about prices so that they understand the international market situation and find out if their products are competitive. (iii) The pricing method should be improved. Based on international market conditions, the foreign trade department can figure out the year's prices comprehensively and set prices at the beginning of the year. Once set, prices should remain unchanged for the year, and the department should contract out to each level, based on the set prices, and the contractors are responsible for their own profits and losses. In this way, we can avoid frequent or volatile price changes which can affect production. (iv) We should set up an export product insurance fund to better balance domestic and foreign sales prices. The foreign trade department at each level may set up its own

product price insurance fund. Funds can be withdrawn from the profit in installments; their use can be put under uniform planning by the governments at all levels.

3. *Perfect measures concerning subsidies and promote export production.* The existing price subsidies, to a certain extent, have concealed mismanagement and have hampered enterprises' effort to improve management and have prevented fair competition among enterprises; therefore, the production of export goods should go the way of "receiving less financial subsidies and producing less unprofitable goods." Financial subsidies should be reduced gradually. The subsidies should be as uniform as possible among regions and among departments. Subsidies not calculated in the price should be commensurate with the amount of goods delivered. We should set a reasonable percentage based on the principle of subsidies not calculated in the price and in accordance with the product's production cost, the enterprise's profit and loss, and the actual value of goods delivered, and we must pay out the subsidies according to the stipulated percentage, not arbitrarily. Furthermore, preferably, all the subsidies not calculated in the price should be paid out at once to reduce the chance of the money being intercepted in the interim in order to enhance enterprises' productive zeal.

4. *Allocate the foreign exchange retention percentages fairly and increase enterprise vitality.* Foreign exchange retention is the source of foreign exchange funds which stimulates enterprises' productive zeal, increases their foreign exchange earning, and supplies their production needs. It should be allocated properly: (i) the retained foreign exchange percentages, especially enterprises' share, should be raised. (ii) The exchange rate between the renminbi and foreign currencies should be adjusted. (iii) Foreign exchange retention which has been credited but frozen must be properly handled. The best thing is to unfreeze at least a portion of the money to give enterprise some tangible benefits to mobilize their enthusiasm. (iv) Export product taxes refunded by the state should be returned to enterprises in total so that they can enjoy the tax benefit the state has offered them.

Paper Reports on Annual Machinery Export Target

OW2302050189 Beijing XINHUA in English
0704 GMT 22 Feb 89

[Text] Beijing, February 22 (XINHUA)—China plans to export 7.9 billion U.S. dollars worth of machinery and electrical products this year, the ECONOMIC DAILY reported today.

This year's target figure will increase by 1.3 Billion U.S. dollars over 1988, according to Shen Liechu, director of the State Council office in charge of the export of machinery and electrical products.

However, economic analysts predict that chronic shortages of raw materials, energy, and foreign currency may hamper the nation's ability to meet its export quotas.

Nevertheless, continually rising demands for machinery and electrical products on international markets have convinced the Chinese to reinforce their export capacity by readjusting the country's industrial base, Shen said.

By the same token, exports of machinery and electrical products have made considerable headway since 1986. Last year, for example, their value reached 6.15 billion U.S. dollars—3.7 times more than the 1985 figure.

Regulations To Protect Software Developers

OW2502201389 Beijing XINHUA in English
0804 GMT 25 Feb 89

[Text] Beijing, February 25 (XINHUA)—A draft regulation to protect software developers has been finished and will be approved by the State Council, CHINA DAILY reported today.

The computer software is a special industry that is hard to develop and easy to copy and developers' hard work will come to nothing if their interests cannot be protected, an official of the group in charge of drafting the law said Friday.

Ying Ming, who is also a division chief of the China Software Technology Corporation, said that China has imported a large number of personal and micro computers since the nation opened up to the outside world in 1979, but cases of copying software have often occurred.

The regulations will ban illegal copying, plagiarizing, and selling the software invented by others, he said.

Protection of computer software is in essence the protection of an "intellectual property right," he said.

Our aim is not only to safeguard the developers' interests, but also to push the science to develop, he said.

The software alone can be protected by the copyright law, but it cannot be protected when it is combined with the hardware.

China has not yet issued a copyright law, but a draft has been repeatedly discussed over the past 10 years.

The law is expected to be submitted for approval this year by the National People's Congress, he said.

China has received assistance from the International Business Machines Corporation (IBM) in drafting the law and the proposal presented by IBM has become a major source of information for the Chinese law makers, he said.

Specialists have also collected information about software copyright protection from more than 10 countries and regions and has made a number of studies.

Auditing Team Visits Hong Kong To Investigate Mainland-Funded Enterprises

HK2702055789 Hong Kong SOUTH CHINA
MORNING POST in English 27 Feb 89 p 12

[By Lai Pui-ye]

[Text] An authoritative auditing team from Beijing is in Hong Kong to examine the financial status of major mainland-funded enterprises in the territory, it was learned yesterday.

The five-member group, comprising financial and audit experts from the State Council, has been in Hong Kong for about 10 days.

So far, about 2,500 mainland companies have been judged "legitimate and clean," including many so-called "leatherbag" companies—one-man firms which at one time numbered more than 3,000 in Hong Kong.

Initial investigations also showed that mainland investment in Hong Kong, never before disclosed publicly, now totals between HK\$15 billion and HK\$20 billion—a little short of 10 percent of Hong Kong's total foreign and local investment.

Since last autumn, the central Government has reportedly been determined to crack down on nepotism and official profiteering. The current audit check is expected to help clean-up mainland investment in Hong Kong.

One of the firms under investigation is Sinocorp Investments Limited (SIL), which was closed down last October.

SIL, which was registered under the Companies Ordinance in 1987, had 98 percent of its capital held by Real State Limited (RSL), which is alleged to be financed by the Guangdong government.

It was also learned that the auditors are considering commissioning a pilot scheme in order to guarantee the efficiency of the clean-up.

Under the scheme, 20 percent of any confiscated money would be channelled to the team and the government department which helps in the investigation. While it is thought this could help expedite investigations, some fear that such a move could result in another form of malpractice.

It was also learned that the XINHUA News Agency has completed compiling a list of mainland-funded companies in Hong Kong which could be recommended to foreign investors. The move follows concern among overseas businessmen about malpractices in China-funded enterprises in the territory.

Meanwhile, two ombudsmen are now in Guangdong to investigate the provincial government for alleged excesses in the province. Inland provinces have severely criticised Guangdong for getting prosperous at their expense.

Party General Secretary Zhao Ziyang has visited Guangdong twice lately in a bid to lend his personal support to the Guangdong officials, sources said.

Beijing Ranks Second in Using Foreign Capital

SK1503072189 Beijing City Service in Mandarin
1000 GMT 27 Feb 89

[Text] The latest statistical data showed that Beijing Municipality achieved remarkable success in using foreign capital last year. During the year, the actual amount of foreign capital used by this municipality was \$620 million, which was equivalent to the total sum of foreign capital used during the past 9 years. The municipality ranked second in the whole country following Guangdong Province, which ranked first. Of this sum, the foreign loans were \$120 million; the investment which came directly from guest traders was \$500 million.

Establishing Sino-foreign joint ventures, Sino-foreign cooperative enterprises and wholly foreign-funded enterprises is the municipality's principal form of absorbing foreign capital. Last year, these enterprises actually used \$500 million of foreign capital. Judging from the various trades, hotels used the greatest amount of foreign capital. The total sum they used was \$280 million. The next was the industrial sector. The total sum used by industry was \$80 million.

The operation situation of most of these enterprises was good and their economic results were remarkable. Last year the total output of these enterprises reached 1.8 billion yuan and their sales income reached 2.6 billion yuan, showing an increase of more than 100 percent respectively over the previous year. They earned 300 million yuan in profits, an increase of 59.4 percent over the previous year.

Reasons for Guangdong's Export Increases Detailed

40060345a Beijing GUOJI SHANGBAO in Chinese
14 Feb 89 p 1

[Article by Cheng Dacai 4453 6671 2088: "Guangdong's Foreign Exports Continue to Occupy First Place Nationwide—Exports for 1988 Are \$7.37 Billion"]

[Text] During reform of Guangdong's foreign trade system and after overall implementation of the contract management responsibility system, rapid strides were attained in foreign exports. Export totals for 1988 were \$7.371 billion, an increase of 35.4 percent over the previous year and tops in the nation. This total consisted of 5.888 billion in trade exports, 378 million in "import processing and compensation trade," and 1.165 billion in foreign invested enterprise exports; these exports

increased by 28.6 percent, 24.5 percent, and 90.9 percent over last year respectively. In 1988, Guangdong's foreign trade experienced fairly rapid development, the reasons for this development rests in the following few aspects.

1. Export enthusiasm was aroused in the foreign trade departments of local areas. For all of last year the local foreign trade companies in Guangdong had exports totalling \$1.751 billion, an increase of 1.22-fold over last year's 788 million and set an all time high. As for export amounts of central specialized companies, although reaching a \$4.053 billion total in exports, they only had an increase of 11.9 percent and central trade companies had a reduction of 80.1 percent. Therefore, the proportion of exports from local foreign trade companies in trade exports as a whole raised in one year from 17.4 percent to 30 percent.

2. The exports of each city's foreign invested enterprises experienced new progress. The more than 3,000 enterprises in Guangdong that have gone into operation with foreign investment are seeing daily economic benefit. Exports for 1987 were nearly equal to the foreign invested enterprises of Shaoguan, Qingyuan, Yangjiang, Shanwei, and Heyuan municipalities, and the exports for 1988 have been doubled and redoubled. The foreign invested enterprise exports of Shenzhen, Zhuhai, Shantou, Guangzhou, and Zhanjiang that opened up to the outside early accounted for 70 percent of the exports of all foreign invested enterprise in the province. Located in the Zhujiang Delta, the foreign invested enterprise exports of Dongguan and Huizhou more than doubled, those of Foshan increased by 1.3 fold and Zhongshan's increased by more than 5.8 fold.

3. In the area of the Zhujiang Delta that opened up to the outside there are 18 cities and counties that energetically developed "three forms of import processing, and compensation trade" business, the exports of seven of these have already exceeded \$1 billion. In 1988 each city and county in the Zhujiang opening up area, due to implementing strategic measures of "putting both ends abroad" at various levels and in developing an economic style that is geared abroad have energetically launched "three forms of import processing, and compensation trade" business. Exports for the year reached \$1.334 billion, an increase of 20 percent over 1987. Cities or counties that surpassed the \$1 billion mark in exports have increased from four in 1986 to six in 1987 and now seven in 1988. The above-mentioned seven areas are: Foshan City, Zhongshan City, Nanhai County, Shunde County, Jiangmen City, Baoan County, and the city of Dongguan.

4. Improving exports to Hong Kong, Macao, and Japan. During 1988 Guangdong's exports were mainly aimed at Hong Kong, Macao, and Japan. Its exports during the year to Hong Kong and Macao totalled \$4.542 billion, a 33.7 percent jump over that of 1987 and accounted for 61.6 percent of the entire country's exports to these

places. Its exports to Japan were \$251 million, an 81.9 percent increase over 1987 and was 3.4 percent of the entire country's exports to Japan.

Foreign Investment Increases in Inner Mongolia
OW2802234889 Beijing XINHUA in English
1510 GMT 28 Feb 89

[Text] Hohhot, February 28 (XINHUA)—By the end of this January China's Inner Mongolia Autonomous Region had set up 32 foreign-funded enterprises involving an investment of 55 million U.S. dollars.

Some of them are already working efficiently, according to an official of the regional government today.

The funds came from Japan, the United States, France, Hong Kong, and Macao, and the projects involve automobile manufacture, wool spinning, foodstuffs processing, and service trades.

The official said that to facilitate foreign investment the regional government has worked out a package of preferential policies, including tax reductions and priority treatment in fuel and power supply.

It has also started a batch of projects to improve the energy industry, transport and communications.

Liaoning To Open Townships to Foreign Investors
OW2402184289 Beijing XINHUA in English
1537 GMT 23 Feb 89

[Text] Shenyang, February 23 (XINHUA)—Thirty townships in Liaoning Province, a leading heavy industrial center in northeast China, will be opened to foreign investors this year, a local government official announced today.

All are located in the East Liaoning Peninsula Economic and Development Zone, which has a total of 419 townships.

The newly-opened townships have a well-developed infrastructure, adequate transport facilities, and are each capable of producing 80 million yuan in output value and 5 million yuan worth of exportable industrial products.

Joint ventures, wholly foreign-funded enterprises, or Sino-foreign cooperative projects in these open townships will be tax exempt for their first 3 years and pay only a 50 percent tax for the next 2 years, the official said.

The opening of the townships to foreign investment aims at promoting industrial growth, the official said, adding that more townships which meet economic requirements will be opened to foreign in the future.

The province exported a record amount of 1.8 billion U.S. dollars worth of products in 1988.

Loan From International Consortium for Shanghai Ethylene Project
OW2802233389 Beijing XINHUA in English
1453 GMT 28 Feb 89

[Text] Shanghai, February 28 (XINHUA)—The People's Construction Bank of China, Shanghai Branch, signed an agreement with an international consortium today to introduce 128 million U.S. dollars to help the construction of a 300,000-ton ethylene project in the city.

The money will be used to build necessary installations for the ethylene project, including a high-pressure polythene plant designed with an annual production capacity of 80,000 tons and a polypropylene plant with an annual production capacity of 70,000 tons.

The construction of the necessary installations will be completed in 1991 and will be put into use in 1992.

The consortium consists of 29 foreign banks.

Last year the Shanghai Branch introduced 337 million U.S. dollars for the first-phase construction of the ethylene project. It is expected that the first phase will be completed this year and put into operation in 1990.

Shenyang Foreign Contracts in 1988 Surpass Previous 8 Years
OW2402215889 Beijing XINHUA in English
1509 GMT 24 Feb 89

[Text] Shenyang, February 24 (XINHUA)—Shenyang, the major industrial city in northeast China, clinched 123 contracts with foreign investors last year involving a total contracted investment of 260 million U.S. dollars.

Foreign funds actually used last year totaled 53.1 million U.S. dollars.

An official from the city's committee in charge of foreign economic relations and trade told XINHUA today that the figures respectively surpassed the total for the previous eight years.

The city was officially given approval to be one of seven cities on the Liaodong Peninsula to open to overseas investors by the central government last March.

The official said the city now has a total of 85 foreign-funded projects, among which 50 were established according to contracts signed last year.

Of the newly-established projects 14 production enterprises involve a total investment of 144.71 million U.S. dollars.

Trade Unions Aid Joint Ventures in Tianjin
OW2702235089 Beijing XINHUA in English
1532 GMT 27 Feb 89

["Trade Unions Help Joint Ventures"—XINHUA headline]

[Text] Tianjin, February 27 (XINHUA)—An attendant at the Kaiyue hotel—a foreign-invested joint venture in Tianjin city—was dismissed because of an accusation of theft. But he refused to accept the decision and lodged a complaint with the hotel's trade union.

The trade union organized an investigation and found the accusation to be true and helped the hotel authorities to carry out the decision.

Trade unions in joint ventures promote both workers' and investors' legitimate rights and benefits, and help promote the growth of joint ventures, said Guo Xuezheng, an official from the municipal general trade union.

"One of trade unions' major tasks is to help the joint ventures to make more money," she added.

Whether a joint venture sets up a union or not depends on its workers—the government does not interfere. But in most cases workers find such an organization is a necessity for safeguarding their benefits.

According to Guo, 80 percent of the city's joint ventures have organized trade unions, and all of them have done well in settling labor-management disputes.

The trade union at one joint-venture enterprise negotiated payment for workers who were to be laid off for a period of time for equipment overhaul. The company had originally wanted to dismiss them.

"Trade unions in China differ from those abroad. They help run enterprises better," said a foreign investor involved in a housing development company, who recommended that a union be set up in his company.

The Tianjin municipal government has worked out specific regulations defining trade unions' roles in joint ventures.

ECONOMIC ZONES

Special Zones Maintain Development Despite Austerity Policy
OW1802102989 Beijing XINHUA in English
0840 GMT 18 Feb 89

[Text] Beijing, February 18 (XINHUA)—China's four special economic zones are maintaining the momentum of their development in spite of the austerity policy that started in September, the ECONOMIC DAILY reports today.

Last year the zones—Shenzhen, Zhuhai and Shantou in Guangdong Province and Xiamen in Fujian Province—had a combined total industrial output valued at 15.7 billion yuan and they exported goods worth 2.8 billion U.S. dollars.

The paper attributes the sustained and rapid economic growth of the four zones to the development of new products.

Shenzhen, the largest of the four, developed 220 new products last year. About one quarter of them have passed state technical assessment.

According to official statistics, 2,300 Sino-foreign joint ventures or wholly foreign-funded businesses have been set up in the four zones, nearly 65 percent of them being geared to industrial production.

The paper says foreign-funded enterprises contribute 63 percent of the total industrial output value in Shenzhen, 35 percent in Zhuhai, 59 percent in Shantou and 41 percent in Xiamen.

As well as exporting goods produced in other provinces, the four zones have raised their own proportion of total exports. Now about 53 percent of the goods they export are made by local enterprises.

Shantou Attracts More Foreign Investment *OW2702081189 Beijing XINHUA in English* 1259 GMT 25 Feb 89

[Text] Beijing, February 25 (XINHUA)—Shantou, one of the earliest of the five special economic zones in China, signed 258 economic cooperation agreements with foreign investors last year. They involved a total of 110 million U.S. dollars.

The overseas edition of the PEOPLE'S DAILY says today that the amount of foreign investment used in 1988 surpassed the total of the previous six years.

Of the 77 foreign-funded projects, 70, or 90 percent of the total, are productive projects. Seven projects each involve three million U.S. dollars.

A local trade official said: "This sort of thing was rarely seen in the past few years."

Foreign investors have shifted their emphasis of cooperation from traditional labor-intensive production, such as garment-making and leather and plastics processing, to the manufacture of electronics, jewels, and foodstuffs, and to land exploitation.

Instead of renting workshops as in the past, foreign investors have begun to buy or build their own workshops.

In addition to old partners from Hong Kong and Macao, Shantou has won new investors from Japan, the United States, and some other countries.

POPULATION

Minorities Recognized for Following Family Planning Policy in Urumqi

40050288a Beijing RENMIN RIBAO in Chinese
9 Feb 89 p 5

[Article by reporters Wa Hafu 3907 0761 3940 and Aza Maiti 7093 2089 6314 2251: "Lunar New Year Finds Urumqi Minority Nationalities Participating in Family Planning"]

[Text] During the Lunar New Year Festival, family planning workers at all levels in Urumqi braved the bitter cold and walked the streets from house to house to salute and recognize the national minority households which are participating in family planning.

Since 1 July last year, Urumqi's Uygur, Kazak, Hui, Kirgiz, Monggol, and Ozbek nationalities have implemented the autonomous region's temporary provisions pertaining to minority nationality family planning. In that brief half year a number of family planning exemplary units and individuals have emerged. Of the national minorities citywide, more than 5000 married couples are limiting themselves on a voluntary basis to bearing only two children, and have received a "Family Planning Certificate of Recognition." In the Tianshan area, where minority nationalities live in compact communities, the proportion of youth marrying at a mature age amounted to 88.98 percent in 1988, and the birth control rate reached 81.41 percent. The Xinjiang Song and Dance Troupe is a performing arts group comprised of numerous minority nationalities. Fifty percent of the minority performers are under 35 years of age. Thirty-five couples in the troupe are voluntarily complying with the requirements of the "Autonomous Region Minority Nationality Family Planning Temporary Provisions," whereby they will bear no more than two children throughout their lives, and all have received a certificate of recognition.

TRANSPORTATION

Electrification of Railroad Scheduled for Completion by End of 1989

OW2702122089 Beijing XINHUA in English
0657 GMT 27 Feb 89

[Text] Beijing, February 27 (XINHUA)—The electrification of the Guiyang-Kunming railroad—between Guiyang, capital of Guizhou Province and Kunming, capital of Yunnan Province—is expected to be completed at the end of this year, today's PEOPLE'S DAILY reported.

The electric project of the 630 km railroad was one of the key projects of the country's Seventh 5-Year Plan (1986-1990).

The electric project of the section from Guiyang to Shuicheng was completed in 1987, the report said, adding that the transport capacity would be increased from the designed 6.9 million tons to 19 million tons when the whole line is electrified.

The report also said that the project has been greatly supported by related departments of the two provinces.

AGRICULTURE

Land Utilization Problems Discussed

40060352 Beijing JINGJI CANKAO in Chinese
13 Feb 89 p 4

[Article by Yu Quancheng 0827 2938 1004: "The Vexatious Land Problem"]

[Text] The land problem plaguing China's agricultural economy is complicated and vexing and has yet to be properly resolved. This article will attempt merely to raise and draw attention to the issue so as to encourage everyone to study the problem together.

The Contract Responsibility System Is Uneconomical

The "all-around" contract responsibility system is an important innovation that was introduced after China's peasants were freed from "leftist" errors and marks a big advance over the old system, which involved raucous mass labor campaigns and egalitarianism and bound peasants to the land. The system was extended to all parts of the country in 1981 and 1982 and, together with other good policies championed by the CPC, enabled China's agricultural production to take off. National grain output in 1984 was 27 percent higher than in 1980, and gross social rural output value in 1987 was 1.4-fold higher than in 1980. Like many other comrades, I loudly applauded the contract responsibility system and remain proud that I did.

Nevertheless, no system can be completely perfect, and all systems are but temporary "processes" in the long flow of history. The latent problems of the contract responsibility system—dispersal and fragmentation of land holdings—are now becoming apparent.

A house-by-house investigation reveals this problem clearly.

Given the instinctive demand of peasants for "equal fields," land generally was divided up in three different ways when the responsibility system was implemented. First, it might be divvied up equally according to the number of people in households; this method was the

most common. Second, grain ration fields were distributed according to the number of the people in a household, while responsibility fields were divvied up according to the number of workers the household possessed. Third, the land might be divided according to the number of household workers; this was least common.

However, there is great variation in land fertility. Land on plains is divided into at least three grades, while even five grades cannot cover the range obtaining in hilly or mountainous areas. Peasants find it impossible to convert these different types of fields into a standard unit on which to base land assignment (even soil and economic experts would have a hard time doing this) and thus prefer to divide each grade equally among all residents. First they carve grade A land into the requisite number of portions, distributing these portions according to the number of persons or workers in each household. Then they do the same with grades B, C, and so on. The overwhelming majority of localities draw lots to assign land. One gets whatever plots one draws.

This has made contracted land highly fragmented and dispersed. Nationally, each peasant household has an average of 9.2 mu of land in nine plots, usually scattered in three different areas. In villages in several provinces of the South and on the North China plain, I found that households had an average of 4-5 mu of cultivated land in 8-9 plots scattered in 3-4 different places. Half of the land farmed by the Zhang family would be next to the homes of the Wangs, the Lis, and the Zhaos. And half of the Zhao family's land would be near the homes of the Zhangs, Lis, and Wangs.

China's agriculture can be said to be the most minutely operated and fragmented in the world, more minute than even Japan's, which is notorious for heavy population pressure on land, having a national per capita average of only 6 fen of cultivated land, yet whose farmers till an average of 17.31 mu per household. (The figures are for 1983.)

I have frequently encountered the following scenario in the villages of southern China. The Lis and Zhangs live 1-2 li from each other, but the Zhangs carry nightsoil from their home in the direction of the Lis', and the Lis do the same, but heading toward the Zhangs' house. I told the peasants, "This is not economical. Why don't you exchange your holdings." But one peasant would say, "No way. My land's a little better." And the other would opine: "Uh-uh. Mine's a smidgen bigger."

Such parcelization and intermixing of land holdings not only wastes labor but also interferes with farming operations. Last October, I returned to my home town (Baoan Township in Rongchang County, Sichuan), which I had not visited in nearly 40 years. There I discovered that the peasants had a per capita average of only 7 fen of land (with paddy and dry fields each accounting for half the total), which was one-half the average at the time of land reform. The peasants only

grew crops and raised pigs and had no other sideline industry, living in great poverty, which they described as: "At New Year, we eat a month's worth of quack-quack (meat), we go to the fields to grow crops for 2 months (some respondents said 3), and for 9 months we twiddle our thumbs and just try to scrape by." I told them, "Prices for fruit and vegetables are quite high these days. Why don't you plant some fruit trees on the hills and upland here and grow some vegetables on field banks? Wouldn't that bring you some money?" But the peasants replied, "We tried that, but the fruit and vegetables were completely ripped off before they even ripened." And why was that? It is because each family's land is scattered in 3-4 places, 1-2 li apart in every direction, so there is no way to guard the crops.

Some comrades have advocated that the contract responsibility system be "stabilized and not changed for 15 years," so as to induce peasants to improve soil and increase inputs in the land. Although this proposal certainly is well-intended, what would happen if China's parcelized farming is "not changed for 15 years"? What would our agriculture come to? What would we eat?!

We Cannot Stabilize Things Even If We Try

Over the past several years, peasants in many areas of the country have effected their own "change," readjusting their holdings so as to consolidate them near cultivators' homes. The method employed is not based on land area or soil fertility but on the average annual yield of the land, which is then assigned "inversely." For example, each person on average might contract to farm "land yielding 900 jin of grain."

Though a good innovation, this approach cannot provide "stability and no change for 15 years" and cannot induce peasants to improve soil or to make long-term investment in their land.

When a peasant dies, his share of land must be taken from his household plot and given to the community, and whenever peasants have babies they demand an additional portion of land, which changes disrupt the contract responsibility system. When the system was first implemented, a certain amount of land usually was set aside, but since there have been more births than deaths many villages have used up their reserved land and have had to disrupt things and to reapportion land holdings, usually once a year.

If a lass from village A marries into village B, or a lad from village A takes a bride from village C, things get difficult. Land cannot be moved, which fact limits the range of mates from which youth can choose. In some localities, villages have established "marriage alliances," under which villages agree to swap, say, five brides.

So a wedding can also destroy the dream of "no change for 15 years" some comrades cherish.

Land Inheritance Is Even More of a Headache

In addition to birth, death, and marriage, there is another problem, that of inheritance. The "all around contract responsibility system" has been in effect for 8 years, and the kids who were teenagers when the system was initiated have grown up and married and now want to set families and occupations. China's Inheritance Law provides that male and female children have equal rights and should inherit equally, but many peasants ignore this provision and let only their sons inherit. Things are easy if there is only one son, but if there are two sons they will want to divide the property after growing up and marrying. In the South, one household contracting to farm only 4-5 mu will be split into two holdings of only 2-plus mu. And sometimes there is a three-way split: The two sons each get a share, while old mom and pop will keep a portion, thus reducing the unit of agricultural production to only 1.5 mu. This "real minute farming" is not conducive to mechanization, to modernization, or even to retaining peasants. Even if the procurement price of grain is hiked to 2 yuan a jin, the peasants will still grumble, "It's not worth it to farm."

To prevent excessive land parcelization, England and Japan have long practiced "primogeniture," under which only the eldest son is permitted to inherit land and other immovable property and the other siblings have to find other livelihoods. Taiwan has also recognized this crisis and practices "single child inheritance," which allows only one child, no matter how many children there are in the family and no matter whether big brother or second brother, to inherit land.

What should we do? If we follow the Inheritance Law, the agricultural production unit will steadily shrink and become so small that there will be no "economic returns" to speak of. How can we enable peasants to farm in peace? If we are going to effect primogeniture or single child inheritance, we will have to ask the National People's Congress to amend the Inheritance Law. But even if the law is amended, how will peasants accept the change after being accustomed to equal partition for thousands of years? And what will younger brothers and sisters do?

"Privatization" of Land Will Spawn Many Problems

Many comrades now advocate "privatization of land" and a complete return to the post-land reform situation, arguing that this will induce peasants to farm meticulously, improve soil, build and maintain irrigation facilities, increase inputs in the land, and increase output.

This is an old argument. There have been three different views in socialist countries on who should own land: peasants, the state, and the city (similar to our collective ownership). The Soviet Union has experienced disputes over this issue. Lenin advocated state ownership, the Mensheviks called for city ownership, and Stalin wanted

private ownership by the peasants. When China implemented land reform, private ownership was practiced, but this was changed within several years.

I feel that many problems will result if China privatizes land.

Distributing land on which contract responsibility is practiced over to peasants under private ownership will require that the contracted plots first be readjusted and consolidated, which will undermine "15 years of no change." It is already difficult enough to readjust land allotments, and it will be many times more difficult once land is privatized.

If land is privatized, what basis will we have to prevent peasants from building houses or tombs on their own land? Peasants dependent on farming naturally would not use their land in such a fashion, but how can we prevent those who have other reliable jobs and incomes from building ancestral halls and tombs in their home towns?

Privatization involves recognition of the right to buy and sell land. Sale of land back and forth between peasants will lead to concentration of holdings and cause some weak and poor households to lose their land, which will create social problems.

An important reason why Chinese peasants boldly leave their villages to take on work or engage in trading in other localities or to set up township enterprises is that they have the "village collective" as a backup and a piece of responsibility land as base, so they can charge outward when times are good and retreat into refuge when times are bad. If things do not work out for them or they go broke on the outside, they can retreat to their rural homes and there rest, rebuild their strength, and restore their vigor, after which they can go out again to make some money. The reason Indian and Pakistani peasants are afraid to do this is because they cannot go back to the land once they leave. If we privatize land, we will end up with the same rural situation that India and Pakistan face.

If land is privatized, the state or the collective will have to spend money to buy land from the peasant whenever they wish to build roads or irrigation facilities. This will make things many times more difficult than they already are.

Japan suffers from a problem to which we ought to be attentive.

After experiencing rapid economic growth, Japan's land prices skyrocketed grotesquely. Some peasants have made fortunes by selling land to big corporations, which use the land to build factories or stores, and then deposit the proceeds in banks, earning a big monthly income of the interest. Their entire families no longer work at all yet enjoy living standards that are better than college

professors and that are equivalent to middle-class capitalists and thus are called "landless peasants," "unemployed tycoons," and "the interest-eater class."

When I discussed this problem with county party secretaries in Sichuan, some said that there is no need to bring up Japan's situation; China already is plagued with the problem. Some villages on the outskirts of cities are "selling off" several tens or up to hundred mu of land to government agencies or enterprises, depositing the proceeds in banks (or investing the proceeds) and distributing the interest thereon to peasants, who are thus living very well off. Land in county seats near Chengdu is going for at least 50,000 yuan a mu and will probably go much higher in the future. If land is privatized, a family of five can sell its 4.5 mu of land for 225,000 yuan, put the proceeds in the bank, and earn—at monthly interest rate of 0.1 percent—2,250 yuan a month, or 450 yuan a person, more than the combined salaries of 10 full professors. When that happens, complaints of "unfair social distribution" will be even louder.

In some villages near cities and towns or along major trade routes, the entire male labor force and all young women have left to find work or engage in trading, and income from farming is equal to only a fraction of their other incomes. Peasants do not farm very assiduously, prefer to buy the grain to fulfill their "contract procurement" quotas, and refuse to give up or transfer their land. Why? They are waiting for some agency, unit, or enterprise to "requisition" their land at high prices!

What sort of land policies and regulations should we set?

National Cotton Area

40060411e Beijing JINGJI RIBAO in Chinese
25 Mar 89 p 3

[Summary] In 1989 the area sown to cotton will be about 80 million mu, a decline of 3 million mu from 1988.

Exports of Tea Continue To Increase

OW2702024889 Beijing XINHUA in English
0859 GMT 26 Feb 89

[Text] Beijing, February 26 (XINHUA)—Last year China exported 197,000 tons of tea, 20,000 tons more than the previous year and double the amount of 10 years ago.

Green tea exported totalled 74,000 tons and black tea, 100,000 tons. Both were up 10,000 tons from 1987.

Shi, quoted by the English-language newspaper CHINA DAILY, said that sales increased despite a slump in demand for black tea worldwide in the past two years, said Shi Yunqing, general manager of China National Tea Export and Import Corporation.

China is the world's third largest tea exporter after India and Sri Lanka. Tea export last year was valued at 400 million U.S. dollars, making it China's third largest export commodity after grain and silk.

Shi said Chinese green and oolong tea have become increasingly popular overseas for their health-giving properties.

Tea output in China last year reached 500,000 tons, a 6.7 percent increase over the previous year.

More than 80 percent of these two kinds of tea now sold in the world come from China.

Tea buyers in the United States last year imported 20,000 tons of tea from China, double the amount of 1987. Other countries or regions importing 20,000 tons or more were Hong Kong, the Soviet Union and Morocco.

Major purchasers of China's black tea are Britain, the Soviet Union, the United States, Libya, Poland and Tunisia. Several countries in North Africa and Southeast Asia are longstanding buyers of China's Greentea.

Japanese taste for oolong tea has continued to grow. Last year, the corporation exported 10,000 tons of the tea and most went to Japan and Hong Kong.

Shi predicted an increase in black tea sales this year as trade with the Soviet Union and other East European countries steadily improve.

Hebei Pig Prices

40060411d Beijing JINGJI XIAOXI in Chinese
10 Feb 89 p 2

[Summary] During the beginning of January, the sales price of piglets in Hebei Province was 2.81 yuan per 500 grams, a decline of 0.34 yuan from the beginning of December 1988.

Progress Reported in Development of 'Sanxi' Area of Gansu, Ningxia

40060342 Beijing JINGJI CANKAO in Chinese
13-15 Feb 89

[Article by correspondents Feng Cheng 7458 6134 and Wang Mancang 3769 3355 3318: "An Investigation of Agricultural Development in 'Sanxi'" (Parts 1-3)—first paragraph is source-supplied introduction]

[13 Feb 89 p 1]

[Text] As typified by Dingxi, the 20 counties of central Gansu and the 8 counties of the Xi-Hai-Gu region of Ningxia have an annual precipitation of only 300-plus mm, suffer severe soil erosion and water loss, possess very poor agricultural productive conditions, and comprise the largest impoverished region in the nation, with their

7.20-some million population forced to rely on return sales of grain and financial aid from the state. Since the 1970s, the government has had to provide the region with approximately 250 million kg of grain return sales, which alone have accounted for as much as 100 million yuan of the state's budgetary burden, and many localities in the region also require inshipments of water and fodder. Late in 1982, the State Council decided to list central Gansu and the Xi-Hai-Gu and Hexi regions of Ningxia (abbreviated "Sanxi" [three wests]) as a key regional agricultural development project; to have the state grant this region, which includes 47 counties and an agricultural population of some 11 million, a special assistance fund of 200 million yuan a year; and to require that the problem of insufficient food and clothing affecting 7-plus million peasants in central Gansu and in the Xi-Hai-Gu region steadily be resolved within 10 years and that initial progress be achieved in transforming the face of the region by that time.

Improve Productive Conditions and Strengthen the Agricultural Base

In the past 6 years, the 28 counties of central Gansu and the neighboring Xi-Hai-Gu region of Ningxia have undergone remarkable change, increasing total grain output from 1.075 billion kg in 1982 to 1.775 billion kg in 1988, a rise of 65 percent; per capita grain supply from 150 kg to 240-plus kg during the same period; and gross agricultural output value by an average annual rate of more than 10 percent. As of this writing, the share of the population suffering from insufficient food and clothing, which has long been the case, has declined from 75 percent in the past to 21 percent, and 20 percent of the population is on the way to prosperity.

What was the principal experience the arid, impoverished regions of Ding Xi and Xi-Hai-Gu employed to achieve such striking change in a short 6 years? These reporters discovered the answer in a recent investigation of the region.

Some experts and local cadres believe that the principal experience was a strengthening of the region's agricultural base and a solid improvement in productive conditions.

—Work relief was provided and was used to build farm field irrigation facilities. Once the Sanxi development program began, the region decided on a plan to have "areas having water to go the wet route and regions lacking water to go the dry route." What this meant was that areas having the proper water resources would build hydraulic engineering facilities and develop irrigated agriculture, whereas arid mountainous areas would develop the "three fields" (terraced fields, furrowed fields, and crushed stone fields) so as to retain water, thereby preserving soil moisture. During the last 6 years, the 28 counties provided 300-plus million yuan (of which "Sanxi" invested more than 40

percent) for farm field hydraulic engineering development; employed work relief, construction labor, and other measures; and encouraged peasants to contribute much labor to the effort. Some 770,000 mu of sprinkle-irrigation land was developed in areas having the proper water resources, increasing the area so irrigated in the region to 3.70-plus million mu, for an average of one-half mu per capita. In arid mountainous regions, an average of 400,000-plus mu of the "three fields" were developed each year, so that the per capita average area of such fields rose from 1.42 to 2 mu in central Gansu and was 1.4 mu in the Xi-Hai-Gu region. Every locality having a per capita average of 1 mu of irrigated land or about 3 mu of the "three fields" was able stably to resolve its food supply problem.

—Disseminating science and technology, establishing a better extension system, and improving productivity. In the past 6 years, the 28 counties have basically completed establishment of agronomic extension centers and of "four changes, one provision" systems for seeds, nearly one-half of all townships have established agronomic extension stations, and villages maintain peasant technicians and a number of science and technology demonstration and specialized households, thus changing the previous situation, in which there were breaks in the line of scientific and technological service and specialized personnel were spread too thin. For grain fields alone, the area covered by contracts for scientific and technological extension was nearly 10 million mu, and more than 2,000 technicians participated in contract work. Gansu provincial agricultural departments estimate that in central Gansu the "dry land comprehensive cultivation technique demonstration" and "1 million mu terrace and embanked land bumper-output cultivation" programs alone increased grain output by 230 million kg in 4 years, for an input-output ratio of 1:4.

—Planting grass and trees and improving the ecological environment. In the past, the region had very little vegetative cover, faced shortages of both fuel and fodder, and suffered ecological degradation. After the Sanxi development program began, the region initiated large-scale grass and tree planting and comprehensive control projects in small drainage basins. Over the past 6 years, 8.4-plus million mu of land was afforested, perennial forage grass was planted on 7.2-plus million mu of land, and comprehensive control was effected on nearly 50 million sq km of small drainage basins. Each county also used the special funds to help the masses develop village energy sources and to alleviate the fuel-fodder contradiction. By 1985, large-scale destruction of vegetative cover had been checked, and after several years of consolidation the region's ecology is now on the road to recovery and improvement, with a few scattered areas showing a considerable improvement in their natural appearance. In Xiji County in Ningxia, the forest-grass cover rate has risen to 37.2

percent from 11.5 percent in 1981, and the soil corrosion modulus has dropped from 14.871 to 4.957 million tons, or by two-thirds. In Dingxi County, more than 60,000 peasant households dug up approximately 700,000 mu of sod during the early 1980s, equivalent to 43 percent of the county's total barren mountain area. But in the last 6 years, the county has employed such programs as "providing coal and plant fuel" and disseminating fuel saving stoves so as to resolve residents' fuel problems and helped the masses plant grass and trees and bring barren mountains under control, thereby rapidly increasing the vegetative cover rate from 8.2 percent in 1982 to 35 percent today. Forestry and grass development has also greatly promoted the development of animal husbandry, the gross value of which has been rising at an average annual rate of 21.7 percent and the per capita income of which has risen from 1.16 yuan in 1982 to 61.5 yuan in 1988, thus taking the first step toward creating a benign cycle of more grass—more animals—more fertilizer—more grain.

[14 Feb 89 p 1]

[Text] Developing Market Economy and Promoting Hematopoietic Vitality

"Sanxi's" tremendous change has also benefited from the powerful impact of the wave of commercial economy, which has engendered the concepts of ideological change and of getting rich among cadres and the masses and ignited hematopoietic vitality in the region. In a short few years, several tens of thousands of township enterprises have sprung up in poor and isolated areas, 1-plus million workers have left the soil, and a number of unnoteworthy and small periodic markets have been transformed into massive, distinctive, and specialized markets.

Qinan County is a dry area of central Gansu and famous for its poverty. Here there are too many people, there is too little land and a dearth of resources, and 90 percent of all cultivated land is upland dry land. What pleasantly surprises one here is that this country, where there used "to be but one road—begging," now is one of the leading commodity producers in Gansu and even in the northwest. In this county, 15,000 itinerant peddlers now ply their trade from village to village and household to household, covering the urban, rural, and pastoral areas of the entire Qing-Zang Plateau; in Lhasa alone, more than 120 households maintain stalls. Seventeen large specialized and general markets have appeared throughout the county, of which the specialized small commodity market in Xingguo, which town lies to the west of the county seat and which market has more than 800 stalls that deal in more than 370 odds and ends used in sewing with more than 2,300 goods of various designs, sizes, and colors and an annual turnover of more than 13 million yuan. This scale is second to none in the northwest. Focusing on markets of various types, some peasants have shifted from "buying to sell" to "making to sell,"

with more than 4,000 family enterprises primarily producing small commodities popping up, most of which are characterized as "putting both ends abroad" (namely, they obtain their raw materials from and sell their products outside the county), thus making up for the shortage of raw materials in and the narrowness of the markets of the county.

This county now has three main pillars of economic support—marketing, labor-service exports, and family enterprise. And most of its surplus labor has shifted into secondary and tertiary industry.

The development of the market economy has changed not only the traditional production mode of "digging food from the ground" but also people's basic concepts. Eighty percent of the population in Tongxin County of Ningxia is Hui peasants, who used to slight commerce, were strongly attached to their native village, and were loathe to leave to do business. But now more than 30,000 of the county's population of only 250,000 have entered the realm of circulation and are involved in labor exports, earning a total of more than 20 million yuan. Even the Hui women, whose lives used to "revolve around the pot stand and were concerned only with fuel, cooking oil, and salt," are now coming out of their homes and have become a main force involved in the production of commodities. In Tongxin Town alone, 500 Hui women, 42 percent of the town's total female labor force, engage in commerce.

Comrades in the "Sanxi" development departments of Gansu and Ningxia told these reporters that emphasis used to be placed only on several mu of unproductive land; that the approach yielded fewer and fewer returns as time went on, so that most people lost confidence in their livelihood; but that today, after baptism in market economy, people's spirit and the vitality of the land has changed such that people realize that poverty can be eliminated and wealth produced even on poor, barren land.

According to the briefing, this region has made the first steps toward the creation of a commodity production base focusing primarily on fruit and vegetable growing and pig, chicken, and rabbit raising; formed a labor corps comprised mainly of peddlers, construction teams, skilled craftsmen, wheat workers, and housekeepers; and developed a serial processing system for flax, potatoes, starch, fur, carpets and other such agricultural and animal husbandry products. In 1988, the region sent 770,000 laborers to other regions, earning more than 2 billion yuan; township enterprises had an estimated output value of 2.4 billion yuan, 20 times the level of 1982, and employed 400,000-some persons; in many counties the output value of township enterprises exceeded the output value of agriculture; and peasant net per capita income reached 280 yuan in central Gansu and 260 yuan in Xi-Hai-Gu, four and six times the levels of 1982, respectively, and of which approximately one-third was derived from nonagricultural activity.

In the process of covering this story, these reporters discovered several noteworthy features of the efforts of central Gansu and the Xi-Hai-Gu region to develop market production.

First, the regions began with small steps and then got development rolling. From the outset, the regions focused their main attack on labor intensive industry that requires little investment, that yields rapid results, and which most households can undertake; started with small steps; moved from local-style into foreign-style production; and gradually developed a socialized, serialized system of commodity production. This is what occurred, for example, in Qinan County's production of small commodities, Lintao County's carpet processing, Huan County's "sheep economy," and Pengyang County's (of Ningxia) "fruit tree economy." Many localities have also helped peasant household's draw up truly feasible start-up projects that yield very quick results, such as "one household sets up a mu of orchards, one sells one commodity animal a year, and one transfers one worker into another sector."

Second, able persons have taken the lead, and the rich are used to help the poor. The quality of the labor force in these regions is poor, so governments at all levels are devoting much attention to bringing "the able person effect" into full play, organizing a number of people skilled in a certain areas and peasants who have gotten rich first and often achieving the following results: "An able person creates a number of other able persons, spurs an industry, and leads a large number of people out of poverty."

Third, the regions have established economic ties with developed areas of the country. Counties in the regions have established lateral cooperative ties with counties in more than 20 provinces and municipalities, brought in more than 5,700 skilled personnel and 100-plus million yuan in funding from developed regions, jointly developed more than 40 new products, and concluded agreements for more than 1,000 cooperative projects, for a total increase in output value of 20-some million yuan.

Because the approach is correct and the measures adopted are appropriate, the portion of the Sanxi special fund that has been used to develop market production in central Gansu and the Xi-Hai-Gu region—which comprises less than 10 percent of the total of the fund invested—has yielded striking results over the past 6 years. A survey of township enterprises in 12 counties showed that a total of 16.49 million yuan was invested in these firms over the past 6 years. This investment was equal to only 6 percent of special fund investment but attracted 130-plus million yuan in funding from a variety of other quarters, which amount was equal to eight times the special fund investment. The amount of taxes the firms paid to the state, the amount of profits they

realized, and the total amount of wages they paid to peasants, respectively, were 1.9 times, 3.5 times, and 15.8 times the total amount of investment they received from the special fund.

[15 Feb 89 p 1]

[Text] Exploit Advantages, Assist the Poor, and Bring Glory to Mountains and River Valleys Together

The 7-plus million agricultural population of the arid mountains of central Gansu and of the Xi-Hai-Gu region have long suffered from the dry conditions of these regions and lived in privation. About 1.4 million of this population (1 million in central Gansu and 400,000 in Xi-Hai-Gu) live in areas that "water" and "dry" roads do not reach, that are severely overpopulated, and whose "natural environments cannot support their populations," and thus the difficulties these 1.4 million persons face probably cannot be resolved locally. The Hexi Corridor, the Ordos plain, and the Huang He valley of central Gansu, on the other hand, are vast, lightly populated, and flat; have abundant water resources; and enjoy great potential for the development of commodity grain production and of agriculture, forestry, animal husbandry, and sideline industry so long as the regions are rationally developed and utilized. Yet for many years, mountainous and riverine regions have been cut off from each other and administrated separately; plains have suffered funding and labor shortages and thus their development has been limited; while the peasants of mountainous regions could only hole up in recessed pockets, there suffering grinding poverty.

The "Sanxi" development program has broken out of this fragmented state of affairs. Decision-makers have considered the "two rivers" [Hexi and the Ordos region] and the "two wests" [Dingxi and Xi-Hai-Gu] and mountainous and riverine regions as an integral whole, exploited the advantages of Hexi and the Ordos region so as to help Dingxi and Xi-Hai-Gu out of their poverty, and thus have achieved noteworthy social benefits and economic results.

—Accelerating development of commodity grain bases, and helping impoverished mountainous regions withdraw land from cultivation and return it to grass or forest. In the last 6 years, the "Sanxi" special fund has provided the Hexi Corridor alone with 400-plus million yuan (about one-third of the total amount of the fund invested) for the comprehensive development of commodity grain bases. Total grain output in this region rose from 1.7 billion kg in 1982 to 2 billion kg in 1988, and the region supplied 4.345 billion kg in commodity grain during that 6 year period. The area irrigated by the Guhai water pumping project (of Ningxia, which was expanded through moneys provided by the special fund) is now close to 300,000 mu, making Guyuan, Haiyuan, Tongxin, and other counties that have been wasteland since ancient times the

second grain basket on the Ordos plain. The impoverished mountainous regions of Central Gansu and Xi-Hai-Gu will be dependent on these grain baskets if they are to withdraw large amounts of land from cultivation and return the land to forest and grass, to readjust their productive structures, and to develop market economy.

—Promoting large-scale immigration so as to reduce population pressure in mountainous areas. What are the 1.4 million impoverished peasants who have no way out to do? In early 1983, the "Sanxi" Agricultural Development Leading Group of the State Council decided, on the basis of evidence presented by a full investigation, to move 900,000 of this population in stages and groups to the richer regions of the Hexi Corridor and the Ordos Plain and to newly developed areas irrigated with water from the Huang He to open up cultivation in these regions and to resolve the food and clothing shortages faced by the people involved in the move. This was a risky plan, and there have been few successful experiences in moving such a large population either at home or abroad. But the move would combine the advantages of the mountainous regions, which have labor resources, and plains regions, which have natural resources; reduce the population pressure on mountainous regions; give such regions more room to maneuver in developing their economies; and accelerate the development of plains regions. Experience has proved that moving the population of the "Sanxi" region will work. The original plan envisaged moving 500,000 people in 10 years. To date, more than 270,000 people (including several tens of thousands who were moved from arid areas to newly irrigated areas nearby) have been moved and properly settled. More than 30,000 peasants from Dingxi, Tongwei, Yuzhong, Zhuanglang, and other counties of central Gansu have resettled in Zhangye, Gaotai, Jinta, Anxi, and other counties in the Hexi Corridor, where the immigrants have already established four large development bases for themselves. Some 110,000 people have been resettled in areas newly irrigated with water from the Huang He in Jingtai, Jingyuan, Bolan, Huining, and other counties of central Gansu, where the immigrants are digging irrigation channels, leveling land, building roads, planting trees, erecting homes, and emerging as the masters of the newly irrigated area. In newly irrigated areas using water from the Huang He in the eight counties of Xi-Hai-Gu, large expanses of wasteland are being developed through work relief programs by immigrants, who will move to the new lands once they are readied; 9 immigrant bases spanning two or more counties have been established; 83,000 mu of land has been developed; 36,000 people—136,000, when you include people who have moved from one place to another within the same county—have been resettled; and more than 300,000 mu of land has been leveled and opened up. Most of the peasants moving into new

places have realized the goal established by the government: "During the first year, get one's home established; during the second, obtain sufficient food and clothing; and during the third, advance toward prosperity." Ninety percent of the 60,000-some people who moved into irrigated areas in Baiyin City in Gansu prior to 1987 have surplus grain, and more than half have sufficient food and clothing. This project not only has enabled immigrants to build themselves a better life in a new place, it has also benefited peasants who stayed behind, because the project reduced population in the old areas. And, naturally, the state's financial burden has also been reduced. Gansu estimates that for every 100,000 people who move out of impoverished mountainous regions, the amount of cultivated land available for people who stay behind increases from 5 to 12 mu, and the population density decreases from 50 people per sq km to 20.

—Using industry to "hoist villages up," and developing wealth wherever possible. Even in plains regions that are economically more developed and in newly irrigated regions using water from the Huang He, a number of "special zones" have been created which provide organized guidance to impoverished villages suffering impossible economic conditions; have established links with developed regions through arrangements providing stock shares for bringing in capital, labor, resources, and the like; and have set up a variety of solely run enterprise, enterprises run jointly with developed regions, and economic entities providing assistance to the poor so as to help provide the poor with enough food and clothing. Several years ago, Longde County of Ningxia established the Chaohu Hoist-Village Immigration Base in distant Pingluo County, where more than 5,000 people have been settled. Because the base is close to the Dawukou Industrial Park of Shizuishan City, is large in size, and has convenient transport, the county early in 1987 decided to open the base up in all directions and to set up a hoist-village industrial park in the base. A year or so later, nearly 100 country, state, collective, and individual firms had decided to invest and set up plants in the base, 27 of which firms have already formally signed contracts, and four of the plants are now up and running. Plans for the next several years envisage that each year 10 million yuan in funding can be brought into the base, output value will rise by 20 million yuan, and profit taxes will be 3 million yuan.

Experience has shown that prospects are bright for the effort to exploit the advantages of the "two rivers" so as to help the "two wests" out of their poverty. But limitations on financial resources have slowed the program. At the current rate, it will not be until the end of this century that 900,000 people are fully moved and resettled. Some astute observers believe that in the future, in addition to the "Sanxi" special fund, liberalization and preferential policies should also be effected so as to attract funding, goods, and materials from various quarters and to accelerate the opening of wasteland in Hexi and on the Ordos plain. Only thus will the several hundreds of thousands of peasants living in impoverished mountainous regions who have no assured means of livelihood be able at an early date to find a "place in which to be reborn."

Sichuan Farmers Engage in Water Conservation Projects

*OW2802142789 Beijing XINHUA in English
0757 GMT 28 Feb 89*

[Text] Chengdu, February 28 (XINHUA)—More than eight million farmers in Sichuan Province, which has been hit by successive droughts and floods for four years, are now engaged in construction of water-conservation projects.

A local official said that the series of natural disasters has greatly affected agricultural production in Sichuan, which used to be known as "the land of abundance."

As a result, farmers have felt the urgency of constructing water-conservation facilities so as to improve conditions for agricultural production and enhance their capacity to fight against natural disasters.

In the last few years, farmers there have collected 77.42 million yuan, which is about the same as the total of the annual government-allocated investment, for the construction.

Local governments at various levels have also increased their investment, and supplies of materials and labor power to help the projects.

The official said that between last October and January this year, projects with a total water storage and drainage capacity of 64 million cu m have been completed, expanding the irrigation area by 246,000 ha [as received] and solving the drinking water problem for 900,000 people and 750,000 head of livestock in these areas.

Court Decisions Termed Hard To Enforce
40050291b Beijing FAZHI RIBAO in Chinese
3 Jan 89 p 1

[Article: "Some of the Masses Say: Court Decisions Are Hard To Enforce in Some Areas"]

[Text] Not long ago our mass work department received a letter from Manguilinye District in Inner Mongolia which said: "A debt dispute brought to the Yongnian Xian court in Hebei has been decided by two courts but cannot be enforced. What are we to do? ... Does this mean that the laws of the People's Republic of China have lost their force in some places?"

We receive many letters like this one and it is civil cases involving economic disputes that are the most difficult to enforce. Here we will analyze some letters from the masses (none of which have been verified) to try to find a way to resolve the issue.

1. In these civil cases some of the parties have willfully made trouble not carrying out the decision of the courts on the grounds of age and illness or unsuitable arrangements in their daily lives. Others have attempted to obstruct the enforcement of the court decisions by making threats of such violent behavior as suicide, physical assault, or bombing.

The Hushan Coal Mine No. 5 of the Inner Mongolian Wuda Mining Bureau allotted Mr Zhang, an employee, an old house at the mine and after Zhang and a Mr Liu, the previous occupant of the house, completed the transfer of property, Liu moved into a new residence. Four months later, Liu demanded that the mine return the house to him so his son could live there. To achieve this end, Liu and his wife insisted on moving back into the old house and the two families shared the house for three days. The housing office attempted to mediate without success and brought suit in the district court. The court gave the old house to Zhang. Liu appealed to the intermediate level court which turned down his appeal and upheld the original decision. But, appealing to his age, Liu refused to comply. Afraid to endanger his life, the district court decided to wait until Liu and his wife died to enforce the decision.

2. Local protectionism is very widespread and this is one important reason why court decisions cannot be enforced successfully. There are several kinds of local protectionism: in some instances, the courts take sides with local people and render unfair decisions. For example, a plaintiff and a defendant from another area signed a buying and selling contract and the defendant from yet another area gave the plaintiff's money to a third party. But the third party broke the contract and the plaintiff did not receive his goods nor could he get his money back, so he brought suit in the local court demanding the return of the payment for the goods. But the court

decided that the money should be repaid by the defendant from another area (the third party was a local person.) The defendant would not comply and resisted enforcement.

Local protectionism also involves not assisting in enforcement entrusted to it by a court outside the area; giving counsel to local litigants who are the subject of enforcement, etc. This has interfered with the enforcement of court decisions.

3. In some places authority is used to suppress the law and there is interference with court decisions. For example, the case of a local building materials company in Jianli Xian, Hubei, which was over 60,000 yuan in arrears to a goods and materials service company was in the courts for three years. The local and xian courts rendered decisions twice, but the goods and materials company used its influence so that each time an enforcement decree was handed down, individual leaders came forward on their behalf so that the decision could not be enforced. The service company said in a letter: "Is the law greater or authority greater? This is unbelievable."

Mr Li of an agricultural machinery repair plant in Xiushui Xian, Jiangxi signed a contract with the plant to operate a muffler shop. According to the stipulations of the contract, after a year, Li was entitled to a profit of over 38,000 yuan, but the plant broke the contract and would not pay. The Xiushui Xian court and the Jiujiang Municipal Court both decided that the plant should pay Li the money, but when it came time to enforce the decision, the leaders of the Second Light Industry Bureau, which was the defendant, would not agree and the courts did not know what to do.

In addition to the abovementioned situations, court decisions in cases of indebtedness are also difficult to enforce. If one of the litigants is really destitute and has no funds to pay the debt or the company is only in name with no asset; other than people, there is no credit to take for the debt. There is nothing the courts can do.

At present, the unenforceability of court decisions is widespread and it deserves the attention of the departments concerned. This is because the enforcement of court decisions and rulings is directly related to the litigants' lawful rights and interests, to the enterprise's economic rights and interests, the normal operation of social and economic activity, and even more the observance of the law. The Supreme People's Court has held study sessions and issued relevant rules on resolving the issue of the difficulty of enforcement. Actually, it isn't that there aren't any means of enforcement, it is just whether or not they are used effectively.

One can see from the letters from the masses that the causes of the enforcement difficulty are multi-faceted and the courts alone cannot resolve this problem. It will also require the support and cooperation of all areas of society. Specifically, the following should be done:

1. Courts at all levels should uphold the principle of independent trial in accordance with the law and not be subject to the interference of any administrative body, social group, or individual. They should withstand pressure, be fair and impartial, operate in accordance with existing laws and enforce the law firmly at all times and in all circumstances.

2. Local protectionism must be firmly opposed. Local courts should take the comprehensive approach by treating the litigants from all areas equally and without discrimination and by daring to smash networks of local relationships, and must report to higher level party committees and higher level courts from time to time for their support.

3. On the basis of continuing to strengthen contract management and education about the law in economic dealings, the relevant regulations of the State Council and the Supreme People's Court should be observed with regard to the debts owed by these "empty" companies and should be paid as appropriate by the reporting department, department in charge, or receiving department of these "empty" companies. A unit which is really in dire circumstances can, through consultation, repay the debt in installments.

4. With regard to people who make unreasonable trouble or who threaten violence or coercion in the enforcement of a decision, the court should cooperate with local governmental departments to conduct ideological work, prepare defensive measures, and resolutely enforce what should be enforced in accordance with the law. Appropriate consideration should be given to postponing enforcement for those who are truly in dire circumstances.

Summarizing the above, the best method for resolving this problem is for units and personnel concerned to operate faithfully in accordance with the law.

Stipends, Placement Aid Encourage Students Returning From Abroad

40050291a Beijing JIAOYU BAO in Chinese
7 Jan 89 p 1

[Article: "Create Conditions To Allow Returned Students From Overseas To Play Their Proper Role; Last Year Over 3,000 Students Returned to China; Returned Students S&T Placement Subsidized; Employing Units Resolve Job Title and Housing Problems to the Best of Their Ability"]

[Text] The columns on the table are captioned "Discipline," "Number of Persons Needed and Qualifications," "Proposed Work," "Working Conditions, Living

Conditions and Salary Which Can Be Provided." This is only part of the two-way placement service provided by the China Returned Students Service Center to units employing returned students. Improvements in jobs for China's students abroad have induced more and more of them to return to China to participate in reconstruction. In 1988 there were over 8,000 government-sponsored students abroad (including those sponsored by the state and those sponsored by units subordinate to state committees) and in addition, there were more than 10,000 self-supported students (not including those who went to Japan and Hong Kong on work-study programs); over 3,000 students returned to China, of which 600 had earned PhD and Master's degrees.

Since the 3d plenum of the 11th CPC Central Committee, China has restored a large-scale study abroad program. Since 1988 over 1,000 state-sponsored graduate students abroad have earned degrees every year. To induce a larger number of students to come home so they can use their educations and make contributions, in the past two years the state has arranged special subsidies for scientific and technical job placement of returned students to provide suitable income when they first begin working, and established such award funds as the Huo Yingdong [7202 5391 2639] fund to encourage those who make achievements; many domestic hiring units have also created the best possible working environments and living conditions for returned students, including taking care of such practical problems as job titles and housing. In March 1988, the Joint Training Office of the State Education Commission and the Ministry of Personnel at the Beijing Language Institute made it easy for returned students to find work. In December, the Chinese Returned Student Service Center was established, with the approval of the State Education Commission, to provide two-way job placement for various types of personnel who studied abroad and returned to China to work and for domestic hiring units to sign up for returned students. In the month or so that this center has been in business it has received 70 air mail letters from students ardently expressing their desire to dedicate themselves to service of their country. Some of China's consulates abroad are also very concerned with the study and living situation of students abroad and strive to resolve some of their problems in making arrangements to return to China to work, and some consular cadres have taken the initiative to make contacts for students abroad to return to China to work so that before they complete their studies they have obtained purposeful work.