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15 MARCH 1989



# ***JPRS Report***

## **China**

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## GENERAL

### Analysis of Japanese-Soviet Talks

40050201b Shanghai SHIJIE JINGJI DAobao  
in Chinese 2 Jan 89 p 5

[Text] Two weeks after Mikhail Gorbachev announced cuts in Soviet conventional arms, the eighth regularly scheduled meeting between the Japanese and Soviet foreign ministers was held in Tokyo, as the entire world watched closely to see if Moscow would make any surprise moves.

Summarizing the meeting in a phrase, there was progress but not enough. Judging from the joint statement issued after the meeting, it is apparent that no substantial progress was achieved on the key issue dividing Japan and the Soviet Union—the northern territories dispute. Nevertheless, the two sides agreed “to present their views, from historical and political perspectives, on the difficulties in their relations” and expressed a desire to strengthen their relations and continue the dialogue. Both countries agreed that the meeting doubtlessly represented a step forward. As Soviet Foreign Minister Eduard Shevardnadze stated in offering his assessment of the meeting, one may say the meeting was a new chapter in Japanese-Soviet relations.

The Soviet Union's attitude toward Japan has changed from passive to active for the following reasons: 1) the continued growth in Japan's economic might; 2) the Soviet Union's readjustment of its Asian-Pacific strategy; 3) the importance of obtaining Western, especially Japanese, economic cooperation if Soviet domestic economic restructuring is to be successful.

In recent years, the Soviet Union, guided by “new thinking,” has launched an active diplomacy vis-a-vis the West, economic and political exchanges have expanded rapidly, and normalization of Sino-Soviet relations has already begun. This has made Japan feel left out, so Japan greatly desires to put an end to its isolation and to play a political role that is commensurate with her economic power.

As in the past, the dispute over the northern territories remained the focus of this meeting. The Soviets have long maintained that “no territorial issues exist between the two countries,” but since the beginning of this year this position has begun to change. The willingness of the Soviets to sit down and discuss territorial issues with the Japanese made the atmosphere of the meeting very heartening. Yet while emphasizing improving the atmosphere of the meeting, the Soviets made no change in their stance that the northern territories historically belong to the Soviet Union. Although the two sides agreed to establish a permanent vice-ministerial committee to draw up a peace treaty, they have greatly disagreed over the nature and types of work to be handled by the committee. Japan insists that the committee should deal only with the territorial issue, whereas

Shevardnadze told some 300 reporters from around the world that 1) the peace treaty is to incorporate political, economic and geographic issues; and that 2) the work committee will discuss all issues of concern with both sides. Thus, it is easy to see that, while the two sides have agreed to continue their dialogue, they still “dream very different dreams.”

The economic condition in the Soviet Union is unsatisfactory, and the Soviets are short of foreign exchange. Thus an important goal of Shevardnadze's visit to Japan was to discuss and sign an agreement protecting investment made by foreigners in the Soviet Union and to attract Japanese investment in the Soviet Union. During the meetings, Shevardnadze requested that agreements on long-term protection of investment and economic cooperation be signed. Japanese officials disclosed that Foreign Minister Sosuke Uno broke with precedent and used the ruble as the currency unit (vs. the dollar) which was to the Soviet advantage. Japanese officials said that Uno briefed the Soviets on the Japanese government's assistance plans and on the current status of Japan's economy; and that Uno at these meetings attempted to use economic measures to effect resolution of the northern territorial dispute, but since the meetings failed to make substantial progress, Japan had no choice but to fall back on its position that “politics and economics are inseparable,” that the potential for expanding Japanese-Soviet economic relations had not yet been realized and that, in view of the current level of Japanese investment in the Soviet Union and the investment climate in that country, it is still too early to negotiate a long-term investment protection agreement. It seems that failure to resolve the territorial issue will make it very difficult for the Soviet Union to obtain from Japan the funds and technology the Soviets so desperately need. On this point, Shevardnadze twice explained that the Soviets have no intention of trading the northern territories for Japanese funds and technology.

When he met Noburo Takeshita, Shevardnadze indicated that a Gorbachev visit to Japan is now on the agenda. In the joint statement, the two sides agreed to hold regular meetings between their foreign ministers at least once a year and to meet frequently whenever they get an opportunity to do so. This shows at least the desire of the two sides to strengthen their relations and to continue their dialogue. Nevertheless, Japanese officials reported that this meeting is merely the beginning of a marathon discussion, that the northern territories dispute cannot be resolved overnight, and that so long as this issue remains unresolved, Japanese-Soviet relations will be difficult fundamentally to improve.

### Symposium Discusses 1989 Global Economic Outlook

40050201a Shanghai SHIJIE JINGJI DAobao  
in Chinese 2 Jan 89 p 3

[Text] “Today's world is interdependent. We devised the five principles of peaceful coexistence during the era of confrontation. Now confrontation has given way to

dialogue, so we should advance new principles and establish a new order for the world economy." This was the view expressed by Ji Chongwei [1323 1504 1218], executive director of the State Council's Economic, Technological, and Social Development Research Center at the symposium entitled "Outlook for the World Economy in 1989," which convened in Beijing at the end of 1988 and was jointly sponsored by the ZHONGGUO CHENGXIANG KAIFA BAO [CHINA URBAN AND RURAL DEVELOPMENT DAILY], the Theory Bureau of the CPC Central Propaganda Department, and the research office of QIUSHI.

Ji Chongwei asserted that new conditions and trends have appeared in global development. In analyzing global affairs, he said, we should smash old ideas and concepts, for in studying problems we must not be fettered by old methods but adopt new and more scientific approaches.

Over the past year, military and political relaxation have become the main trend in world affairs. Globally, the tension between the East and the West has greatly abated, and locally, regional conflicts are gradually being resolved. For example, Iran and Iraq have stopped fighting, the Angola problem has been resolved, Soviet troops have been withdrawn from Afghanistan, the Palestinians have established a nation, and the like. Problems that were frozen for 20-30 years have now begun to thaw, massive military expenditures may be shifted to peaceful development, and political confrontation is giving way to economic cooperation. All of these events are advantageous to global economic development.

Nevertheless, even as East-West relations relax, the serious imbalance in North-South development persists. The economic gap between developed and developing countries has not narrowed but continues to widen. Per capita incomes in developed countries, which were 20 times greater than those in developing countries in 1952, were 46 times greater still in the 1980s. The foreign debt of developing countries was less than \$100 billion in

1972 but exceeded \$1.3 trillion in 1988. As for share of world exports, developing countries still accounted for 28 percent in the 1970s but only 19 percent in 1980. More importantly, the flow of investment between North and South has been reversed, with approximately \$30 billion flowing from developing to developed countries each year. Continued widening of this gap will adversely affect economic growth in developed countries, too. The decline in prices for petroleum and other primary products and raw materials in recent years has been one of the reasons why these countries have been able to maintain growth. But this factor is only temporary and of limited effect. In the long run, success or failure in coordinating North-South economic relations will directly influence the economic development of the entire world.

Another problem we face today is world agricultural and grain supply. In 1988, North America suffered a drought, U.S. grain output fell by one-third, all major grain producing countries experienced decline in output, and world grain stocks fell by one-half. Thus failure to resolve the world grain problem may also affect global economic growth.

Current global economic conditions present China with both opportunity and challenge. As conditions permit, we should continue to broaden and deepen our policy of opening up to the outside world and promptly take advantage of all favorable factors on the international scene to expand bilateral and multilateral ties. Development should be focused on the Asian and Pacific region, and the coastal economic development strategy should be maintained. We must not, however, engage in precipitous acts but rather proceed as our abilities permit, advancing moderately and steadily. As we strive to restore order to the economy and improve our economic environment, we must also improve China's investment climate, advance enterprise restructuring, and invigorate enterprises, so as to strengthen our competitiveness, expand our international markets, and strive for even better growth as we prepare to greet the 1990s.

### **Interference With Independent Administration of Justice Discussed**

*Shanghai SHIJIE JINGJI DAOBAO in Chinese  
9 Jan 89 p 13*

[Article by Wang Xinxin 3769 2946 2450, China People's University; "Independent Administration of Justice Is a Component of Political Structural Reform; The Establishment of the Party's Political-Legal Committee and Full-time Political-Legal Secretaries Are Prime Examples of the Undivided Functions of the Party and the Judicial Organs; They Are the Main Source of Interference With the Independent Operations of the Judicial Organs, and They Run Counter to the Principles of Socialist Democracy and Legal Institutions"]

[Text] The organizational and functional separation of the Party from the judicial organs to effect independent administration of justice is an indispensable component of political structural reform. A long period of practice in the administration of justice has shown that the Party's establishment of the Political-Legal Committee and full-time political-legal secretaries has had few advantages and many disadvantages. They are prime examples of the undivided functions of the Party and the Judicial organs, similar in nature to the indivisibility of the Party and the government. They are the main sources of interference with the independent operations of the judicial organs.

First, the establishment of the Political-Legal Committee violated the fundamental principle of the Constitution and the Party Constitution regulating the activity of the Party within the framework of the Constitution and other laws, and disrupted the independence of the judiciary. The statutory functions performed by the people's courts and the people's procuratorate should not be subjected to interference by any organization or person, but the establishment of the Political-Legal Committee has led to its being used to override the judicial organizations. It was charged with carrying out the directives of the Party in the procuratorial organs and people's courts, but in fact it has interfered with the legal independent functioning of the procuratorial organs and the people's courts. There are some comrades who have perceived this problem and recommend that it be solved by changing the work methods of the Political-Legal Committee. This is nothing more than wishful thinking. It is because of the existence of this organization that interference cannot be avoided. The reason this problem has come into being lies in the system itself. It is not due to problems of execution. Changing work methods will not get rid of the inherent defects of the system.

Second, the establishment of the Political-Legal Committee violates the legal procedures stipulated by our country's laws and has disrupted the legal relationships between the police, procuratorate, and courts. It influences the conduct of judicial work and the proper handling of cases according to law. One of the work methods of the Political-Legal Committee is to take

charge of the implementation of the "Jointly take action with the Party" policy in the police, procuratorate, and court organs. Despite the words "within the Party," the actions that are taken are not Party matters but actions which, according to law, should be taken independently by each of the judicial organs. The matters that it decides are not matters relating to violations of Party discipline but every kind of legal proceeding. Thus, this kind of method not only has interfered with the independence of the judiciary; it has also disrupted the legal procedures stipulated by law, since in our country's procedural law, there is no procedural requirement that a case be discussed by the Political-Legal Committee or that there be joint action within the Party. This kind of method has in actuality caused the police, procuratorate, and judicial organs to become jumbled together and to mutually interfere with each other, to ignore the facts and the law and mutually compromise each other, always making accommodations, heavily influencing the proper handling of cases according to the law, and injuring the interests of the country and the people.

Third, the establishment of the Political-Legal Committee violates the principles of socialist democracy and law. In our country, power belongs to the people, and the Constitution stipulates that the judicial organs are national organs and that their activities are under the charge and supervision of the relevant people's congresses and their permanent standing committees. Court chief judges and chief prosecutors are elected to office. The interference by the Political-Legal Committee in the work of the judicial organs, without authorization by the people and without legal controls and restrictions, and their exercise of power without legal authority are clearly not in accord with the principles of democracy and legal institutions. This is in actuality a manifestation of "rule by man." Inevitably there are some persons, especially Party leaders, who use their power to illicitly interfere with the activities of the judicial organs to take advantage of opportunities for themselves, seriously harming the sanctity and dignity of law in the eyes of the people.

In advocating the separation of the Party from the judicial organs to allow the people's courts and the people's procuratorate to independently exercise their authorities to litigate and investigate matters, we do not want to cast off or weaken the exercise of leadership by the Party. We want to insist on the principle that the Party act within the limits permitted by the Constitution and by law, and we want to improve and strengthen the exercise of leadership by the Party. This has a profound historical significance for carrying out political structural reform and building a more perfect socialism and legal system.

### **Difficulties in Study of Constitutional Law** *40050226a Shanghai SHIJIE JINGJI DAOBAO in Chinese 9 Jan 89 p 13*

[Article by Pan Yuping 3382 3768 5493; "Difficult Straits of the Study of Chinese Constitutional Law and Its Trends; A Dialogue Between Two Constitutional Law Scholars, Professor Gong Xiangrui 7895 4382 3845 of

the Beijing University Department of Law and Lecturer Jue Xiao 6030 2556 of the Chinese University of Politics and Law Constitutional Law Committee"]

[Text] **Jue Xiao:** I feel strongly that the academic study of Chinese constitutional law has fallen into difficult straits. At a time when we desperately need the contributions of scholars of constitutional law, what we are able to produce is very poor in quantity and quality. The result is that when people talk of the infant stage of development of our country's legal system, they point out that research in constitutional law is the least developed area of legal studies research. Those who are engaged in the profession of constitutional law studies should give serious thought to the current state of the academic field.

**Gong Xiangrui:** What you have said chiefly pertains to problems of a subjective nature in our constitutional law academic field. What I would like to add is that there are also quite a few objective reasons for the backward state of research in our country's constitutional law. Its sources are not discoverable through research into written constitutions, citizens' rights, distribution of powers, and other aspects of constitutions themselves, and the highest level of skill in such research cannot by itself solve the substantive problems of our society, and is of even less help in relieving the sufferings of the masses. There are historical reasons for this, like the draconian laws that "physical punishments did not extend to senior officials." There are cultural reasons for this, such as the doctrine of feudalistic moral principles for governing the world set forth in the *Analects*. There are political reasons for this, such as the maxims "to have authority is to have everything" and "where power is greater than everything else, it decides everything else," which have enabled law to become a decision-making instrument in the hands of the rulers. In addition, there are social reasons: The people do not believe that constitutions are effective. Under these circumstances, it is very difficult for even those scholars of Chinese constitutional law who are truly learned and insightful to have any impact, especially in view of the fact that the "insightfulness" to which you refer and the realities of the present situation run counter to each other.

**Jue Xiao:** Chinese constitutional law scholars have for a long time confined their work to making assessments based on static values and propagandistic expositions presented in the form of annotations, and only rarely pay attention to the real implications of constitutional law or to the various hidden factors that underlie written constitutions. The direction taken by this kind of "research" has already forced constitutional law research into a blind alley.

**Gong Xiangrui:** This is a problem of methodology, and it is also a problem of knowledge. A discourse on law based on law will always have limitations and will never be able to get to the bottom of the matter. A constitution is a political law. It is the law for administration of the

country. It is the law for managing government officials. It advocates liberation of the sexes, prevents tyranny and oppression, and guarantees citizens' rights. The annotations run counter to the spirit of a constitution. The kind of seemingly comprehensive viewpoint expressed in the statement that constitutional law also guarantees legal authority is self-contradictory. If everything (legal and illegal) is decided by power, and power already exists, is there still a need to resort to law to guarantee it? I believe that constitutional law and fundamental law can only come from responses to relieve suffering and hardship explored by the masses. Contemporary constitutions are products of revolution. The hidden factors underlying written constitutions you are talking about are in contrast with existing forces, which may be accurately represented in written records or may be opposite to or very different from them. Annotations are propaganda, not research. Perceptive individuals can see this right away. There is no need for scholastic exercises since people have already noticed their stench and rejected them.

**Jue Xiao:** I think that Chinese constitutional law scholars for the most part are engaging in constitutional law research that is not guided by the constitutional government's ideological models and that this is causing them to deviate from the standard constitutional government's ideological model that has been evolving in modern times. Moreover, they themselves are too wanting in mainstream political ideology to be able to guide themselves in constitutional research. Chinese constitutional law scholars engaging in constitutional law research from this perspective will find themselves running into a stone wall.

**Gong Xiangrui:** Constitutional government can be simply defined as a government controlled by a constitution and participated in by citizens. Thus constitutional government is also referred to as "constitutionalist government." It is governing by constitution, in which actions are taken in accordance with constitutionalist purposes and spirit in the governance of the people. It is an expression of people's will. It is a means of ensuring individual freedoms and rights and averting the struggles of despotic rule. It originated in 16th century Western Europe and North America. The explicit premise of constitutional government is the control of power by law. Its implicit premise is the control of power by power—it is a technique for administering the government. Governments are established after revolutions have succeeded. Each has its particular objectives and particular functions. The fundamental problem of revolutions is political power. But acquiring political power is not the ultimate objective of revolutions. The political power that is exercised in the governance of a new society ought to have a clearly defined character and ought to have responsibility for definite tasks. From the perspective of ideological models, it cannot be considered more important than anything else; it is ultimately a necessary means of accomplishing tasks. Thus, it is necessarily constrained by these objectives, functions, and tasks, supervised by the people, or subject to the checks of internal divisions of power. The text of a written constitution confers the political power of a

government, and it is best for it to define the government, so that political power will be subject to the constraints of the objectives conferred by the constitution. When viewed from this essential perspective and not from a formalist perspective, it will be found that a constitution is always a pact between people in a society and that parties with different interests must impartially observe it. It is a kind of contractual relationship between those who govern and those who are governed. This kind of legal concept is an extension of the concept of people's sovereignty.

**Jue Xiao:** I often reflect that what distresses people the most about the failure of constitutionalism in China during the last thirty plus years lies not in our having changed four constitutions but in the fact that up to the present we have still not figured out why we have changed them. It is time for us to think this through and rebuild our constitutional ideology! Another question is whether we will take the common path of humanity in constitutional government or whether it is possible for us to take a path leading to the creation of a constitutional government with distinctive characteristics.

**Gong Xiangrui:** There will certainly be Chinese characteristics. We must use the written Chinese language to compose our laws, and their contents must be suitable for our country's conditions. But of course all human societies have common experiences and common laws. The so-called distinctive characteristics are different only in their manifestations. There is a Western constitutional law scholar who stated the principle of constitutional government: "Does not government itself fully reflect the distinctive characteristics of human nature? If men were all angels, then there would not be any need to establish a government. If the governance of man was regulated by angels, then there would be no need to establish controls for a government. Precisely because a government is a two-sided entity in which people govern people, the biggest problems are in two areas. First, how to make a government control the governed, and second, how to make a government control itself. Controlling a government undoubtedly necessitates reliance on the people, but experience teaches us that mankind must take other precautionary measures." This can be said to be the common path of constitutional government taken by all mankind.

**Jue Xiao:** "Constitutions are not theoretical" has recently become a fashionable axiom expressing contempt for constitutional law research. I am concerned that if this thinking continues, Chinese constitutional law scholars in the future will have no sense that theirs is an honorable profession. It seems as though quite a few individuals in the field of Chinese constitutional law have already contacted this dreadful new ailment—isn't this proven by those who become experts after doing only a little cursory reading in constitutional law?

**Gong Xiangrui:** Constitutions are not theoretical? More than three hundred years ago, there was an English royalist who said that it is self-contradictory for a constitution to be theoretical. His argument was a defense of the despotic King Henry I. If we want to do research in constitutional law, we need to do even more research in the laws that are higher than constitutional law, including research in natural law, international law, and the historical laws of sociology, political science, economics, etc.

**Gong Xiangrui:** Our only source of strength is knowledge. True knowledge can only be acquired independently and made use of independently. Knowledge comes from society and is used for society, but is possessed by the individual. That which does not fear power, which dares to oppose self-serving appropriation, which fights against unconstitutional and illegal acts and abuse of power, which upholds justice, and which criticizes tyranny is transformed into the essence of knowledge, and into the ethics of the profession of constitutional law scholars. This is in keeping with the spirit of constitutional law.

**Jue Xiao:** In addition to pursuing its own enrichment, the current academic field of the constitutional law should break out of its current consciousness and develop a new consciousness. It should try to free itself from the state of confusion which has resulted from infusions of traditional ideology, Soviet Union ideology, new people's democracy ideology, and the hybrid ideology of the period following the establishment of the people's republic, and work toward the construction of a Chinese constitutional government ideology. Chinese constitutional law scholars should not only make political demands relating to the import and export of political systems; they should also venture to raise political demands relating to the political system itself. This should be viewed as the real and historic task of the older generation of constitutional law scholars and the new generation of constitutional law scholars.

**Gong Xiangrui:** I believe that what we should first do is break out of the theory of constitutional law held by Stalin. Stalin viewed constitutional law as the record of revolutions. This is a view held by the "Goethian" faction. We must then break free of the fatalist view that "to have power is to have everything." We must also get rid of legal nihilism and the national perception that there is no distinction between the state and private interests and that the state and private interests are fully integrated. Constitutions are the fundamental laws that protect the people. We should study the cruel side of human nature and the hardships of the people, and devote ourselves to seeking the spirit of justice for mankind. We should make unremitting efforts to accumulate and update our knowledge of how to prevent the sources, techniques, and methods of abuse of power by the failings of mankind. This ought to be our duty as constitutional law scholars.

## NATIONAL AFFAIRS, POLICY

### On Improving Economic Environment, Deepening Reform

40060269 Beijing ZHONGGUO JINGJI TIZHI GAIGE  
[CHINA ECONOMIC SYSTEM REFORM] in Chinese  
No 12, 23 Dec 88 pp 10-16

[Article by Yang Qixian 2799 0796 0341: "On Improving the Economic Environment and Deepening the Reform"]

[Text] The 3d plenary session of the 13th Communist Party Congress Central Committee passed a resolution to the effect that China's economic construction shall implement a policy of improving the economic environment, rectifying the economic order, and of an overall deepening of the reform. The resolution also pointed out that improving the economic environment and rectifying the economic order shall be the key issues in economic development and reform during next year and the year after. Why is a deepening of the reform demanded in addition to improving the economic environment, and, while starting out from the realities of the present situation, what aspects in the process of deepening the reform shall receive primary emphasis? In the following, I intend to discuss these two questions, as best as my humble understanding of the problems permits.

#### I. Complexities Faced in the Reform of the Economic Structure

China's reform of the economic structure has achieved huge successes, which is an objective fact that nobody can deny. These successes can primarily be seen in that the economic structure of the past, which had been one of overcentralization, which had consisted mainly of command-style planning, and which had become a very rigid system, has now been breached in many directions, and that a new system, suited to commodity economy and socialized large-scale production, has to varying degrees been developed and implemented.

The above-mentioned progress in the reform has powerfully stimulated China's economic development, and has had the effect of raising the GNP during the last 10 years at an average annual rate of 9 percent, which is an increase of more than half of what it was during the 26 years before the start of the reform, from 1953 to 1978.

However, we also have to consider that China's economic structural reform is far from complete, and that we still have to achieve the goal for economic operations set at the 13th CPC, which was to have "the state regulate the market, and the market guide enterprise." From whichever direction we examine, we see that we are still a considerable distance away from accomplishing our goal. Besides, many obvious difficulties and problems do indeed exist. The most conspicuous ones

are that further advances in the reform require a comparatively broad and loosely constituted economic environment, while what we actually have now is a seriously disproportionate relationship between total social supplies and total demand and an imbalance in the country's macroeconomy. Establishing the new structure of a socialist commodity economy requires correcting the irrational price system, and changing radically the mechanism of price formation, while what we actually have now are steeply rising commodity price indices and a currency inflation beyond what the masses are able to bear. If we want to stimulate the enthusiasm and competitive drive of the hundreds of millions of workers, we must smash serious egalitarianism in distribution and must widen in a sensible way the disparity between the incomes of the citizens, while what we actually have now is a distribution system in which the "all eating from the big pot" has not yet been completely done away with, in addition to various new forms of unfair distribution. If we want to create a socialist economic management system with Chinese characteristics which is to be most beneficial for the development of our social productive forces, we must have a set of appropriate rules and regulations and an appropriate legal system, and must establish a very perfect new commodity economy order, while what we actually have now is a highly imperfect market order and seriously chaotic conditions in our circulation area. Especially the emergence in recent years of the "official profiteers" has corrupted some party and government organs and cadres, and has aroused the indignation of the people.

People have now put forward many different explanations for the occurrence of these difficulties and problems, and some even believe that they are the result of mistakes in the reform. This is a wrong idea. A realistic and factual analysis will easily reveal to us that the difficulties are brought about by a variety of factors, as will be described below:

First, there are the faults of the former system, which, despite 10 years of reform, have not yet been fully eliminated. For instance, in the problem of imbalance between total supplies and total demand, we see that China's former economic system was one in which responsibilities were not clearly defined in many respects, so that there frequently prevailed only one inclination, be it in units or among individuals, namely to expand demand, without any motivation for self-restraint, thus totally overheating economic construction. For a long time, therefore, ours was an economy of shortages. Most of the time, the macroeconomic balance was generally strained and very seldom in equilibrium. Only when accumulations became critically out of balance, there was pressure to make some one-time adjustments. About every 3-5 years, a one-time retrenchment or adjustment was carried out, and this went on in a recurring cycle, seemingly without end. The situation, as it has now arisen, is merely a recurrence of the failings of the traditional system. For instance, when extraordinarily large investments in fixed assets were found to have



been made during the period from 1978 to 1980, a one-time adjustment was made in 1981. But only a short time thereafter, investments of this nature had again become too large in 1983, and it was at that time that the central authorities made it a point that the scale of construction must be commensurate to national strength and instituted strict controls. In 1984, it was furthermore decreed that constructions should be kept steady at the present rate for 3 years, and should not be essentially increased. However, the facts are that construction was not only not kept steady these 3 years, but even increased by about 80 percent. This year, the original plan provided for investments of up to 300 billion, but it is estimated that they will actually exceed 400 billion, and this will certainly necessitate determined retrenchment next year.

Second, agricultural production has tended from an above-normal growth rate to a normal growth rate, obviously not in conformity with the super high-speed development of industry. During the period from 1979 to 1984, a series of reforms in the rural areas has had the effect of stimulating the enthusiasm of the peasants, something that had not happened for several years, and the agricultural potential, which for many years had lain dormant, was newly awakened, with the result that production increased very rapidly, increasing at an average annual rate of as much as 7.8 percent, while the average increase in industry during the same period was only 9.6 percent, making the ratio of the growth rates 0.8 to 1. As a result, agricultural supplies were abundant, and prices remained essentially stable. In the last 4 years, agriculture has assumed a regular growth rate, rising at an average annual rate of 4 percent, while industry during the same period had an average annual increase of 16 percent, widening the mutual ratio of growth to 0.25 to 1. Especially in food grain, the production continued to fluctuate up and down during the last 4 years, and the total production not only did not increase, but even declined somewhat. But since the population during the said period grew by over 50 million, per capita production declined from about 800 jin to about 740 jin. As a result, the contradiction between industrial and agricultural production again became strained, and for some products supply could not meet demand, which aggravated inflation and made steep increases in prices unavoidable. This point is fully explained by the fact that the price increases for staple and nonstaple foods make up about two-thirds of all price rises from 1985 to this year.

Third, the reform is currently still underway, and as various measures have not yet been fully coordinated and moved into proper position, there are bound to appear various incongruities. For instance, in the relationship between plan and market, decontrols have essentially been applied to half the economy, while half is still under controls. It was especially to dampen the severe shock to the market which a one-time complete market deregulation would have brought about, that a double-track circulation and a "double-track system" of prices

was instituted in many cases for one and the same product, and the contradictions and loopholes in a system like this are very evident. In the relationship between macroeconomics and microeconomics, in efforts to effectively stimulate the enthusiasm of enterprises and workers, and to accelerate the reform, many branches of microeconomic activities were decontrolled without simultaneously setting up a corresponding system of scientific macroeconomic regulation and control. In addition, some important measures, such as local contracts assuming financial responsibilities, contractual undertaking of turning over to the state profits before taxes, etc., have had a stimulating effect on the enthusiasm among local authorities and enterprises, but, on the other hand, have had the potential of leading to regional separations and blockades, as well as to various short-range activities; they are in themselves, therefore, of a transitional nature. For these reasons, many extremely abnormal phenomena appeared in economic life, a circumstance that could not be completely avoided.

Fourth, reform in a socialist country is an unprecedented, revolutionary undertaking. There has, up to now, been no successful experience which could serve as an example to follow. Many measures and methods are still to be further checked and explored. For instance, in the first quarter of this year, it happened that interest rates for bank deposits fell far below the rising commodity price index, and reason would have dictated quickly raising interest rates in order to stabilize savings and withdraw more currency from circulation. However, because this particular operational law of a commodity economy was not properly taken into account, a policy decision was delayed too long. Continuous study and coordination took 5 months, and it was only on 1 September that it was decided to raise the interest rate for 1-year deposits by 1.44 percent, while the commodity price index had in the meantime risen about 5 1/2 percent, making the said measure completely useless, and forcing the authorities to decree again on 10 September that the value of 3-year or longer deposits will be guaranteed. There is also the additional fact that due to the vast territory and huge population of China, its economic development is very uneven, and complex situations arise in the various localities. Some policy decisions on reform measures may not necessarily fit the realities of certain localities, or may not provide sufficiently for side effects that could possibly occur, or to guard against such occurring, and this may also be the cause for regional contradictions and problems.

The above-mentioned phenomena indicate that the reform of China's economic structure has already entered a new stage, namely the start-up stage or break-out stage, and has entered a stage where the new and the old systems are in a stalemate and in a state of gradual shift. An analysis from a variety of different angles reveals that reforms and reform tasks at this stage are much more arduous and complex issues than a few years ago. This is so because:

First, the many problems which are now to be solved in the reform make it appear as if an assault is to be made on a well fortified position. The reform of several years ago, since it was at that time only the very beginning of the reform, frequently had a certain experimental and adaptive character. It generally avoided, therefore, the important issues and went for the less important issues; it avoided the difficult and went for the easier tasks. Although quite some achievements and breakthroughs were achieved, they were far from creating a comprehensive and rational economic mechanism. As we enter the present stage, many important problems cannot be bypassed anymore, such as the price reform, wage reform, reform of the property rights system of enterprises, reform of the employment system for workers, reform of the planning system, reform of the system of investments in goods and materials, reform of the banking system, reform of the public finance and taxation system, reform of the social welfare system, changes in the functions of government organizations, and the formulation and enforcement of various economic laws and regulations. In the past few years, solutions had never been attempted for all of these problems, and no action had essentially been taken to tackle these "hard-to-crack nuts," which constitute problems of considerable difficulty. However, if the next stage is unable to solve these problems, we cannot possibly attain the objectives in our reform of the economic system. It is for this reason that we compare this stage to an assault on a well fortified position.

Second, as the reform will entail a profound adjustment of interests, it is bound to touch a sensitive nerve for every individual. Reform of the economic system is in actual fact a one-time readjustment of rights and interests. However, because overcentralization in the state was the main fault of the old system, efforts in the reform of the past few years to effectively stimulate the enthusiasm of the various sectors consisted mainly in adjustments in one direction, namely in expanding powers from central to local authorities, from the state to enterprises, and from collectives to individuals, and in yielding up profits, granting tax reductions and exemptions, and in increasing bonuses and welfare amenities.

Every locality, sector, enterprise, and individual could, therefore, essentially gain tangible benefits from the reform, which was generally supported to a high degree and enjoyed very smooth progress. But as the reform enters its present stage, it has become impossible to repeat these adjustments in just one direction, because of the stringent state of the country's finances, which almost every year have been running up very large deficits, and which, objectively, have left no room to go on in this manner. At the same time, the structure of the benefits created by the adjustments and reforms of the previous years are, even up to today, very uneven. Some had gained much and some had gained little, and the disparities were very large indeed, while the situation frequently did not at all reflect real achievements or effectiveness. In the next stage, some lateral adjustments

and even reverse adjustments will become a necessity. On the other hand, rights and interests are fiercely rigid, and in the case of any unit or individual it is always easy to "adjust in" benefits but hard to "adjust out" benefits. Some may even resort to the method of "whatever policy you may decree, we shall devise our own counterpolicy," as a means of resisting and interfering with these adjustment of interests. As a consequence, it will be very difficult to smoothly launch interest regulating and controlling measures to the extent that such are necessary to deepen the reform, and to have such measures take necessary effect.

Third, according to the character of our reform, it is intended, on the one hand, to preserve socialism, but, on the other hand, also to import the economic mechanism of the present developed capitalist countries, if such a mechanism is beneficial for socialized large-scale production development. However, in the field of economic management we are up to now not at all clear where the concrete borderline is between socialist and capitalist methods. The reform of the past few years was moving from the shallow to the deep, but was essentially still being conducted at a shallow level; it did not place certain important and sensitive problems on the general agenda of the day. Such are, for instance, the differences and similarities between establishing autonomy in state-run enterprises and the changes in the ownership system, between socialist plan economy and macroeconomic plan guidance under socialized large-scale production conditions, between the status of workers as masters and the opening up of labor markets, and between socialist commodity economy and capitalist market economy in actual application and operations. If it is now intended to deepen the reform, not only must further breakthroughs and developments be faced in the theoretical concepts of these issues, but further courageous systematic explorations must be faced in actual practice, only then can we achieve in China the integration of what people believed cannot be integrated, namely the advantages in economic management of the two social systems. But the final solution of this problem is very difficult. If not properly handled, the end result can quite possibly be either committing the political mistake of a "complete westernization," or categorizing some of the patterns and methods necessary for the management of the economy under socialized large-scale production as capitalist stuff and excluding their application from China's economic management. This would have the result that the economic reform would for a long time waver back and forth at a low level, and that it would be impossible for a long time to build a socialist economic structure with Chinese characteristics.

Fourth, as the reform enters the present stage, and as, objectively, two systems, two mechanisms, and two types of management coexist simultaneously, there are bound to occur many contradictions, loopholes, much friction, and many clashes in the economic life, and there may even occur some incidents of disarrangement which

under normal conditions would be absolutely impermissible. Whether we evaluate these conditions using the concept of balances of the traditional centralized planning system, or using the value concept under the conditions of developed commodity economy, we would certainly insist that all of them must not be allowed to exist. This may, therefore, easily lead many people to criticize this or that aspect of the reform and may affect a correct evaluation of the reform by the people, even evoke oppositional arguments against its ideas and measures, and against any move toward further reform, and as a consequence increase the difficulties to go on with the reform and make further key policy decisions regarding the reform. If this situation is not handled properly, it may quite possibly lead to a standstill in the reform, or to voluntary or involuntary regression in certain directions. On this issue, some socialist countries of Eastern Europe have excellent experience. For instance, Hungary began its reform in 1968, and prior to 1973 was essentially in a stage as China was in during the past 10 years. Progress was comparatively smooth, economic growth and the people's living standards rose very fast. However, after 1973, two great difficulties arose: One was the sharp increase in international oil prices, which aggravated economic difficulties, and the other was criticism of their reform, from a traditional point of view, by a certain large country. In addition, a rather complex situation arose domestically, which led to increasing criticism of the reform. As a result, their reform went into "hibernation," and no progress was made in any direction for a long time. The result of the halt in the reform was a decline in economic vitality, which led to a huge downward slide in the economic growth rate, the supply situation deteriorated further, the real living standard of the people declined, and there was even no guarantee that material benefits that had already been acquired would be continued. The result was that even greater difficulties arose in the economy and even politically, difficulties arose which still have not yet been completely resolved.

We must therefore fully appreciate the achievements so far made in the reform of China's economic system, and we must accurately analyze the situation we are now in and the problems that exist. We must realize that there is a certain historical inevitability for China's reform to enter a stage such as the present one. The emergence of many contradictions and problems cannot be completely avoided at this juncture when the old system is transformed into a new system. This must under no circumstances be interpreted as mistakes occurring in the reform. In a country as huge as China, the transformation of the entire economic system cannot possibly be accomplished in one move, it will of course require a lengthy process. Since it involves a lengthy process, it is unavoidable that there will be one stage when the two systems will still coexist, and it will then be impossible not to have the above-mentioned contradictions and problems. Judging by the practices in many countries of the world, there will generally be no disorder and confusion arising in the transformation from a commodity

economy or a market economy to a controlled or centrally planned economy, and it is probably a small price that will have to be paid during such periods of transformation, but a very high price has to be paid for a long time if an entire economy is turned into lifeless rigidity, if benign circulation becomes impossible, and if economic returns are diminished. On the other hand, a transformation from a controlled economy or a centrally planned economy to a commodity economy or market economy will generally entail a process of quite some confusion and disorder. There will be considerable distress during this period of transformation, and a certain price will frequently have to be paid. Never has there been a country that has achieved this transformation without passing through a painful process. But, in the long run, as a new mechanism is built up, suited to the development of the social productive forces, economic vitality will again become strong, efficiency and effectiveness will possibly be greatly raised, and an inestimably strong impetus and supportive effect will be imparted to the economic development.

This will fully explain that our only way out is now to pursue the reform in greater depth, to continue to steadily advance the reform, and to use the method of reform to solve the problems that arise in the course of the reform. Because it is like rowing a boat upstream, one simply has to make progress as the boat will otherwise be driven back; there is no way to just stop. Because the above-mentioned contradictions and problems in the objective economic life are urgently awaiting solutions, solving them with new methods will amount to advancing the reform forward, using old methods to solve them would actually amount to turning back on our road. Even though the emphasis in construction and reform of the last 2 years has been improvement of the economic environment and rectifying the economic order, it will not be possible during this process to altogether refrain from the use of some administrative means nor to avoid resorting to certain old methods. However, we must as far as possible study and employ some new methods, so that certain progress will be made in areas where the reform must and can be advanced. Let these efforts not take too long. Let the new operational mechanism advance to leading position in the life of our national economy, and let us gradually overcome the difficulties of both systems presently still being locked in a stalemate.

## II. Continue Deepening the Economic Reform and the Selection of Points of Emphasis

The chief goal in the reform of China's economic system has been clearly stated in the resolution of the 3d Plenary Session of the 12th CPC Central Committee, namely to change the former rigid system which was unsuitable for development of the productive forces into a system of a planned commodity economy. At the 13th CPC it was further clarified that the intention was to establish an economic operational mechanism in which "the state regulates the market, and the market guides enterprise."

This goal essentially has three elements: 1) Increased vitality for enterprises; 2) Establishment of various markets; and 3) Transforming the methods of macroeconomic management. This is an important development of the economic theories of Marxist socialism, as it is also a high-level review and summary of positive and negative experiences in the economic management practices of socialism during several decades of the past. This is an absolutely correct process, and we must under no circumstances waver in our resolve. But at different times, based on different objective circumstances, it is absolutely possible to make different choices in points of emphasis and in reform measures.

We have already repeatedly emphasized in the preceding section that we should accelerate price and wage reform. In view of the essence of the reform of the socialist economic system, this demands development of a commodity economy and introducing the market mechanism. It also demands effectively eliminating the serious shortcomings in the "double-track system" of pricing and to radically break away from the predicament of the "Bermuda triangle" in socialist economic operations, namely the freezing of prices—granting financial subsidies—burdening the enterprises. Speaking of finally attaining a benign circulation, it is absolutely necessary to meet all these demands. Since price reform is a rigorous adjustment that affects people's interests, one that in particular has a direct impact on the real income of staff and workers, it must be combined with a reform of the salary and wage system of staff and workers. However, viewed from the standpoint of the objective economic livelihood, China's current commodity price index increases are already comparatively high, and inflation obviously exists. Even though views clearly differ among economic theorists as to how to assess inflation and whether China can allow a certain measure of inflation to occur, the practice since the beginning of this year has proven that at the present stage China's double-digit commodity price index is economically definitely unacceptable. This is true because since the start of the reforms, as citizens enjoyed larger incomes, savings deposits in China rose considerably, and construction became more and more dependent on the increased support from citizens' saving deposits. When the commodity price index rose to double digits, the interest rate was in an inverse relationship, people feared a currency devaluation, and saving enthusiasm of course declined. This led of necessity to a large decline in the rate of people's savings, and in absolute figures deposits declined. That made it very difficult to withdraw currency from circulation, and currency issue surely greatly increased, while purchase demand also greatly expanded, and commodity prices of course rose further. Under the conditions of a developed commodity economy, the situation could be mended by a large rise in interest rates. But raising the interest rate for deposits must also correspondingly raise interest rates for loans, while our present enterprise mechanism is not yet capable of absorbing high interest rates. Higher loan interest

rates will necessarily lead to increased costs of production and business operations, and that in turn will further incite commodity price increases, and create further confusion in the market. The 3d plenary session of the 13th CPC decided, therefore, to decelerate price reform, reduce the sphere of price reforms in the near future, and furthermore decided to first reduce the rate of inflation and reduce next year's commodity price index to lower than this year's. That is absolutely correct and demonstrates firm adherence to a line of thinking that seeks truth from facts.

This will also explain that if we really want to accelerate price reform and advance price reform in a smooth way, we must not rely on a subjective desire, but must rather provide two indispensable conditions, which are: One, we must provide a comparatively broad and loosely constituted economic environment, beneficial for the decontrol of prices for a majority of products, allowing them to be regulated by the market, to arrive finally at a price system where pricing is mainly determined by the market. Otherwise, decontrolling prices will have prices rise one after the other, and prices parities will return to the original position. Two, the large number of enterprises must establish a business mechanism which, on the one hand, must be self-encouraging, and, on the other hand, must be self-restraining. They must be capable of making great efforts to absorb in their manufacturing processes a considerable portion of the price rises in primary materials, and as far as possible not at all, or as little as possible, transfer the price increases to the end products. Otherwise, the general level of market prices is bound to rise greatly, and people will not be able to bear it, economically and psychologically. Without the above-mentioned two conditions, even the best of plans cannot possibly be successful. In 1986 and again this year, accelerating price reform was tried twice, but twice the attempts were halted in midcourse, which occurred exactly for this reason.

The policy proposed by the Central Committee for the improvement of the economic environment, for rectification of the economic order, and for an overall deepening of the reform is, therefore, a positive policy, and not a negative policy. It must not be interpreted as allowing a breathing spell in the reform, and even less that we may now stop here and must not press on further. If we will only make appropriate arrangements during the actual implementation of this policy, not only will there be no major contradictions to the reform, but it will quite possibly contribute to deepening the reform, because the three parts of the policy are also the three significant aspects of the reform. For instance, improving the economic environment is essentially the issue of accomplishing effective macro-control. Rectifying economic order is essentially the issue of perfecting the markets. Overall deepening of the reform means to start out from the present reality and firmly take in hand the reform of the business mechanism of enterprises, which is very urgent, which is now feasible, and which by reason should be a priority task. This explains that,

speaking of the reform work, it is absolutely possible for us to integrate and implement this policy, and to continue to apply ourselves to the three directions of the reform required for the establishment of the new economic operation mechanism, doing so by adroitly guiding action according to circumstances, judging the hour and sizing up the situation, and by proceeding step by step and marking out key positions. Working hard at improving the economic environment and rectifying the market order, as well as at the reform in the above-mentioned three directions, all can be advanced further.

First, on the reform of the macro-management system.

A few years ago, many measures were instituted to change the direct macro-management system, but the situation remained far from achieving an effective scientific system of indirect macro-regulation and control. As a result, we lost control over investments in fixed assets and over consumption demand, which again led to a conspicuous excess of total demand over total supply and a general deterioration of the economic environment. The policy of improving the economic environment cannot possibly be implemented without strengthening and perfecting macro-control. Instituting macro-control over actual work, may generally be done in three ways, namely by administrative means, by economic means, and by legal means. Judging by the present state of affairs, it is unavoidable that certain administrative means be employed, such as in the control of the amount of investments in fixed assets, of the total amount of purchasing power of social organizations, and of the total amounts of wages and bonuses paid by enterprises, and with regard to the responsibility system for leading cadres. Prior to the establishment of an effective system of economic and legal regulation and control, and without capability for self-restraint shown by local administrations, departments, and enterprises, it is not yet possible to completely abandon administrative means. A few years ago, we incorporated all these matters in norms which had no binding effect. They could be exceeded at will and without any responsibility, with the result that frequently the "honest guy" got the worst of it. It was in itself a defective method. Facts have proven that such a "hands-off" method will not do. Now, we first employ administrative means to keep things under control and to cope with an emergency, and although this method may possibly entail a large measure of individual latitude, it is absolutely necessary and indispensable for further progress in the reform.

However, since the reform aims at establishing the new operational mechanism of a commodity economy, it is equally obvious that employing these administrative means is ultimately not the permanent solution. We must, therefore, combine control by means of administrative measures with active studies of the use of some new basically unified economic and legal methods suited to the laws of a commodity economy. For instance, about one-third of all investments in fixed assets throughout the country originate from bank loans. By the

rational and effective use of monetary means alone, selecting only the best projects for bank loans, judged according to supply capabilities and anticipated returns from the projects, the banks themselves, by their policy decisions and by their assuming the risks, will be able not only to more effectively control the total amount of investments but also to adjust the structure of investments. In the matter of purchasing power of social organizations and increases in salaries, wages, and bonuses paid by enterprises, if best use is made of tax and financial means, such as enforcing strict accounting and auditing systems, putting an end to indiscriminate imposition of costs, to excessive grants of allowances and materials, to collecting levies and progressive taxes in excess of prescribed limits, and to imposing high fines, there is a possibility that a better effect will be achieved than by simply using administrative measures. To dampen the inclination of local authorities and enterprises toward self-expansion, to increase their needed capability for self-restraint, and, furthermore, to build up gradually a standardized system of profit distribution, one may also select some localities to try out a better system of distributing tax revenue between central and local authorities. In some enterprises one may try out a separation of the flow of taxes and profits, a reduction of income tax, abolishing the reconciliation tax, and instituting repayment of loans after tax and contractual assumption of business operations after tax.

This explains that during the improvement of the economic environment next year and the year after, there is much work to be done in the field of macroeconomic reforms. Especially with regard to banking and tax reforms, if they could be carried out at an opportune time, these reforms could possibly effectively restrain demand and increase supply. They could prove extremely beneficial for the regulation of the economic environment, and could, moreover, amend the insufficient coordination between our present microeconomic and macroeconomic reforms, help to gradually establish a system of indirect macroeconomic regulation and control, indispensable under conditions of socialized large-scale production and commodity economy, and thereby effect a considerable improvement in the quality of our macroeconomic management.

Second, on the reform of the market.

In this respect, we have in the last few years also employed many more measures of an exploratory and developmental kind, and comparatively few measures for a corresponding perfection of the market order. Moreover, friction due to the coexistence of two systems, an old one and a new one, and due to the contradiction of having the "double-track" method of circulation and two prices apply to one and the same product, there have been incidents of confusion and disorder. The need to earnestly rectify the situation and have it gradually become a market that is well developed as well as orderly, has by now become a task which brooks no further delay. Otherwise, it will be impossible to develop

the market in greater breadth and depth, and also impossible for a long time to create a market atmosphere beneficial for competition on an equal basis, and may, furthermore, lead to more corruption among party and government cadres, destroy the good name of the reform, and create an attitude of total political passivity.

Rectifying the economic order is mainly rectifying market order. Its preconditions are an appropriate restraint of demand and creation of an environment in which supply and demand are more or less balanced. If there is a serious imbalance between supply and demand, if there are shortages in the objective material means of livelihood, if contradictions and loopholes are prevalent, mere reliance on rectification will hardly be able to prove effective. We must, therefore, first of all effectively deal with the first aspect of the reform. On this premise, we must combine implementation of the policy of rectifying order with the study of the possibility of applying some feasible reform measures. For instance, in combination with rectification of corporations and punishment of official profiteers, we may appropriately formulate relevant laws and regulations which would clearly prescribe under what conditions enterprises may be operated, and what persons must not hold concurrent or full-time positions in corporations. They should also prescribe the proper scope of business and business principles that legitimate corporations are required to observe, and should gradually institute a system of inspection and supervision of corporations from the time of their inception, through business operations, down to their possible bankruptcy. In combination with the solution of shortages in certain raw materials and products—shortages caused by various units and localities, who, finding costs low due to conversion of foreign exchange, were vying with each other in buying up such products at elevated prices to export them—we may pursue the reform of the foreign trade system or the customs system in greater depth, issue licences at a price by way of public bidding, or directly raise customs duty on the exports of the products in question, also unify for all localities the system of foreign exchange allocations for exports. This would, on the one hand, increase state revenue and, on the other hand, prevent undue confusion, also be a measure that would encourage legitimate competition between the various parties concerned. In combination with actions to prevent disturbances of the market and criminal acts, such as production of counterfeit or spurious goods, giving or taking bribes, misusing powers for private gain, etc., specific laws and regulations should be formulated and severe punishment meted out to violators as a warning to others. At the same time, further effective work in market organization could be done, setting up on trial and developing new trading patterns, such as large-scale comprehensive trading firms, futures markets, and, in larger cities, fresh fruit and vegetable wholesale markets, so as to establish closer relations between city and countryside and between producers and consumers, and to reduce as far as possible intermediary links in circulation, reduce circulation costs, and ensure stable supply to markets.

For some products for which demand seriously exceeds supply, for instance, for agricultural means of production, such as chemical fertilizer, pesticides, and plastic film, monopolies should be set up. A few important raw and semiprocessed materials, such as some nonferrous metals and steel products, should be subject to overall unified distribution. For some prices of important commodities which have been decontrolled, price ceilings should be set, and a system of reporting "adjusted prices" should be instituted. These are necessary measures in order to resolve the present wave of profiteering and confusion in the market. However, we must also realize that such measures obviously conflict with the objectives of the reform and with the directives on developing a commodity economy. There measures should, therefore, be used within limits, and they should also not be perpetuated and solidified. Otherwise, we may again regress to the precarious state of "the more shortages, the more controls, and the more controls the more shortage." This would be detrimental to any transformation of the economic operational mechanism and the establishment of a new system, and it would also not produce a rational production structure and true resolution of the problem of imbalances between supply and demand in these products.

Third, on the reform of the enterprise business mechanism.

This is a key area of the reform, which we can now pursue comprehensively and in depth, as it is also an area on which our hopes rest for a solution of the various contradictions and problems that now exist in China's economic life. The productive capacity of China's enterprises is already of considerable scope, but where they are deficient is that they generally show poor efficiency and profitability. Apart from providing for their own consumption and wages and welfare for their workers, their contribution to the state and to society is still limited. If we devote sufficient energy on the effective reform of the enterprises as a key task, and if we spur on the state-run enterprises, especially the large and medium-size enterprises, to effect distinct improvements in the mechanism of their business operations, and if they can consciously and to the utmost of their ability raise efficiency and profitability, this would greatly reduce wastage and consumption of various resources. It would, moreover, effectively raise state revenue, increase social supply, relieve and overcome the serious imbalance between total social supply and demand, and also lay a solid foundation for the smooth progress of an intensive reform of prices, wages, and of the entire economic system. It would be effective in many directions.

The crucial point in changing the mechanism of enterprise operations is the widespread adoption of a system in which government administration is separated from enterprise management, in which both powers are separated, in which enterprises conduct business under their own authority, and in which the enterprises themselves bear responsibility for their profits and losses and bear



the risks of their operations. The system should also establish an independent status for the enterprises, and effect a thorough change in the present situation which still leaves large and medium-sized enterprises generally with little authority of their own, in which they lack capability for self-restraint, and in which they take responsibility only for profits but not for losses. To achieve these changes, it is necessary, judging by the many years of developmental experiences of enterprise development abroad and by the practice during the last few years of reform in China, that we base our actions on the contract management responsibility system, as currently practiced, as we firmly take in hand the following tasks and further deepen, develop, and perfect them. One, we shall widely promote competitive public bidding and selection of the best offer to run the enterprises on a contractual basis. Two, we shall institute an internal labor improvement organization and expand contract risk pledges by all personnel. Three, we shall establish a system of enterprise property rights and promote rational circulation of assets. Four, urge enterprises to merge and develop enterprise conglomerates. Five, institute a shareholding system for large and medium-sized enterprises. For small enterprises we shall institute a system of transferring them by contracting, leasing, or auctioning after tax obligation have been met. Six, for all commercial enterprises we shall gradually achieve such conditions as taxation according to law, distribution of dividends according to shares, and decontrol of business operations. Finally, we should allow publicly owned enterprises to start business activities, competing in the market on equal terms, according to the uniform provisions of the laws of the state, subject to the necessary regulation and control of the macroeconomic plan and policies, in the same manner as township enterprises, privately owned enterprises, wholly foreign-owned, and joint venture enterprises are operating, so that the best may succeed and the unfit be eliminated.

Considering the present realities and differentiate according to importance and urgency, it would be necessary to give priority to the effective realization of the first three of the six elements mentioned above, namely competitive selection of managers, instituting an internal labor improvement organization, and establishment of a new property rights system, because these tasks are of a fundamental character. Many years of practice have proven that a modern large or medium-sized enterprise cannot be well managed without an excellent manager or managing group. Furthermore, without a competitive form and environment, relying on staff transfers and appointments from organizational departments of the higher authority, will hardly produce excellent managers who would satisfactorily fulfill all functions required of them. Without a competitive employment and work system, paying no attention to whether much work or little work is done, whether a job is well done or not, there is no way to evoke among the workers the necessary enthusiasm and progressive spirit, and it is also impossible to realize a true distribution according to

work performance. Without a clear property rights system, no one will assume responsibility for the proper or harmful treatment of property, and it will be impossible to establish a relationship of mutual encouragement and mutual restraint between state and enterprises, between owner and manager, as it will also be impossible to have production and business operations of the enterprises meet the demands of the objective law of business operation, and equally impossible to institute scientific organization and management. As a consequence, it would then also be extremely difficult to promote the latter three elements of the reform, namely development of enterprise conglomerates, establishing a shareholding system, and gradually implementing decontrolled business operations, which would let the best succeed and eliminate the unfit.

At the same time, effective accomplishment of the first three fundamental tasks would also be beneficial for a close integration of the progressing reform with implementation of the policy of improving the economic environment and rectifying the economic order. Because an important reason for the strained economic environment and confusion in the circulation area of present-day China is the imbalance between supply and demand, and the wildly inflated demands of consumption and investment. The fundamental cause of consumption inflation is to some degree the irrational labor system in enterprises, which leads to an indiscriminate upward push in distribution, regardless of whether the enterprise is profitable or not. Everybody demands increases in wages, bonuses, and all kinds of allowances and subsidies, creating a situation where increases in enterprise staff and workers incomes frequently exceed the increase in labor productivity. If internal labor improvement organization and a reform of the employment system would be effectively instituted, if the "iron rice bowl" would be smashed, and a competitive system of assigning jobs and employing personnel would be established, if a worker who does not work well would get little pay and would even run the risk of losing his job, only then can egalitarianism in distribution and the idea of unjustified upward climbs be effectively overcome, and the worker's remuneration be made commensurate to the quantity and quality of his work. These are preconditions for eliminating inflated demands in consumption. The cause for investment inflation is mainly uncertainty about the property rights of enterprises. Especially in the case of state-run enterprises, there is up to now no personified owner representative and nothing about his due rights and responsibilities. This leads to a state where the person who makes investment decisions may assume no risks. The result is a serious case of "investment starvation;" the scope of constructions greatly exceeded plan provisions year after year, there was duplicative construction and indiscriminate construction, none stopped despite repeated prohibitions. If an enterprise property rights system were to be established, if the state ownership would be personified, and if there would be clear provisions defining the functions and responsibilities of the government, the owner, and

the managing party, it would not only be possible to properly relate investment expenditure with the assumption of risks and eliminate the causes of ineffective investments and investment inflation, but would also promote separation of government administration from enterprise management, division of the two powers, and necessary bankruptcies and mergers. Auctions and transfers, developing enterprise conglomerates, establishing a shareholding system, etc. would then also be provided with an indispensable foundation. In the last few years, our enterprise reform is merely wavering at a shallow level, it could not proceed to greater depth, and an important reason for that is that no radical measures were applied to these two fundamental elements. Of course, the various elements and objectives to be achieved in the above-mentioned enterprise reform cannot all be realized next year and the year after, but making them primary concerns in the deepening of the reform is necessary as well as possible.

Generally speaking, there are still many reforms that we must and can pursue now. Many measures, especially in respect to deepening enterprise reform, require systematic and painstaking fundamental work which urgently awaits our action, and which, moreover, are measures that are not at odds with improving the economic environment and rectifying the economic order. Merely by effectively accomplishing this work and achieving due results, can we not only further deepen enterprise reform, but also create better preconditions for other sectors, especially for the reform of the price and wage systems, which in the end will have to be carried out. As a consequence, we shall vigorously promote the reform of the entire economic system, and shall gradually advance, sturdily, step by step, and in an orderly manner toward our fixed objectives.

**Gao Shangquan on Economic Reform**  
40060230 Beijing JINRONG SHIBAO in Chinese  
3 Jan 89 p 3

[Article by Gao Shangquan 7559 1424 0356, Deputy Director, State Economic System Reform Commission: "Sum Up Experience, Continue Thoroughly Advancing Overall Reforms"]

[Text] China has experienced three very significant 3d plenary sessions in the past decade. Reform has brought about a series of major changes in the country's economic structure. We have seen difficulties as well as learned lessons during 10 years of reform. Now that we have entered the critical stage of deepening overall reforms, the most pressing matter is to check mounting inflation. We must firmly grasp the key link of reforming enterprises.

China's reforms are now at a crucial stage. The paradigm of the old system has been initially broken and the vitality of the new system is becoming progressively clearer. However, deeper levels of contradictions and problems in the economic, political, social, and other areas are gradually coming to light due to the concurrent

existence of the new and old systems over a decade of reform. It is absolutely imperative that we sum up domestic and foreign experience, and in particular, China's experience with policies over the last decade, in order to realize economic development, political democracy, and social stability. By reviewing the past, we will penetratingly see that the only fundamental way for China to become prosperous, strong, and progressive is to continue thoroughly advancing overall reforms.

### **I. A Decade of Economic System Reform Briefly Reviewed**

China's economic reforms over the past decade fall into three stages. Each stage commenced with a Third Plenary Session by the Party.

1. The 3d plenary session of the 11th National People's Congress [NPC] Central Committee convened in December 1978 established the ideological line of seeking truth from facts. It raised the curtain on reforming China's economic system.

This was an important turn in the course of events of our country's history, one with far-reaching significance. The plenary session put forward the general principles for the tasks of reforming the economic system and opening to the outside world. It also began an overall redress of the mistakes of the "Great Cultural Revolution" and earlier, and shifted the emphasis of work to the strategic policy of socialist modernization.

After the plenary session, the emphasis was on the systematic reform of rural areas with pilot projects launched in urban areas.

2. The 3d plenary session of the 12th NPC Central Committee convened in October 1984 marks the overall unfolding of a new stage whereby China's economic reform became centered on urban areas.

The plenary session passed the "Resolution of the Central Committee of the Communist Party of China on Reform of the Economic System." The "resolution" clearly noted that: China's socialist economy is a planned commodity economy on a public-owned base; the key link of reform is strengthening the vitality of enterprises; and price reform is the crux of the reform's success or failure.

In this stage the emphasis was on reforming urban economies while simultaneously implementing the second stage of rural reform.

3. The 3d plenary session of the 13th NPC Central Committee convened in September 1988 showed that the reform had entered the key stage of an overall deepening. It set down the guiding principle and policy measure of "improve the economic environment, rectify the economic order, and deepen overall reform."



The emphasis of this period, particularly in the past few years, has been on overcoming inflation, avoiding "stagflation," and promoting sustained and stable economic development.

The Chinese economy has taken an important step forward towards a planned socialist commodity economy. The economic structure has undergone a series of major changes during a decade of reform.

1. Enterprises have been transformed from appendages to government departments into commodity producers and managers.

Enterprise ownership takes various forms. The economic components of state, collective, individual, private, and foreign investment capital ownership exist side by side. Public-owned business formats include contracts, leasing, and others. Stock ownership has also begun on a trial basis. Enterprises have started to combine and be annexed extensively. Bankruptcies also have started happening. There is increasingly more autonomy within enterprises in regard to business management, the distribution of income, and other matters.

2. The market setup for a socialist commodity economy is gradually being established.

The market for consumption goods is flourishing, having formerly been nonexistent. Supplies of the majority of daily necessities and consumer durables for the people are relatively adequate, even though some consumer goods are still in short supply. In regard to key elements, the market has gone from lacking to having, and has grown from small to large. We have started to establish and develop to various degrees markets for production resources, financing, technology, buildings and land, and labor.

3. To move the economy, the state is implementing a mechanism of "the state regulates the market and the market guides enterprise." Concerning management of the economy, the state is changing from the former method of direct management which mainly relied on administrative measures and directed planning towards an indirect method utilizing economic, legal, and necessary administrative measures.

With regard to the management system of the state economy dominated by departments, the reform has changed the function of government. It has strengthened the economic functions of local governments, giving them more authority. In particular, it has been careful to bring into play the role of central cities. The reform has also slashed specialized administrative departments while strengthening comprehensive management departments.

4. The closed and semi-closed state economy has begun to open.

The first to open were four special zones, followed by 14 coastal port cities and Hainan Island. Next in succession were almost the entire coastal area and many adjacent inland areas. Many enterprises have been given the authority to import and export. Foreign investment has been actively introduced. Import and export trade now accounts for one-fourth of the value of gross national output.

The successes of 10 years of reform have attracted worldwide attention. The current generation of Chinese people have personal understanding of these successes, having witnessed them with their own eyes. China's national power has been strengthened. The living standards of people in the city and countryside have been greatly raised.

Nevertheless, there have been both difficulties and lessons in this decade of reform. They are reflected in three stages of adjustment. The first was in 1981. Several previous years of investment inflation, markups on agricultural products, and other factors resulting in a huge fiscal deficit and rather high inflation of material prices forced us to make adjustments. The second time was in 1986. In 1984 and 1985 the economy was overheated. Consumption and investment increases greatly exceeded growth of the national income. In 1985, the material price increase index rose to 8.8, thereby resulting in adjustments. The third adjustments are now beginning. The reason lies in the inability to thoroughly implement the previous adjustments. The lesson is very clear: the structure did not change at all, so that there obviously was inflation. Neither investment nor consumption could be well controlled. As a result of being unable to find a way to improve the economy's structural development in the past decade, we have fallen into a vicious circle of "apply pressure once there is expansion, stop once there is pressure, relax once there is a stoppage, and expand once there is a relaxation." We hope that the current adjustments can break out of this dilemma.

## II. Basic Teachings From a Decade of Economic System Reform

We have accumulated some important experience from a decade of practical reform that contain profound teachings. The experience and teachings can be used for reference on the practice of socialism in the world over the past few 100 years as well as the tortuous process of building the country in the past 40 years.

First, in the final analysis, socialism is for man's overall development and prosperity. Development of the socialist forces of production is the fundamental way to realize this goal.

Second, we must ceaselessly make adjustments, changing and perfecting the relationship between society and production, particularly the economic and political systems, in order to develop productive forces and increase social prosperity most effectively.

Third, public ownership cannot by far solve all socio-economic problems. The fair distribution of social income can be achieved as the means of ownership multiply and economic results improve. Social development makes this a possibility.

Fourth, the reforms we have already undertaken are merely the beginning. Establishment of a mature and perfect socialist economic system suited to China's conditions requires overcoming all sorts of economic, political, cultural, and psychological problems handed down over a long period of time. They demand endless efforts.

Fifth, we must draw on foreign experience to develop and reform China. We are undertaking a task without precedent. In many respects we lack practical experience. We should and must draw on the practical lessons learned by various countries to the east, west, north, and south regarding economic and social development. We must learn from their lessons in order to create and perfect a new system more effectively, smoothly, and quickly. In the course of doing so, we cannot embrace a doctrinaire viewpoint but must analyze and reflect on the special characteristics of other countries. At the same time it is all the more important to take note of China's own characteristics and practice.

We must pay attention to the proper handling of the following several relations in the process of reform and development.

1. The correct handling of the relationships among reform and administration, streamlining, and adjustment, to improve the economic system and raise economic results.
2. The correct handling of the relationship between near-term arrangements and medium-term reform targets, to ensure that the reform progresses in a measured and assisted way.
3. The correct handling of the relationship among reform and economic stability and development. Reform and development must not be impatient for success.
4. The correct handling of the relationship among enterprises, markets, and macroscopic management. We must firmly grasp the key link of enterprise reform.
5. The correct handling of the relationship between planning and markets. We must link together planning and markets themselves.
6. The correct handling of the relationship between microscopical and macroscopic views. We must accurately improve and strengthen macroscopic adjustment capabilities.

7. The correct handling of the relationship among the state, enterprises, and various interest groups. We must make partial and local interests second to the interests of the whole.

8. The correct handling of the relationship between the center and localities. We must bring into full play the positive side of both. We have to oppose over-management and stifling management, as well as the separation and sealing off of localities.

9. The correct handling of the relationship between reform and legislation. We must gradually establish a new order for the commodity economy.

10. The correct handling of the relationship between the reforms of the economic and political systems. We must allow the reform to have a relatively good social environment.

### III. The Situation and Tasks We Currently Face

The terrain we face at present is bleak. There is clear currency inflation. There are imbalances in China's financial, credit, and foreign exchange balances. Total demand grossly exceeds total supply. The development of agricultural production is lagging. It is very difficult to control the trend of rising market prices. The main reasons for this situation are, first, swift and high demands for reform, development, production, and life. Second, in the process of replacing the old system with the new, some economic relations have not been well handled. The economy and markets are quite disorderly. Third, the structure of the economy is irrational. This is prominently seen in the irrational distribution and production systems. Fourth, macroscopic adjustments and controls and administrative measures cannot keep pace. Improperities are propagated while at the same time moving too far and too fast has caused the people to pine and clamber for consumption.

The guiding principle and policy measure for such a situation as this were put forth by the 3d plenary session of the 13th NPC Central Committee in its call to "improve the economic environment, rectify the economic order, and deepen overall reform." Summing up our present task into several phrases, we must: improve, rectify, adjust, and reform.

Regarding improving economic environment, our main job is to curb inflation, quell the tendency of rising prices, and thus raise interest rates, stabilize savings, and reduce current term purchase demands. We must shrink the sphere of credit, and appropriately reform the current financial and capital systems. We have to increase effective supply and demand, adjust the economic structure, and improve economic results. Whether the economic structure can be made better is related to the success or failure of this crucial adjustment.

We must thoroughly reform the area of circulation, and establish and strengthen a new market order by establishing various effective laws and regulations.

Deeper overall reform mainly involves deepening the reform of enterprises. We must continue to develop and perfect the contract system, and have further pilot tests of share systems. The realization of administration, streamlining, and adjustment must come through the reform of enterprises and other ancillary reforms. The pace of price and wage reforms has to be appropriately slowed down to ensure stable economic development. At the same time, the Party Central Committee and the State Council have decided to support a shrunken investment sphere and society's collective purchasing power. In particular, we must cut off nonessential and redundant construction of a non-productive nature. We must also curb and penalize all corruption and extravagant wasteful behavior.

We believe that we can certainly overcome the problems and difficulties facing us and make deeper overall economic development and reform in a sustained and stable way, but only by resolving to thoroughly implement these policies and measures. We must bring into play our political and economic superiority, and inspire the spirit of the people nationwide to work together at all levels in this arduous struggle.

#### **IV. Several Points To Consider in Deepening the Reform Overall**

1. The direction of reform must be steadfast and unwavering, although implementation of reform steps must be positively sure. We must fully recognize the slow pace and complications of reform.

The new system that we want to set up is none other than a planned socialist commodity economy. We want to make enterprises truly become independent commodity producers and managers that practice autonomous management and responsibility for their own profits and losses, having self-development as well as self-restraining mechanisms. Through the establishment and movement of the socialist market system, we will bring into full play market mechanisms. Using macroeconomic measures to realise indirect management and control, we will create the new economy-moving mechanism of "the state regulates the market and the market guides enterprise." We should be steadfast regarding the direction of this reform, even though it will take a long time to achieve the target. In the development process of the reform, there are both "fast variables" (such as cutting down on directed planning, or adjusting some distribution relations) and "slow variables" (such as market growth, perfection, etc.). These "slow variables" restrict the progress of the entire reform. Therefore, reform must proceed positively reliably.

China is in the initial stage of socialism. The steadfast aim of the reform must be to develop the commodity economy in the initial stage of socialism. In this stage, the level of productive forces are rather low and development is very uneven. This determines that the aim of the reform cannot be achieved in a short time. The aims of reform in the near term can only be limited ones. We face a resource-restricted economy in shortage. The commodity economy consciousness of cadres and the masses is still weak, with insufficient experience in managing such an economy. This settles that it will take a long time for China to reach the stage of a modern socialist commodity economy.

Reform is just like construction in that we cannot be anxious for results. We must learn the lessons from the earlier, overly fast transformation to socialism. The first stage of rural reform has had about five years; the urban reform is even more complicated than the rural, so it will take even more time. Thus, we must have determination and confidence in the reform. We must also fully recognize its long term, complicated, and gradual nature, positively and reliably proceeding according to what society and the economy allow.

2. We must unite reform of the system with economic stability and development in an organic way.

Reform is a powerful motive force spurring on economic development. The state economy's stability and development are also a solid material foundation for further deepening reform. Since reform and economic stability and development mutually support each other, complementing each other's success, the two must be intimately united. Practice proves that if economic development is overheated or underheated, either one may hinder or postpone the progress of reform. Likewise, there may be an adverse influence if the measures or pace of the reform should break away from the contemporary level of economic development and the realities of the initial stage of socialism. In recent years, China's economic development has overheated, making it difficult for many reform measures to appear on stage. Questions demanding our profound study include how to prevent overheated economic growth, how to shrink demands for goods in short supply, how to maintain an appropriate pace of economic development, how to hold down inflation, how to strictly control the scale of loans and currency in circulation, and how to coordinate and synchronize the reform to economic stability and development such that each promotes the other.

3. We must fully grasp the key link of reforming enterprises, and promote the improvement of economic results.

The key to deepening overall reform lies in combining the deepening of enterprise reform with adjusting the structure of production, and this must revolve around the goal of improving economic results. To reform is to strengthen the vitality of enterprises. Enterprise vitality

can only achieve macroeconomic results under the guidance of a rational production policy. This is not to say that all enterprises need be enlivened; those unsuited to production policies and lacing economic results should be weeded out.

It should be said that China's economic results during the past decade of reform are being progressively improved. Nevertheless, the gap between the demands of reform and various other countries of the world is still immense. Kobayashi, general manager of the Industrial Bank of Japan, made a comparison of economic results in China and Japan. According to him, China's cement consumption is 2.6 times that of Japan. Energy consumption is 1.6 times Japan's. Steel product consumption is 90 percent of Japan's, while China's value of gross national output is approximately one-fourth of Japan's. He further states that between 1975 and 1987 global steel product consumption grew by 100 million tons, of which, China's increased by 45 million tons and Japan's by only 8 million tons. It is very worthwhile for us to ponder deeply on such a disparity between the two countries' operation and output rates.

The practice of reform proves that grasping the key link of enterprise reform and overall planning at each step can do the following. Doing so reveals the stable and united nature of reform principles and policies. It also helps enterprises plan for and carry out reforms in accordance with long range plans. Furthermore, it can promote stable national economic development, allowing for healthy growth during rather small reform quakes and in a rather good socioeconomic environment. Therefore, in regard to enterprise reform, the quite realistic and rational choices are to emphasize in particular changing the management mechanisms of medium and large-scale state-owned enterprises; to promote the expansion and nurturing of markets after the enterprise reform process, since deepening the latter will be advantageous to the market environment; and to have markets as the object of adjustment and control in the mutual process of reforming the macroeconomic management system and enterprises.

In deepening enterprise reform, we must unite administration and have it support reform. At the same time, we must promote the internal reform of enterprises along different routes for ownership and management reform, gradually creating an enterprise management mechanism that combines responsibility, authority, and benefits while it has the ability to be self-motivating and self-controlling. This will truly be implementing autonomous management and responsibility for profits and losses under macroscopic controls.

In the next 2 years of reform, we should continue to perfect and develop a contract system. We should try out and gradually develop in an organized manner share systems of different types and at different levels so that the contract and share systems concurrently exist and

grow symbiotically. We should also clarify the relationship between production and authority. We cannot just run headlong into action since China's current commodity economy is undeveloped. Moreover, we lack experience regarding how to operate a share system within public ownership. As a result, the share system must proceed in gradual, trial stages.

4. Price reform cannot be an isolated event penetrating into enemy territory. We must consider the socioeconomic environment and proceed in a unified, coordinated way.

The price reform occupies an important position in the entire economic system. It has a positive role in adjusting the production structure, strengthening the vitality of enterprises, slashing fiscal deficits, opening to the outside world, and correcting incorrect tendencies. We cannot obtain true reform results without price reform and without considering favorable price relations. But, practice proves that price reform difficulties are great and dangerous. Thus, it has to be implemented in line with other reforms.

In 1986 China drafted tax, fiscal, and financial plans focused on price reform. They were unable to be launched in the end due to changes in the economic environment. For the same reasons, a preliminary draft of price and wage reforms passed during the summer of this year was postponed. Thus we can clearly see that more than just the demands and the development of the commodity economy has to be taken into account with price reform; we must consider the acceptance ability of society, enterprises, and the masses, and then proceed in measured and sure steps. We will create serious economic life havoc if we ignore the socioeconomic environment. Strong-armed implementation of price reform without the ancillary support of reforming enterprise mechanisms and other reforms will cause inflation. The result will be alternate rises in prices and wages with a return to the former price parity.

## FINANCE, BANKING

**Commentary on Interbank Competition**  
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[Article by Zhou Huashan 0719 5478 1472, Qi Yixian 7871 0001 0341 and Yi Yuan 2496 6678: "Competition or Internal Consumption—Thoughts on Specialized Bank Interbank Competition"]

[Text] "Which is better, one bank or many?" This has become a hot topic of discussion among people in banking and business circles. Because reduced credit and the interlinking of business activities in 1988 intensified interbank competition, time and again large-scale, protracted "civil wars" erupted: savings wars, vying for accounts, disputes over settling accounts, etc. In order to

triumph over the adversary, each player exhibited versatility: higher interest rates, discounts, bonus deposits, preferred accounts, overstock vouchers, altered account numbers. The "smell of gunpowder" is apparent throughout the financial world. While engaging in the fierce battle, the banks discovered that they gained no advantages in spite of themselves; on the contrary they sustained heavy losses. Numerous enterprises also discovered the advantages deriving from bank competition were offset by countless troubles: funds used to settle accounts ceased to circulate, and both outgoing and incoming transfers could not be effected. By coincidence the protracted struggle led everyone to conclude things were better in the past when the People's Bank of China [PBOC] unified the country. Shouldn't we now seriously rethink the financial system reforms of recent years?

### Cutthroat Savings War

Competition among specialized banks has focused on vying for savings accounts. In order to establish an invincible position, each bank has adopted various legitimate and illegitimate measures, and some even have sacrificed the original capital, arbitrarily inflated interest rates, and indiscriminately set up network outlets. Competition for savings between the industrial and agricultural banks in Hunan's Cili County reached a climax in September 1988. First, the agricultural bank promoted high return savings accounts: 12 yuan up front for a fixed 1-year deposit of 100 yuan, plus applicable interest. Not to be outdone, the industrial banks countered vigorously with far more favorable terms: a color television set valued at 2,980 yuan up front for a fixed 8-year deposit of 3000 yuan, plus return of the principal after the 8 years. In the savings war, occasionally an unresolvable first-round problem was carried into the second round. In May 1988 a Hengyang City suburban credit cooperative initially raised its interest rate to 10 percent, and the agricultural bank and industrial bank followed suit. When the agricultural bank perceived it had no competitive advantage, it immediately increased the interest rate to 20 percent. The industrial bank thereupon likewise raised its interest rate to 20 percent, and the suburban credit cooperative then went a step further and raised its rate to 30 percent.

The second magic weapon in savings competition was the indiscriminate setting up of a network of savings outlets. The network outlets in many prefectural and county seats in Hunan Province presently are dispersed such that on average there is one savings office per 1000 people; this ratio far surpasses that of advanced nations. The various specialized banks grumble there are too many savings offices, but surprisingly each bank complains it itself has too few, and naturally wants to establish many more. In Shaoyang City, bank savings outlets numbered only 96 city-wide at the end of 1987, but by September 1988 the number had soared to 218, a 124 percent increase. Because of the excessive crowding of network outlets, business is bad at many savings offices. According to a survey by the Shenyang PBOC, 57

savings offices within the city have deposits under 300,000 yuan, and 40 offices have less than 200,000 yuan, 15 of which have been in operation for more than a year. The Shijiang savings office of the Dongkou County branch of the industrial bank was established in June 1982, and as of the end of August 1988 it held only 182,000 yuan in deposits. In economic terms, disregarding rent, a savings office must have average yearly deposits of at least 400,000 yuan to break even. But some banks, in an effort to seize control, did not hesitate to rent high-priced business property and spend a lot on lavish trappings. The Hengyang branch of the Bank of China opened a new savings office in the city on Jiefang Road, where the annual rent amounts to 100,000-plus yuan, and the cost of decorating the place came to nearly 100,000 yuan as well. Furthermore, before this office even began operating, there already were within 60 meters 5 savings offices under other banks. The network of savings outlets in many cities is such that the outlets are now practically falling all over themselves.

### Prowess Displayed in Fight for Accounts

Competition has become acute among the various specialized banks vying for enterprise savings accounts. In the competition, some enterprises opening accounts have come out ahead, while many enterprises have been severely harmed. In August 1988 in Hunan Province, the industrial and commercial bank system and the construction bank system launched wide-scale competition to land accounts of the railroad system enterprises, and this contest greatly influenced how funds were remitted and accounts settled by local railroad units in cities along the Beijing-Guangzhou railway line, cities such as Yueyang, Changsha, Zhuzhou, Hengyang, and Chengzhou.

In contending for clients, the banks provided an opportunity for enterprises with poor performance to avoid bank review and fraudulently obtain loans. According to a survey by the Zhuzhou branch of the PBOC, at the end of last September, 123 units which opened accounts with the Liling City Credit Cooperative simultaneously had accounts with other banks. Most of these enterprises with multiple accounts suffered from poor performance and serious deficits. The Magong Auxiliary Paper Mill in Yiyang City experienced 3 consecutive years of losses totaling 560,000 yuan. The paper mill initially had an account with the agricultural bank, but since the mill owed this bank 424,800 yuan in loans with no way to repay, the mill last February transferred its account to the industrial bank to avoid the agricultural bank's attempts to recover the loan. In order to win over more clients, some banks presently welcome all comers regardless of the economic performance of the enterprises opening accounts, or the size of their debts. Especially serious is when some specialized banks seek to recover loans from other banks to which enterprises have transferred accounts; not only is the second bank uncooperative, it is so to the extent of being unwilling to remit funds even after the enterprise agrees to repay the loan, thereby making loans much riskier.

### Account Settling a Knotty Issue

Last year funds were exceptionally tight, and those in the cities of many areas got mired in the account clearing process. Each bank dreaded advancing funds to other banks, yet wanted to utilize more of the other banks' funds, and so adopted odious measures to overstock settlement vouchers. Many enterprises with funds could not remit them, and loans could not be recalled. Statistics show that the various specialized banks in Hunan overstocked vouchers from other banks in the city to the tune of 183 million yuan. Some banks disregarded account settling discipline, and "waylaid" the enterprises' payments for goods. Last September the Sheng-song Transformer Construction Corporation, which had an account with the Changsha Construction Bank No. 3 Branch Bank, remitted 2,227,500 yuan to the Xiangtan Electric Cable Plant for goods purchased. The Xiangtan City Construction Bank should have acted according to the account settlement requirement of "placing whoever's money in whoever's account" and transferred the funds to the Yuetang office of the Xiangtan Industrial Bank. But the construction bank transferred the money to the Yuetang branch of the Xiangtan Construction Bank instead, and thereby tied up this sum of money. What makes the enterprises indignant is that many banks actually alter account numbers and tie up enterprise funds. The Hunan Province Xinning County Cement Plant on 22 July 1988 recalled 81,000 yuan from the county commodity bureau Light and Chemical Industry Construction Materials Corporation; the depot office of the County Industrial Bank forced an alteration of the account number used for clearing the account, and changed the account from the County Construction Bank to the depot office of the Industrial Bank. Since enterprise funds cannot be transferred to different accounts through the banks, enterprises are compelled to use cash on a large scale in their transactions, which in turn disrupts financial order.

### When Will "the Three Irons" Inspire Action?

In the past we boasted reputable banks characterized by "the three irons" (iron accounts, iron abacuses, iron doors), whereas now regrettably we only have banks where the iron door appellation fits. The chaotic financial order has reached the point where it must be straightened out. How do we set up a completely new specialized bank management system which ensures equitable yet effective competition? We are new confronting this task. The cutthroat competition in which the various banks are currently engaged renders the state the loser. Blind competition has raised savings costs, and in 1988 the profits of banks in many areas were nowhere near those of previous years. A matter of top priority at present is to enhance the authority of the PBOC. Those in financial circles today jokingly refer to the PBOC as the "United Nations," with its extremely limited authority. In view of the fact that the specialized banks currently in place have yet to undergo genuine enterprization, and since economic measures play a limited role, it is necessary to strengthen the administrative procedures of the PBOC while increasing its independent standing.

## FOREIGN TRADE, INVESTMENT

### Need To Reform Trade With Soviet Union, East Europe

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[Article by Sun Xiufeng 1327 4423 1496: "The Need To Reform Trade with the Soviet Union and the Nations of Eastern Europe"]

### [Text] I. The Current Situation of China's Trade With the Soviet Union and Eastern Europe

The trade in which China is engaged with the Soviet Union and Eastern Europe is government trade agreements. Its main distinguishing feature is the determination of mutual trade volumes and import and export commodity composition through the conclusion of long-term and annual trade agreements by the governments. A balance generally must be maintained between the annual import and export volumes, and if there is a year-end difference caused by an imbalance, the side with a deficit increases its exports the following year. Payment is transferred to settle accounts based on the concluded bilateral payment agreement. This method of trade was originally determined by the highly centralized foreign trade management system of these nations. For the past 40 years, China has consistently maintained traditional trade relations with these nations. The trade of both sides developed greatly in the 1950's, accounting in some years for about 70 percent of China's total volume of foreign trade. Afterward, due to the worsening of Sino-Soviet relations, in addition to China's "10 years of turmoil," China's trade with the Soviet Union and Eastern Europe decreased greatly in the 1960's. It was not until the second half of the 1970's that China's trade clearly accelerated, and long-term trade agreements were concluded individually with the aforementioned nations (1986-1990). According to statistics, during the period 1981-1986, Sino-Soviet trade increased more than nine-fold, and during the same period, China's volume of trade with seven Eastern European nations (Bulgaria, Hungary, East Germany, Poland, Czechoslovakia, Romania, and Yugoslavia) also more than doubled. Viewed overall, government trade agreements has played an active role in developing China's economic and trade relations with the Soviet Union and Eastern Europe. However, with the constant deepening of reform of China's economic and foreign trade management system, particularly after the overall implementation of foreign trade contract management responsibility system, this kind of trade and settlement method has become less and less suited to the needs of further developing China's economic and trade relations with the Soviet Union and Eastern Europe. However, with the constant deepening of reform of China's economic and foreign trade management system, particularly after the overall implementation of a foreign trade contract management responsibility system, this kind of trade and

settlement method has become less and less suited to the needs of further developing China's economic and trade relations with the Soviet Union and Eastern Europe. In the past 2 years, China's trade agreements with these nations have been poorly implemented, development of government trade agreements has been slow, and trade with some of these nations has even decreased to varying degrees. According to the long-term trade agreements concluded between China and these nations, the volume of trade in this 5-year period is supposed to reach 68.1 billion Swiss francs, but in view of current conditions and development trends, this target will be hard to achieve. Viewed from another aspect, in the past 2 years, the central authorities have further relaxed policies and encouraged foreign trade-related organizations of every province, autonomous region, municipality directly under the central government, and city with province-level economic decisionmaking authority to establish direct economic and trade relations with corresponding Soviet and Eastern European organizations with authority to conduct foreign trade. Currently, every region, particularly every province and municipality in the northeast, is very enthusiastic about launching trade with the Soviet Union and Eastern Europe, and they are establishing local trade companies and frontier trade companies one after another. According to incomplete statistics, by late August 1988, Heilongjiang Province had 94 companies authorized to launch frontier trade and local trade with the Soviet Union and Eastern Europe, Harbin City had 31, Liaoning Province 33, Shenyang City 25, Dalian City 15, and Jilin Province also had several dozen. The vigorous development of local trade and frontier trade is both an important supplement to government trade agreements and a powerful assault upon it.

## **II. The Need To Reform Trade With the Soviet Union and Eastern Europe**

The unsuitability of government trade agreements to the needs of China's development of trade with the Soviet Union and Eastern Europe is shown primarily in the following ways:

A. Government trade agreements runs counter to the direction of the foreign trade management system reform currently being conducted by these nations. Government trade agreements is the product of a highly centralized foreign trade management system, and it requires centralized state management, unified operation, balance between imports and exports, and unified bearing of responsibility for profits and losses. This is precisely the target of attack of China's foreign trade management system reform. Since 1979, the overall direction of China's reform of the foreign trade management system has been toward strengthening state macro-control, while at the same time transferring to lower authorities the right to carry on foreign trade, separating government and enterprise, decontrolling operations, assuming sole responsibility for profits and losses, and fully arousing the enthusiasm of local foreign trade

companies and industrial enterprises for conducting foreign trade. Head corporations have become unlinked from their subordinate branches and have implemented foreign trade contract management responsibility systems. This has meant the disintegration of China's traditional foreign trade system, a highly monopolized foreign trade operation and management system whose main body was made of specialized general foreign trade companies and whose content is commodity division of labor management. Up to now, however, China has continued to use old methods of trade with the Soviet Union and the nations of Eastern Europe; namely, after unified conclusion of a transaction by various specialized general foreign trade companies based on government agreement, exportation of the goods is accomplished by assigning it as a directive task to local import and export-related branch firms; imports are also apportioned by the state. At present, local general foreign trade companies have already become unlinked from head companies and have their own contracted task targets, as well as a fairly large amount of operational autonomy. In operational activity, their first consideration is their own enterprise's economic returns. Under present conditions, in which China's foreign and domestic prices are unlinked and domestic price rations have not been straightened out, imports of certain commodities from the Soviet Union and Eastern Europe, particularly mechanical products, have very poor economic returns, and therefore it has become more and more difficult to implement trade agreements with the Soviet Union and Eastern Europe in recent years.

B. "High imports and exports" cause an imbalance of hardships and benefits among various companies and enterprises. In the 1950's influenced by the international situation at the time and Stalin's theory of "two parallel world markets," China, the Soviet Union, and Eastern Europe engaged in very little trade with the Western nations; the vast majority of their trade was carried on among themselves. Because they had little contact with world markets, the value of the various nation's currencies was overvalued to varying degrees. "High imports and exports" had already become a traditional measure. Since the 1970's, even though the fixing of prices of commodities imported and exported by China, the Soviet Union, and Eastern Europe is in principle based on world market prices, the method of "high imports and exports" is actually still being used for the majority of commodities. Under the traditional foreign trade management system, imports and exports are balanced and responsibility for profits and losses is jointly assumed while, viewed overall, export profits are used to compensate for import losses and there is no problem of suffering losses or profiting at the expense of others; therefore, neither side has raised objections to this method. After implementation of the foreign trade contract management responsibility system, trade with the Soviet Union and Eastern Europe has changed to "eating in separate kitchens," and even though, from the standpoint of



government agreements, imports and exports are basically balanced, the business of each locality and company is independent, and they must assume sole responsibility for their profits and losses. As a result of "high imports and exports," everyone vies to export, since exports to the Soviet Union and Eastern Europe yield large profits, the prices being generally about 20 percent over the world market. At the same time, no one is willing to take on the task of importing, since importing from these nations yields small profits, and some commodities even lose money. Looking at the composition of the import and export commodities in China's trade with these nations, the main export commodities are cereals and oils, foodstuffs, light industrial and textile products, and farm and sideline products, while the principal import commodities are machinery, equipment, and means of transport. This commodity composition has caused the Soviet-Eastern European trade of some companies (such as cereals and oils, textiles, light industry, and local animal product companies) have engaged primarily in importing and have suffered large losses. The result of "high imports and exports" has been an uneven distribution of hardships and benefits among these companies, and consequently the principles of independent operations and accounting by the various companies and assuming sole responsibility for profits and losses have been hard to carry out in trade with the Soviet Union and Eastern Europe.

C. The fiscal burden on the central authorities is very heavy and difficult to sustain. In the past few years, the state, in order to promote the development of economic and trade relations with these nations, has encouraged users to import from the Soviet Union and Eastern Europe, formulating several preferential policies and measures in succession, and stipulating internal settlement price ratios for imported mechanical and electronic instrument products, with the state financial authorities subsidizing the excess portion. However, today, when the foreign trade contract management responsibility system is being implemented, the profits from exports to the Soviet Union and Eastern Europe are taken by various exporting companies and localities, and the state financial authorities cannot use profits from exports to the Soviet Union and Eastern Europe to subsidize losses from imports from these nations. In recent years, various companies have been very enthusiastic about exporting to the Soviet Union and Eastern Europe. A large volume of exports has led to an increase in imports, and the higher the volume of imports, the greater the amount of state financial subsidies. If this trend continues, it will be hard for the state financial authorities to bear. If the state cancels subsidies for mechanical and electronic instrument products imported from the Soviet Union and Eastern Europe, it is liable to make importing more difficult, and this would certainly have an adverse effect on exports. This is an important reason that China's trade with the Soviet Union and Eastern Europe would develop slowly or even decrease.

D. A relatively large trade surplus is economically disadvantageous to China. In recent years, China has had a fairly large trade surplus with the Soviet Union and Eastern Europe in most years. There are several factors contributing to the emergence of this situation, such as differences in the two sides' import commodity compositions and the existence of both long and short production cycles, but a more important factor is the inability of the mechanical and electronic instrument products of these nations to compete with the products of Western nations, either in terms of technological level or price, so that enterprises are unwilling to order goods, and imports cannot fulfill the plan. Under conditions of account transfer, it is actually equivalent to China providing interest-free or low-interest loans to the side with an unfavorable balance of trade, and this is very disadvantageous to China economically.

E. The existence of government-based open account trade has in a sense protected backwardness. Practice has shown that two sides using open account trade often export good-quality, strongly competitive products with a high level of technology to Western nations in exchange for free foreign exchange, while selling each other low-quality commodities for which no market exists in Western nations, thus preventing certain exports companies from having a sense of urgency and competition with regard to improving technology, replacing products, improving output and quality, and increasing the variety of colors and designs. For many years, the export products of these nations did not greatly improve, and government clearly agreement trade is certainly an important cause of this.

F. Reform of the foreign trade systems of the Soviet Union and Eastern Europe. In the past few years, the Soviet Union and Eastern European nations have stepped up the pace of reform of their foreign trade management systems, and the general direction of this has been toward transferring authority for conducting foreign trade to lower levels, giving more departments and companies the right to enter directly into foreign markets. By the end of September 1988, nearly 60 of the Soviet Union's ministries and departments, all of its member republics, and over 90 of its enterprises, transdepartmental general scientific and technical bodies, and other organizations were authorized to engage in importing and exporting and directly enter foreign markets. The nations of Eastern Europe have even more enterprises and companies which can establish direct contact with foreign partners. The enterprises and organizations in these nations which are authorized to engage in foreign trade hope to establish direct contact with China's corresponding trade organizations and launch importing and exporting. Contradictions have already arisen between this and unitary government trade agreements.

It can be seen from the above analysis that China's solely government based open account trade with the Soviet Union and Eastern Europe has already reached a stage at which it must be changed.



### III. Measures and Steps for Reforming China's Trade With the Soviet Union and Eastern Europe

Viewed from a long-range standpoint, with the constant deepening of the foreign trade management reform of various nations, China's trade with the Soviet Union and Eastern Europe must change to spot exchange trade. However, conditions are not yet ripe for complete conversion to spot exchange trade. This is because the method of trade between China and these nations has been agreed upon by the governments of both sides and has already been in use for several decades; both theoretical and commercial circles have consistently praised government-based open account trade as an ideal method of trade, and it has certainly played an active role in history. Now the situation has changed, and people's perceptions must also undergo a process of change; moreover, the other side's agreement regarding reforming methods of settling trade accounts must also be sought. In 1981, China submitted a recommendation for reform of the trade method to the Soviet Union and the nations of Eastern Europe have constantly deepened their foreign trade management system reform, but the specific steps they have taken and the reform measures they have adopted are not entirely identical; some nations have not yet realized the need to reform the bilateral trade measures. Even more important, these nations generally have a shortage of foreign exchange, and if they immediately switch to spot exchange trade, their volumes of bilateral trade may decrease to varying degrees within a short time. In view of these circumstances, this writer believes that reform of trade with the Soviet Union and Eastern Europe should proceed gradually, and that the following measures can be adopted at the present stage:

A. Switch from the original solely government based open account trade to a pluralistic trade method which simultaneously takes into account government trade agreements, local trade, and frontier trade, and combines several methods of settling trade accounts, such as account transfer, spot exchange to multiple forms of cooperation. In the past few years, China's frontier trade and local trade with these nations (especially the Soviet Union) has developed considerably. However, compared with government trade agreements, frontier and local trade volumes are still very small. Of such forms of cooperation as barter trade, compensation trade, the three forms of import processing, and setting up joint ventures, some have just begun, while others are still at the consultation or experimentation stage. Practice has shown that frontier trade and local trade practice self-balance and independent accounting, assume sole responsibility for profits and losses, and do not require state subsidies; moreover, they are flexible and yield considerable economic returns. If the state brings frontier trade and local trade into the volume of trade between China and these nations, as well as providing vigorous support and preferential policies, they can certainly greatly increase the enthusiasm of local provinces, municipalities, and border regions for launching

trade with the Soviet Union and Eastern Europe, and increase the proportion of bilateral trade accounted for by local and frontier trade. There are broad prospects for compensation trade, processing imported raw materials, processing imported patterns, assembling imported parts [collectively "the three forms of import processing and compensation trade"], and the establishment of joint ventures. In particular, the Soviet Union is shifting the focal point of economic development eastward, making the accelerated development of Siberia and the Far Eastern region its basic short-term national policy; it intends to establish special economic zones in the region. It has also proposed launching multiple forms of cooperation with neighboring countries, including Japan, China, and South Korea, in such areas as light industry and textiles, the food industry, fishing industry, lumbering, and housing construction. The Soviet Union's Central Asian region, too, has proposed setting up joint ventures with China's Northwest region, including garment processing plants, sweetmeats canning plants, and flour mills. Various Eastern European nations, too, have proposed setting up joint ventures with China and launching production cooperation. We should seize this opportunity and actively set up joint ventures with the Soviet Union and Eastern Europe, launching cooperation in many areas, such as production, service, and tourism. This can both earn foreign exchange for the state and spur on China's service exports, solving the problem of employing the surplus labor force. This is in accord with the spirit of China's coastal region economic development strategy.

B. In government trade agreements, we can consult with the other side about using spot exchange to settle accounts, at first using one or two commodities as a breakthrough point and progressively expanding the proportion accounted for by cash exchange trade. It is now generally recognized throughout the government organizations and commercial circles of the Soviet Union and Eastern Europe that the deepening of foreign trade system reform has created conditions favorable for opening up multiple trade channels, but there is a rather wide divergence of views regarding reforming the system of settling accounts: one view holds that under the present circumstances, in which both sides lack foreign exchange, account transfer is the only method that can be chosen, while another view emphasizes the need to reform the method of settling accounts. Janos Deak, director of Hungary's Institute for Economic and Market Research and Informatics, has pointed out: "There is no prospect for development of balanced economic relations; Hungarian-Chinese trade should develop more freely. This may allow the situation with respect to improper prices to be changed." Hungarian Ministry of Foreign Trade officials believe that "we have not yet reached the stage of imputing all of the problems which exist in trade to the method of settling accounts, but we must make preparations for reforming the method of settling accounts. We can try out individual spot exchange settlement trade." Therefore, in light of the

specific circumstances of different nations, we can selectively launch individual cases of spot exchange trade within the scope of government trade agreements. During a certain period of time we will implement a combination of various settlement methods, primarily account transfer, and create conditions for moving to complete spot exchange settlement.

C. In order to better utilize and quickly balance our present trade account surplus with the Soviet Union and Eastern Europe, we recommend that the People's Bank of China issue medium-to-long-term loans without applying them to ordinary loan quotas, as well as provide preferential interest rates, in order to encourage concerned enterprises to import from these nations equipment and items with relatively good economic returns, having enterprises pay the loans back in installments after they receive their profits. In order to prevent or reduce the occurrence of trade surpluses in the future, we can consult with the other side about revising the swing credit clause in the trade agreement; with regard to the portion of the swing credit amount in excess of the planned interest, it should be stipulated that the side with an unfavorable balance of trade pay back in spot exchange and settle accounts once a year.

D. In order to protect the sound development of China's economic and trade relations with the Soviet Union and Eastern Europe, the Ministry of Foreign Economic Relations and Trade [MOFERT] should strengthen macro-control, establish specialized organizations to coordinate and control local trade, assume responsibility for coordinating foreign transaction prices of local trade companies, and provide consulting and information services. The development in recent years of China's local and frontier trade with the Soviet Union and Eastern Europe shows that after authority to engage in foreign trade is transferred to lower levels, overall regulation and control methods temporarily cannot catch up, with the result that various local companies vie with one another by raising import prices and lowering export prices, and an "outflow of profits" sometimes occurs. In addition, the practice of opposing centralization with decentralization has formed, by which several dozen or even a hundred or more Chinese companies deal with a small number of Soviet and Eastern European companies. Smooth development of local and frontier trade requires promoting reform of government trade agreements; otherwise, it will inevitably have an adverse effect on the improvement of China's economic returns from foreign trade and the further development of bilateral economic and trade relations.

E. The Ministry of Foreign Economic Relations and Trade can periodically or aperiodically organize Soviet and Eastern European export commodity trade fairs and exhibitions. Due to historical factors, China's economic and trade relations with these nations were maintained at a fairly low level in the 1960's and 1970's. These were very few mutual economic and trade dealings, and this, together with the one-sidedness of propaganda, led to a

mutual lack of real understanding. The State Council has not decided to allow and encourage foreign trade-related enterprises of the various provinces, autonomous regions, municipalities directly under the central government, and cities with province-level economic decision-making authority to establish direct contact with corresponding Soviet and Eastern European organizations authorized to engage in foreign trade. The Soviet Union and Eastern European nations have also authorized more departments and enterprises to engage in import and export operations and directly enter foreign markets. Under these circumstances, holding frequent trade fairs and exhibitions is undoubtedly essential for further expansion of bilateral economic and trade contacts.

The Soviet Union and the nations of Eastern Europe are China's traditional trading partners. In recent years, China's economic and trade relations with these nations have already achieved satisfactory development. However, there are still few methods of bilateral cooperation and the scale of trade is not very large, accounting for less than 10 percent of China's foreign trade. There are many conditions favorable to the development of bilateral economic and trade relations, and the latent potential is very great, but there are also many difficulties. As long as both sides make a joint effort, analyze their experience in a timely manner, adjust their policies, and reform management systems and trade and settlement methods unsuited to development of bilateral economic and trade relations, China's economic and trade relations with the Soviet Union and Eastern Europe will certainly develop greatly and have favorable prospects.

#### **How Bearing Export Industry Can Overcome Rectification**

*40060256a Shanghai JIEFANG RIBAO in Chinese  
9 Jan 89 p 1*

[Article by Sun Lin 1327 2651: "Under Present Investment Scale Cutbacks"]

[Text] During a 5 day period from the start of the Exhibition and Sales Meeting of Shanghai Mechanical and Electrical Appliances for Hong Kong at 8:00 on 8 August 1988, the Shanghai Bearing Co received 50 to 60 customers. They wanted to place \$20 million in orders for 33.21 million industrial bearings (excluding mini-bearings). Yet, transactions were really concluded on less than \$900,000, or only 5 percent of the demand. Why? Because of insufficient supplies of goods. The needs of customers were unmet at the closing of the exhibition, leading some of them to go to Shenzhen to place orders.

Bearings are essential components of machines. They are used in enormous volumes, and are hot-sellers on the international market. Gross global annual bearing trade is approximately \$8 billion. Last year, China exported \$37.23 million worth, or less than 1 percent of gross global bearing exports. Due to the appreciation of the yen and the mark in recent years, bearing exports from

those countries are dropping, vacating a rather large market, making this a great chance for China's bearings to enter the international market on a large scale.

An official of the Shanghai Bearing Co told this reporter that the company's export situation in recent years has been good. In 1987, it exported \$5.17 million bearings, a 5-fold increase over 1985. But there is still a huge gap between this and the volume of demand on the international market. Orders from abroad continuously flood in, but we cannot swallow them. A West German firm wanted to order one kind of bearing in a volume exceeding the total productive capacity of China's plants making this particular bearing specification. An American businessman needed two particular bearings at an annual volume of 5 million units, equivalent to China's total production of these specifications. Another U.S. firm wanted an annual supply of 7 million small centripetal bearings, greatly surpassing China's production capacity. At the same time, bearing orders from the Soviet Union and Eastern Europe are swiftly growing. Last year the company received more than \$10 million in orders, and even more were declined. As markets open and quality levels gradually improve, sales prices of Shanghai's export bearings steadily rise. For example, the value of specification number 203 rose 30 percent, yet buyers are still clamoring to buy. The present moment truly is a great time to expand bearing exports.

Shanghai is one of China's four big bearing production and export bases. The Shanghai Bearing Co undertakes 80 percent of the city's bearing demand for complete sets of mechanical and electrical appliances. These bearings mainly are used in products for national defense, the military, key construction projects, exports, import substitution, or to complete introduced technical products and superior appliances of various brands. In recent years, although the city's bearing production has grown, the pace has been small due to space, investment, and other constraints. It cannot by far satisfy the continuously increasing demands of domestic and foreign markets. Therefore, important issues confronting the city's bearing industry are how to seize this opportune moment, actively expand production, and develop foreign markets.

To seize the great opportunity of expanding exports and capture the international market, the Shanghai bearing industry must increase production in a number of ways. How can it do so under present conditions of the state's demand for shrinking the scale of capital construction and restricting consumption funds? This new task is worthy of the concern of affected departments and enterprises. Several actual possibilities follow.

1. Readjust the structure of the industry. Shanghai's bearing industry has a long history. It has a definite technical and administrative base. Returns are quite good. However, the majority of enterprises are too small in size, and their equipment is outdated, with no reserve

strength. Productive capacity can be raised swiftly using minimal reconstruction efforts by combining small factories of a sure basis but which make products having no future.

2. Utilize foreign investment. Shanghai's bearing industry can benefit by introducing advanced foreign technology, improving its standards, and expanding capacity through various means of attracting foreign investment such as joint ventures, cooperative joint ventures, three forms of import processing and compensation trade, or foreign loans. If the full joint venture investment resources of a company can be gotten and used such that the old nurtures the new, and the new spurts on the old, this can bring into full play the role of old enterprises as well as utilize foreign investment, introduce technology, engender overall rectification, and realize a specialized division of labor. This will mean advanced production with high returns and sure economies of scale.

3. Stress rectification. For example, 2,000 square meters of factory space would be vacated if some of the productive forces for 2 million units of spare and replacement parts at the present Changding Bearing Works were scattered to the suburbs. By adding two production lines, there would be an annual increase of 1.2 million bearing units.

At present, China's economic development still faces a thoroughly difficult situation. On the one hand, it is necessary to reduce the scale of investment and tighten up the money market in order to control inflation. On the other hand, it is also necessary that some industries and enterprises where conditions exist strive to increase production while economizing in order that administrative rectification work progresses smoothly. We must also increase the efficiency of supplying markets (including expanding exports) so as to prevent economic atrophy. This is a thoroughly pointed contradiction. The proper handling of this contradiction should be considered by other similar industries, and not just the bearing industry, as a matter of realizing the spirit of the 3d plenary session of the 13th Central Committee.

#### **Sichuan Foreign-Funded Enterprises Set Up Mutual Assistance**

40060256b Beijing GUOJI SHANGBAO in Chinese  
10 Jan 89 p 2

[Text] Since the establishment of the Sichuan Foreign Invested Enterprise [FIE] Mutual Assistance Foundation, the allocation of funds among FIEs has been greatly eased. In Sichuan Province, many FIEs lack circulating funds. For example, the Xinpu Feather and Down Co went into operation last year with only 70,000 yuan in circulating funds. Thus it only had enough to buy two tons of raw materials since one ton of duck down is 35,000 yuan and a ton of goose down is 45,000 yuan.

In the spring of last year at a tea party for FIEs, the provincial industrial and commercial bank announced that the higher authorities had stipulated that the bank could make loans to FIEs. When the bank president indicated that he was willing to support FIEs with 100 million RMB, the managers struck the table and applauded. Some even shed tears.

Thereupon, on 28 May, 13 Sino-foreign joint ventures, including the Sichuan Huaxin Marble Co, Ltd, the Shengyu Kelisitansen Diamond Bit Co, Ltd, the Xinpū Feather and Down Co, Ltd, and the Sichuan Tianfu Developing Agricultural and Sideline Products Processing Co, together with Foreign Exchange Affairs Bureau of the Commercial and Industrial Bank of China, Sichuan Branch, jointly set up the "Sichuan Foreign Invested Enterprises Mutual Assistance Foundation." They formulated a constitution, concluding and signing an agreement. The foundation uses bank and enterprise funds. Funds may be allocated among enterprises for mutual assistance. The foundation stipulates that each member must deposit a minimum of \$20,000 in the fund. The provincial industrial and commercial bank provides that foundation members may borrow 8 RMB per \$1 deposited. Such a method is very advantageous to the enterprises. For example, if the Xinpū Feather and Down Co deposits \$120,000, the bank will lend 1 million RMB, so the company's business can become very brisk. The Renbao Sanitary Products Co borrowed 300,000 RMB and because of quick turnover, its fixed capital rose to more than 1 million RMB. The flow of capital among enterprises is proceeding very well. For instance, the Shenshi [as published] Kelisitansen Co lent Xinpū \$100,000 and 1.1 million RMB on three occasions. In the half-year since the foundation was set up, several hundred thousands dollars in foreign exchange and more than 10 million RMB have been allocated.

#### **Exports Soar in Jiangsu's Externally-Oriented Rural Enterprises**

40060256c Beijing GUOJI SHANGBAO in Chinese  
10 Jan 89 p 1

[Article by Li Xuyuan 2621 4872 0337: "More Exports as Technology Progresses"]

[Text] Good news was transmitted at the beginning of the year from rural enterprises in nationally famous Jiangsu Province. Under conditions of a shortage of raw materials and funds, by relying on advanced technology, rural enterprises throughout the province still raised their foreign exchange earning power. In 1988, the number of foreign exchange earning enterprises through exports rose to 2,797 from 1,658 in 1987. The number of export products grew to 2,868 from 1,572. The volume of business from direct exports soared to 3.34 billion RMB from 2.3 billion RMB.

Rural enterprises in Jiangsu that got an early start have a rather good material base. They have the potential to change from being mainly extensive to mainly intensive. Relying on their own efforts in recent years, more than about 30 percent of the province's rural enterprises have transformed and renovated first generation equipment and factory buildings. More than 10 percent of them switched to second and third generation equipment. Rural enterprises in different places also set up more than 210 special technology research groups. They promote technological progress and the development of new products by actively exchanging technology and having technical skills activities. Incomplete statistics show that in the last 2 years, rural enterprises province-wide developed more than 3,000 products suitable for sale on the domestic and international markets. In 1988, 986 of them were appraised as marketable or better.

In the past year, a "united fleet" has been organized to attack the volatile international market. Enterprise groups in Jiangsu have been set up by joining and uniting rural enterprises. Inferior ones gained on superior ones, and the latter in turn continued to get stronger. There are more than 5,000 rural enterprises in the nation's premier wealthy county, Wuxi. More than 1,300 of them have formed multi-local, multilevel, multi-format liaison associations or group organizations of various types with over 1,800 urban enterprises, scientific research units, and resource production bases in Jiangsu and elsewhere. They produce top quality, famous brand products to rise to the international market. In 1988, the annual output of one association in Wuxi surpassed RMB2.5 billion, of which, the volume of direct export business was over 300 million RMB, or about 80 percent of the direct export business of rural enterprises in the entire county.

The province is creating joint ventures and introducing advanced technology. In the last 3 years, Jiangsu has approved 111 rural Sino-foreign joint ventures. Almost 100 projects of the "three forms of import processing and compensations trade" kind have been concluded and signed. It has been reckoned that more than 290 projects costing \$150 million introduced advanced foreign technology and utilize foreign funds. Some rural enterprises have already digested and absorbed a number of superior techniques. They have mastered relatively advanced equipment and inspection and measuring techniques, discovering "leap style" development on the ladder of technological progress. After forming the Japan Zhaohua Trading Co joint venture, the Jiangnan Rare Earth Materials Plant of Changre city introduced a number of advanced inspection and measuring equipment and technology from abroad to produce rare earth oxide. In 1988 it earned more than \$7 million in foreign exchange, as 90 percent of its products are sold abroad. As the third phase of the project gets under way, forecasts are that this year's earnings may surpass \$16 million.

## ECONOMIC ZONES

### On Shenzhen's Political System Reform

40060263a Shenzhen SHENZHEN TEQU BAO in  
Chinese 7 Jan 89 p 1

[Article by Nie Zhenguang 5119 2182 0342: "The Gradual Development of Shenzhen's Political System Reforms; Positive and Cautious; Progressing Step by Step"]

[Text] In order to coordinate with the overall deepening economic reforms and establish a new order of the socialist commodity economy in Shenzhen special economic zone [SEZ], Shenzhen since last year has been taking measures that are both positive and cautious, carefully pushing forward political reforms that have shown some initially successful results.

The 13th Party Congress issued a statement regarding political system reforms in SEZs that "there can be even more liveliness." Accordingly, in February of last year the city's party committee determined that the short term goal of SEZ political system reform is to start by establishing a guidance system which facilitates raising efficiency, increasing energy and adjusting all aspects of activity, to gradually develop a highly efficient, capable and coordinated administrative management system and methods. The long term goal, according to the requirements of the 13th Party Congress, is to establish a high level democracy, a complete legal system and a socialist political system that is highly effective and energetic. Last June the city party committee opened a political system reform office and strengthened leadership, creating conditions for political system reforms to progress in a planned and systematic manner.

### Improving the Leadership System of the Party

According to the spirit of the 13th party congress, we should begin by separating party and government and separate the functions of party and government. We eliminated the city committee's economic work department which duplicates the government structure and the other work units such as the politics and law committee; we eliminated the departments of the party committee directly under the city government, adjusted the party committee's organizational department, the administrative management capabilities of the party committee's propaganda department, and took the news publishing, television broadcasting management capabilities and administrative units and the work units' cadre management capabilities and transferred them to government departments. At the same time we established a city enterprise working committee, a working committee of units temporarily stationed in Shenzhen, and a working committee of units directly under the city, to form an agency of the city party committee, distinguishing the party's organizational work between the management of the city's enterprises, enterprises that are temporarily located in Shenzhen, and units that are directly under the

government. Moreover we established a small group of city party committee political and legal leadership to strengthen the leadership of political and legal work. The party organization in each city government department made adjustments and after carrying out a full investigation and research from the foundation up, they came up with specific approaches whereby, except for the party organizations in the political and legal department, the personnel department and a few other departments, the others were eliminated as the relations between the party and the government gradually improved.

### Proceeding With Structural Reforms

In September of last year, Shenzhen took firm hold of the evolving functions and instituted a new type of adjustment over the governmental structure. The first key point of the adjustment was merging and reducing the government's economic management departments, so that they are no longer divided according to commodity, and causing the government to move from highly centralized management to a management system with a stepwise division of power; to move from primarily direct management to primarily indirect management. A city economic development bureau was formed by merging the city's industry office, trade development bureau and foreign investment office. The city's commodity price bureau was merged with the city industrial and commercial bureau. The city standard measure bureau was changed to the city technology supervision bureau, to be managed by the city economic development bureau. The second key point was smoothing out the working relations between the city's construction departments, reducing the number of links and raising efficiency. The city capital construction leadership small group was eliminated and the city capital construction office land bureau and the planning bureau formed the city construction bureau, and a city construction work bureau was established. The third key point was strengthening the law, and strategic decision information and supervision capabilities. The city governmental affairs information committee was established in accordance with upper level authorization and the actual conditions in Shenzhen, which was an important organizational move for the city government policy-making informational structure and for the democratic parties of Shenzhen, for the participation of citizens' groups and the masses in government and for airing disagreements. A city government legal consultants office was created to provide legal information and advice for the city government as they determine economic policy, economic regulations and make weighty policy decisions regarding foreign commerce. A city administrative inspection bureau was established on the foundation of the city inspection bureau to serve as the city's highest administrative supervisory structure, exercising supervision over all the city's government agencies and workers. In addition, the recent structural reforms have even standardized a set of names for the government departments, which is useful for management of the departments. At present the newly adjusted and created departments and

the departments that were retained are all entering a "three fixed" phase (fixed functions, fixed structure, fixed establishment), and are working on the "three fixed" while also carrying out their new responsibilities.

**On Controlling Shenzhen's Commodity Prices**  
40060262c Shenzhen SHENZHEN TEQU BAO  
in Chinese 31 Dec 88 p 1

[By reporter Fu Qinghuan 0265 3237 3562]

[Text] Yesterday Gong Peilian [7895 1014 6647], Deputy Chief of the municipal Industry and Commerce Bureau, revealed to reporters that the municipal government recently arrived at a "resolution to strengthen management of market commodity prices and control commodity price rises." This resolution requires that next year's retail commodity price index in Shenzhen be considerably lower than that for this year and that the scope of price increases may not be excessive.

From January to November of this year the city-wide retail commodity price index rose an average of 28.3 percent over that for the same period last year. The task of bringing next year's retail commodity price index down considerably from this year's and keeping the scope of price increases from being excessive is a formidable one. Gong Peilian said that according to the municipal government's resolution, if we are to control commodity prices then we must first stabilize the prices of daily use commodities, major fees, and important production materials. As for such things as grains, grain oils, vegetables, meat, poultry, eggs, aquatic products, white refined sugar, laundry detergent, soap, knit cotton goods, gas, coal, steel products, cement, wood products, chemical fertilizer, and pesticides, we must strengthen our management and with some we even need to implement a reporting system because it won't do for people to hike prices whenever it pleases them. All commodities managed by departments at the city level or higher and all commodities controlled at differential rates by departments at the city level or higher are prohibited from being resold through inter-level transactions, purchased and resold for profit-making, or purchased at prices for retailer stock and then sold after the price has been forced up.

In addition, wholesale and retail markets will be further rectified. All wholesale markets must establish effective managements systems, make improvements in the current lax and chaotic situations, publicly announce each day the wholesale price of such primary non-staple foods as meats, vegetables, fish and eggs, and manage and sell commodities using wholesale receipts. In the retail markets, regardless of whether the trader is a state-run business, a collective business, a small individual retailer or a foreign invested enterprise, all must possess receipts for their stock so as to provide a basis for formulating and checking up on differential rates and strengthen normal market order. All business that is done without keeping records or goes beyond the proper scope will be

firmly suppressed. All who speculate in land, drive up commodity prices, adulterate goods, give short measure, or sell fake or inferior commodities will be severely dealt with.

Also, state-run business departments must give full play to the main channel effect of suppressing market prices, actively organize the sources of goods, do a good job at supply, and continue to carry out such measures as "using foreign trade to help domestic trade," "using fruit trade to help out vegetable trade," and "using overall business to help make good losses on single items." Industrial and commercial enterprises will be encouraged to set up non-staple food production bases within the city or in neighboring provinces, cities, or counties and heighten their ability to be self-sufficient in commodities.

Gong Peilian disclosed that the city will step up construction of commodity price regulations, give full play to the active effect of law on management of prices and gradually standardize and systematize management of commodity prices. At the same time, a supervisory network for management of commodity prices will be established and constructed and a municipal consumer's commission and an employee commodity price supervisory station will be established. All associations in the various lines of business should also actively coordinate prices in their lines. Organize and publicly announce the commodity prices and fee standards for their lines and submit to management by industry and commerce departments.

## TRANSPORTATION

**Local Railways Record Rapid Expansion**  
40060286.b Beijing RENMIN RIBAO OVERSEAS  
EDITION in Chinese 31 Jan 89 p 3

[Article by Lei Fengxing 7191 7364 5887: "Local Railways in China Record Rapid Expansion—Capital Raised by Various Methods, Pattern of State-Run Railways Broken; Four Lines, 300 Kilometers Built Last Year; More This Year"]

[Text] Local railways in China are being constructed rapidly, and this construction is entering its best period in history. Four local rail lines, totaling 323 kilometers in length, were built in 1988. This year, construction will begin or continue on 30 local lines totalling 2101 kilometers in length. There are presently 26 provinces, regions, and municipalities which are engaged in the construction and planning of local railways. There are a total of 3,200 kilometers of local railways officially in operation, and this number reaches 4,100 kilometers when the length of various spurs is taken into account. Local railways have become an important component of China's railway system.

This year many provinces, regions, and municipalities have been working to relieve the congested transport situation, stimulate local economies, and develop areas which are rich in resources but suffer from poor communications, remote geographic location, and poverty. Therefore they have gone through various channels to raise capital, and have utilized various methods to build local railways. They have broken the decades-old convention that railways are built by the state. After four local lines totalling 268 kilometers in length were built in 1987, four more local lines with a total length of 323 kilometers were built in 1988. They are Heilongjiang province's 157-kilometer line from Nenjiang to Heibaoshan, Hubei's 81-kilometer line from Jingmen to Shashi, Henan's 73-kilometer extension of a line from Tangyin to Puyang, and Hebei's 12-kilometer line from Shiling to Shanshenmiao.

At the present, the wave of railway construction is still gaining momentum. 30 lines totalling 2,101 kilometers in length are slated for construction this year, of which 18 lines and 1,337 kilometers are continuing construction, and 12 lines and 764 kilometers are new construction projects.

## AGRICULTURE

### Analysis of Prospects for Foreign Investment in Agriculture

40060241 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 52, 26 Dec 88 pp 4-5

[Article by Wang Jian 3769 4148: "Current and Future Uses for Foreign Investment in Chinese Agriculture"]

[Text] Recently Zhang Chenghua [1728 2110 5478], a leading cadre in the Ministry of Agriculture's Foreign Affairs Bureau, issued the following statement to reporters on the issue of current and future uses for foreign investment in Chinese agriculture.

### Using Foreign Investment Produces Marked Results

China began to make use of large-scale foreign investment in agriculture in 1980. China participates in the UN Food and Agricultural Organization, the World Food Program, the International Fund for Agricultural Development, and the World Food Council. It has also established cooperative economic and technical relationships with the European Common Market and more than 20 nations, including Japan, the Federal Republic of Germany, Canada, Australia, Italy, and the United States, to import and absorb foreign capital for the purpose of developing Chinese agriculture. According to incomplete statistics, from 1980 to the present day China has put a total of more than 2 billion dollars worth of foreign capital to use in agriculture. Of this, nearly 1.7 billion dollars has been utilized in 270-plus projects run

by organizations involved with the Ministry of Agriculture. These foreign funds include both intermediate- and long-term loans on favorable terms and equipment aid rendered gratis.

Using foreign capital has made up for the shortage of domestic funds for agricultural development and injected a burst of vitality into Chinese agricultural development. During the Sixth 5-Year Plan, for example, the Ministry of Agriculture signed agreements for an average of approximately 150 million dollars worth of foreign investment a year, equal to about 60 percent of the amount of money the state set aside annually for the Ministry of Agriculture to invest in capital construction. The Ministry of Agriculture concentrated on bringing in foreign credit with a high loan limit, low interest, and a relatively long payback period. This method was in keeping with the characteristics of Chinese agricultural development—high expense, high degree of difficulty, and long turnover period. Zhang Chenghua said that loans total more than \$60 million apiece on the several major projects already underway. The North China Plain Agricultural Development Project, which involves the comprehensive management of 3 million mu of saline-alkaline land and shajiang [4263 1203] black earth in nine counties spanning Shandong, Anhui, and Henan, signed a formal contract with the World Bank for a loan of \$60 million in 1982. After 5 years of development the impoverished backcountry appearance of the project area had been substantially transformed, the per-mu yield of grain, cotton, and oil crops had doubled over the pre-development period, and the average per capita peasant income had risen from 173 yuan to 411 yuan. The return on investment was also outstanding: more than half of the original 60 million dollar loan had already been repaid. In addition some 90 million yuan renminbi in recovered funds had also been accumulated. The project area reinvested the recovered funds in new agricultural projects and expanded project results further.

China's use of foreign credit to import advanced foreign equipment, including instruments for use in teaching and scientific research, modern agricultural machinery, and equipment for industrial chicken and rabbit breeding operations, has accelerated our efforts to upgrade agricultural technology. Seven of China's agriculturally-oriented institutions of higher education and nine of her agricultural research centers have now been outfitted. In order to create new conditions for China to launch scientific and technological agricultural research, particular emphasis has been placed on supplementing facilities in agricultural bioengineering, remote sensing, and other burgeoning new fields. After three northeastern provinces brought in mechanical rice transplanters and industrial techniques for raising rice seedlings, the rice transplanting time was advanced and the growing season lengthened. Now the area planted using mechanical rice transplanters has been expanded to 4.18 million mu, which, figuring a possible increase of 100 kg per mu in the rice yield, results in cumulative increase of 400,000



tons of rice. In the past, Beijing residents relied on outside areas to allocate and transfer eggs to the city for their use. After the city imported industrial chicken breeding facilities from Hungary the chicken breeding industry took off, and now Beijing is basically self-sufficient in eggs. In addition, in the field of aquatic breeding China has imported techniques and equipment for breeding fish in net pens, for industrial eel breeding, and for deep-sea fishing. These methods have played a notable role in transforming China's reliance on cumbersome and inefficient manual labor, and as a consequence labor productivity has increased phenomenally.

The use of foreign capital has also accelerated domestic training of qualified agricultural scientists and technologists. According to incomplete statistics, from 1980 to 1986 China used foreign capital to send more than 410 agricultural scholars to 16 different countries to engage in cooperative research and advanced studies. Simultaneously, China sent 1,500 students abroad through the World Bank's agricultural science and education project. Nearly 500 of these students have finished their educations and returned to China, 6 of them with doctorates and 58 of them with masters degrees. In these agricultural experts China places its hope for future agricultural development. Zhang Chenghua said that we have learned a set of management techniques by implementing projects financed through foreign loans. Now we are fully able to handle project appraisals, feasibility studies, supervision, and efficiency analyses on our own.

#### **There Is Enormous Potential for Using Foreign Capital**

In general, circumstances are conducive to making use of foreign capital in Chinese agriculture. In particular, loans from multilateral international organizations are available through many channels and in large amounts. They account for approximately 80 percent of the total quantity of foreign capital the Ministry of Agriculture utilizes. But there is enormous potential for making use of bilateral funds, particularly in preferential credit extended on a bilateral basis between governments, and in non-governmental enterprises funded through the three capital sources. This area of bilateral finance remains to be further explored and developed. Zhang Chenghua said that from 1979 to May 1988 more than 20 nations extended bilateral credit between their governments and ours, accumulating a total commitment of more than 10 billion dollars. However, only about 1 percent of this was slated for agricultural use. In other developing countries on the other hand, the proportion of bilateral government loans used in agriculture is rather large. For example, approximately 28 percent of the loans Japan has granted to Third World countries have been used in agriculture. Zhang Chenghua said that in the future bilateral government loans should be one focal point of the effort to use foreign funding in agriculture. We should focus more on nations suited to sponsoring agricultural projects, such as Denmark, Belgium, Italy, Canada, and Japan, to ensure that China will make more use of foreign capital as quickly as possible.

Each province, city, and autonomous region now has the power to examine and approve projects funded through three capital sources. If agricultural departments in each region intensify their efforts in this area, we can look forward to even bigger developments in this area. In addition, we have made a good beginning on agricultural and economic cooperation with Soviet and European governments, and there is considerable future potential to import processing technology for agricultural and sideline products, develop mutual trade and commodities exchanges, and set up joint venture enterprises.

Right now China is financially strapped and cannot increase agricultural investment by much. From now on we will focus on using foreign capital in agriculture to restore land, upgrade low-yield fields, and raise grain and cotton production. To this end, we must use foreign capital especially to develop and build up the Huang-Huai-Hai and Sanjiang Plains; to construct agricultural, livestock, and fishery commodity export bases and thus develop an export-oriented economy and commodities capable of generating foreign exchange; to develop the livestock and aquatic products industries and do a good job on "Vegetable Basket Project" construction in order to provide more livestock and aquatic products for medium-sized and large cities and open coastal cities; and to enhance the construction of a service system to disseminate agricultural research, education, and technology and thus accelerate the accumulation of knowledge. Free aid projects must be used primarily to support development and construction in impoverished regions.

#### **Certain Issues That Remain To Be Resolved**

If we are to make more and better use of foreign capital in agriculture, in addition to creating a good investment climate we must also focus our attention on resolving the following issues:

We must improve recognition of agricultural uses for foreign capital. Right now some people—and even the leading cadres in some departments—still have doubts about our need and ability to use foreign capital in agriculture. They believe we do not need advanced technology to develop agriculture. There are also those who, considering immediate interests, feel that quicker results can be obtained by using foreign capital in industry rather than in agriculture. Their lack of support for using foreign capital in agriculture results in a very small proportion of foreign funds being used for that purpose. Recently the central authorities have decided that the proportion of China's World Bank credit slated for agricultural use must not be less than 25 percent. These are glad tidings for the agricultural sector, but if this policy is truly to be put into effect we must also correct people's thinking on the subject.

We must further rearrange the management system, integrate domestic and foreign capital, and adopt a unified plan. We already have an overall plan for investing domestic funds in agriculture, but as far as foreign



capital is concerned administration follows several paths and there is no unified planning or coordinated disposition. As a result foreign capital cannot be invested where it is most needed and most effective, and we cannot obtain the best results when we select our projects.

We should assign preferential interest rates for foreign loans used in agriculture. Profits have long been low in Chinese agriculture, and in recent years there has been a major increase in the cost of materials used in agricultural production. Growth in the output of grain and other crops, on the other hand, is limited, and their prices are set by the state. These conditions guarantee that agricultural profits will continue to be low in China for the foreseeable future. Consequently, the state should give preference to loans which can provide foreign capital for agricultural development. Not long ago, in a conversation with the vice president of the World Bank, a leading government official indicated that agriculture could use more low-interest or interest-free "soft loans." But the interest has risen dramatically on loans the agricultural sector has secured. On one agricultural project recently, the department concerned raised the interest on the loan substantially in order to lower the interest on an industrial project. This will make it much more difficult to repay in the future.

We should adopt a special policy on product export rights in regions that house agricultural development projects. When a foreign loan comes due it is usually necessary to use foreign exchange to repay the principal and pay the interest. According to policies now in effect project regions have no product export rights. This gives project regions more to worry about when they use foreign funds. Consequently, the state should adopt special policies for regions that are using foreign funds for agricultural productivity development projects. It should permit these regions to export the agricultural and sideline products they produce themselves and use the foreign exchange to repay their loans. The State Council once permitted the Heilongjiang Honghe Farm Project to use compensation trade to repay a loan, with good results. Some World Bank experts also recommend this method. Many agricultural development projects increase their production of grain or cotton, products the state needs to import or supply for export. The benefits from the increased output they obtain by using foreign capital should be used to repay foreign loan principal and interest. Otherwise agricultural projects that make use of foreign capital will languish or even lose their capacity to utilize foreign capital.

**Vignettes From Life of Communist Dissident  
Wang Ruowang**

40050242 Hong Kong MING PAO YUE KAN [MING  
PAO MONTHLY] in Chinese No 276, Dec 88 pp 3-8

[Article by Wang Lufu 3769 7627 1133: "Freedom And  
Agony—On Renowned Writer Wang Ruowang 3769  
5387 2598"]

[Dec 88 pp 3-8]

[Text] *Wang Ruowang Makes a Comeback*

*The cancellation in early 1989 of the Party registration of three intellectuals on the mainland in a move against bourgeois liberalization, made Fang Lizhi [2455 0536 0037] and Liu Binyan [0491 6333 7159], who reside in Beijing, hot news personages among both foreign correspondents and Hong Kong reporters. Since they had also traveled abroad and visited Hong Kong, people outside the country also had a rather good conception of their situation. However, there was no information about the third person, Wang Ruowang, who lives in Shanghai. His recent trip to Beijing to attend the Fifth Literary Congress marks his first public appearance.*

*The 71 year old Wang Ruowang is hale and hearty, thanks to the daily physical exercise he takes. He said that when he finds himself in difficult situations, he maintains a cool attitude, so he has accustomed himself to attacks.*

*In regard to having spent half his life in the Party only to have his home searched, his property confiscated, and to be kicked out of the Party, he said only that it was "regrettable." He also continued to pin hopes on China's future removal of restrictions and reform. He pinned his hope on China's intellectuals, who have endured common hardships and suffering. He believes that there will be hope so long as there exists a national sense, independent thinking, and creative freedom.*

**He is the happiest only because his thoughts are free. He is the saddest only because of the freedom of his thoughts.**

**Author's Dedication**

A road leading to Wuxi in early spring 1983.

On a map, it looks like a tiny capillary.

It is the spring season. Along the road the willows are already tinted with delicate light yellow tones, and sparkling pearls of dew glisten on the sprouting grass. Rocks sticking up here and there look like ears protruding from the good earth, and a dreamy melody seems to come wafting from extremely far away.

Gradually the sound becomes clearer. It is a Soviet song, "March of the Motherland," sung in Russian. The old voice is husky, and though not all that pleasing to the ear, it is filled with intense feeling.

The sound comes closer and closer, and two bicycles come flying along the road. A woman is riding the lead one. She is fortyish with bright red cheeks that suggest an athletic bent, and deep-set eyes. She possesses the wonderful, rather poetic quality found in Soviet films. The old man following closely behind her has a full head of white hair that is flapping in the wind like a white flame. The song seems to be coming from him.

There is a certain esthetic flavor to this married couple who have been bicycling for many days.

The woman pedals at a fast clip, gradually leaving the old man far in the rear.

After covering a fairly long distance, she suddenly discovers that her husband has fallen behind. She jumps off the bicycle at once and gazes rearward, brushing her sweaty hair back from her brow. Several trucks sweep past her, and a long time passes with still no sign of the old man. She thinks to herself with annoyance that his craving for a cigarette has gotten the better of him again, so who knows where he has gone to smoke! In order to stop him from smoking, she cudgelled her brains to come up with a verse that she put on the front door of their home. It read, "Swallowing clouds and belching forth mist for 50 years; the master's tobacco craving knows no limit. To prevent poisoning and lung cancer, guests are urged not to offer cigarettes." Now she is filled with rage. She turns her bicycle around, and starts back to look for him, angrily muttering, "I'll show you not to smoke!"

What's going on? Up ahead on the road, a lot of people are clustering around. What has happened? A frightening prescience suddenly comes upon her. She rushes forward, and through the space between a person's legs, she discerns the shape of a white head. It's him? He is lying face up on the ground, his face ashen, with a bloody cut on his left cheek. Both eyes are completely closed. An eyewitness says that he was rushing down the slope on the bicycle, didn't brake, and was thrown a long distance to the ground.

Is he dead? Is he still breathing? Is his heart still.... When the anger that the wife intended to vent disappeared to heaven knows where, the love that remained could be measured by the ton. She rushes forward, and presses an ear to the pit of his stomach at once. "Thump...thump," his heart is still beating. She shakes him, and slowly his eyelids flutter slightly. No sooner do his eyes open than a mischievous, childlike smile appears, and he says, "I...I'm not dead yet!"

The people surrounding him size up the old man and watch him pull himself up on the hand that his wife extends, none of them knowing that he is the renowned writer, Wang Ruowang.

This time he has taken an extremely bad fall. He can scarcely move his left arm, and a rib is cracked. But he still manages to joke, "I never intended to sleep in the middle of the road."

Falling down and getting up is a common occurrence for him.

Throughout his life, he has fallen numerous times; adversity seems to have an affinity for him.

# I

During the severe winter of 1935, nights in prison are exceptionally frigid. The wind that whistles outside the iron bars sounds like the wail of ghosts.

The 16 year old Wang Ruowang is awakened from a dream by hunger. Shivering, he holds his shoulders tightly with both hands, and crouches in a corner of the wall.

This is the first time in his life that he has suffered. Simply for engaging in revolution, the Kuomintang government has sentenced him to 10 years in prison. Ten years is so very long, it makes one shudder.

Still, he is not depressed. Not long before, he wrote an article using the Roman alphabet, and he circulated it secretly among his friends. He heard that it was published in a leftwing magazine, SHENGHUO ZHISHI [LIFE KNOWLEDGE]. During his days in prison, he wasted no time. Thanks to the victories other fellow sufferers in prison achieved through hunger strikes, he had the good fortune to be able to read many books including "Outline of Capitalism," "Anti-Dühring," and the writings of Gorky. He studies Russian and Japanese, and he also writes many poems, one of which "Outside the Iron Window" is published in a Tianjin magazine BEITIAO.

Now, when he is unable to sleep, he may possibly be hatching something else.

"Hey! Why aren't you asleep yet?" asks his fellow sufferer in prison, who is also his Japanese teacher, Xu Yushu [1776 3768 2579].

Wang Ruowang blinks his eyes and whispers close to Xu Yushu's ear, "I am thinking about writing a song of the volunteers."

"Great!" Xu Yushu pats him on the shoulder. "Have you worked it out yet?"

"It's in my belly. I'll recite it for you. Hmm.... The enemy army occupies the three northeastern provinces, heavily oppressing the common people, robbing their land, and increasing taxes and levies, pillaging, burning, and killing people right and left...."

This verse is subsequently smuggled outside the prison. It is set to music by musician Zhou Weishi [0719 1550 1492], and in 1936 it is published in DUSHU SHENGHUO [READING LIFE] magazine. His frail body is chained, but the wings of his reminiscence cannot be chained, and they fly. They fly to that wooden chest at the New Asia Pharmaceutical Plant.

He holds a special feeling for this wooden chest, and how much he would like to feel again the warmth of that wooden chest. Intoxicatedly, he closes his eyes, and thinks....

When he first began to work at the New Asia Pharmaceutical Plant, he lived in a dormitory where the lights went out at 8 o'clock at night. For Wang Ruowang, who liked to read, this was a torture. What could be done about it? When he spied a large wooden chest lying in a corner of the plant, an exciting idea suddenly sprouted in his mind.

"If only I had a candle, I could read inside the chest." He slaps his forehead, pleased with his own genius.

He removed the lid from the chest, faced the opening toward the wall, pounded a nail through the side of it, and impaled a candle on it. Oh! Wonderful. He squirms into it, into his "villa" outside the world. This cozy nest is his. Though cramped, and though his back is sore, the wind does not blow and the rain does not soak into this place. "No rent to pay, no water or electricity bills, everything is...., he hums merrily.

In his "study," he reads for a year, devouring more than 200 books.

His "study," though small, offers him a vast world.

He comes to know Charles Darwin, Isadora Duncan, Sima Qian, and Su Manshu.... His hunger and thirst for knowledge drive him to obtain nutrition from knowledge. The ship in his heart begins its journey here and travels tens of thousands of li across the globe and several thousand years through history....

When he first began to work at the pharmaceutical plant, he still very much regretted having left Nanjing Teachers College. His dreams of becoming a teacher seemed to have gone a glimmering. But now that he has this sacred place, his worries about having left normal school are totally cleared away, even though the fire red maple leaves of Xixia Shan in Nanjing still often dance before his eyes....

He has a constancy of purpose.

The first article that he wrote at the pharmaceutical plant, "Open Gossip," he submitted with trepidation, and he was surprised when it was published in the nationwide XINWENBAO [NEWSPAPER]. How could he be anything but madly happy about this first success?

He used 3 silver yuan of the fee he received to buy 13 movie tickets for a gang of his buddies at the pharmaceutical plant to enjoy a film titled, "Red Lotus Temple Ablaze."

His fellow sufferers in prison like this mischievous and active younger brother very much. He is so full of tricks and cleverness.

In particular, the advent of "movable type printing" demonstrated his adeptness at using his brains.

In order to improve the prisoners' diet, the jail prescribed that one piece of dried beancurd be given each prisoner each week as the sole delicacy. Wang Ruowang found inspiration in the dried beancurd. Though he hated to give it up, he secretly air dried the dry beancurd, and squirmed it away. Later on, he cut it into small cubes atop each of which he inscribed letters of the Roman alphabet, A, B, C, D.... It was thus that the "type" for his printing project was born.

However, he had no ink, so he could not print. What could be done?

The prison set aside one room where prisoners could write letters. Inside was an ink stand and ink. Arriving at the room when it was unguarded, Wang Ruowang quickly filled his mouth with ink and returned to his cell where he spit it into a bowl. This was the way he got the materials for printing.

When one article after another was printed, Comrade Fang Yi [2455 3015] asked him about his typesetting method.

"Where did you get your devilish cleverness?", the fellow sufferer asked with admiration.

"I'm probably a little like my uncle," he began in the manner of a storyteller. "My uncle knew everything, and he was interested in everything. I'm like him in this way. He was very clever with his hands, and he had many skills. He could build ships, sculpt, make iron pots, and he could also make walking sticks. There was just one thing he could not do...huh...he couldn't bear a child."

"Ha...." He made the whole jail laugh.

Being locked up behind prison bars could not stop him from thinking about his home village. He was just 16 years old, after all.

The nursery rhymes on an ox's back, the little boats in the rushes, the midsummer moon in the mulberry grove, and the white lotuses blooming in the lake.... How beautiful! His Changzhou home.

He missed his mother, the mother who gave him such unaffected love though she could not read.

He respected his father, who endowed him with integrity. His father was a primary school principal who very much esteemed Liang Qichao's reforms. His father's character was the inspiration for Wang Ruowang's concern for society.

Free! In response to cries by the people of the whole country, the Kuomintang government released political prisoners. Wang Ruowang was set free before time.

This was after the 13 August 1937 Japanese attack on Shanghai. He was aboard a train when suddenly he heard a familiar melody. Wasn't this the "March of the Volunteers" that he himself had written? His eyes brightened at once. Yes, it was his song. Tortured and starved, he had never shed a tear, but now, he could not hold back the tears.

He sang along with everybody: "Everyone wants liberation and unites quickly to resist. For getting rid of traitors and attacking Japan, the volunteer army is a good model...."

No one could have imagined that this thin youth was the author of this verse.

To the accompaniment of the rumbling wheels of the train, the song was even more stirring.

He swore an oath that the love and hate of his whole life would be one with the feelings of the people.

## II

It was here that he joined the Party, and it was here that he sowed the seeds of love.

It was on this plot of soil that he shed the sweat to build the "Northern Shaanxi School of Engineering," digging the basement of the first school.

It was here that he became the brigade commander of the first youth training class, and gave lectures on politics and economics on the parade ground.

At this time, he was only 21 years old.

The director of education in the training class, Hu Qiaomu [5170 0829 2606], placed much trust in Wang Ruowang. He prepared the lesson plans and then gave them to Wang Ruowang for use in class.

In order to do a good job, Wang Ruowang assiduously studied Marx's "Das Kapital."

The footprints of his maturation are recorded here, and now these footprints will extend into the future. He went to Shandong to lead urban behind-the-lines work, and the organization appointed him deputy director of its urban work department.

"Go back!" He tugged his wife, Li Ming's [2621 2494], hand.

"I'll see you off," Li Ming said, unwilling to part.

"Don't see me off. You're pregnant. Take care of yourself by all means." Wang Ruowang purposely made a face to coax his wife into loosening up a little.

He set out on a new journey.

This is a journey over rough roads, twisting paths, and surging streams....

This is a dangerous journey filled with hidden perils and hardships....

The road leads through the area of enemy mopping up operations where several comrades in arms have fallen, their blood spilling on this road.

He disguises himself like a common peasant and traveled for 5 or 6 months through heavy blockades in enemy occupied territory to advance toward his goal.

He travels by night and by day, finally reaching Shandong Province.

Upon reaching his destination, he finds his position as a deputy director is abolished.

"What is all this about?" He is dumbfounded. He asks the organization.

It turns out that Kang Sheng [1660 3932] sent a telegram from Yanan casting suspicion on Wang Ruowang as a spy. This sudden attack is like a rifle shot from a hidden bunker. It hits him unawares.

He cannot tolerate this unwarranted frame-up. He will not take it. He appeals to the organization.

Gradually it dawns on him. A rectification campaign, also called a rescue campaign, is going on in Yanan. It includes more than 100 workers and professionals who went to Yanan to turn themselves over to the organization, and they went to Yanan because Wang Ruowang encouraged them to do so. This is the basis for the so-called spy charge.

Let the film of history wind back to 1937....

The old city of Xian in front of the main gate of the Dahua Cotton Mill.

A group of curious workers gather around a youth whose body is clothed in rags, and they listen to him tell of his misfortunes. "Both my mother and father are dead, and I have lost contact with my younger sister. I have had nothing to eat for several days. What can I do? I certainly cannot go on living...."

This beggar is, in fact, Wang Ruowang who is making full use of his talent for inventing stories to tell those gathered around him of his tear-provoking misfortunes. The trick succeeds as expected, arousing the sympathy of those gathered around him.

No one knows that he is a member of the Xian Workers Committee. The clandestine Shaanxi Provincial Committee had ordered him to propagandize the revolution among industrial workers to develop the Party organization. This is an extremely daunting task that requires creating a new situation with his bare hands. Party Central Committee member Lin Boqu [2651 0130 3255] also told him earnestly, "This task is crucial. Most of the people in our Party are peasants. There are very few industrial workers. We must think of every possible way to get more industrial workers into the Party... It seems that Wang Ruowang has made a skillful first move.

"Young brother. Don't worry. Eat first, then we'll talk," said a young worker in a generous offer of help.

"Just getting one meal to eat is of no use! What about the next meal? Can't you arrange for me to get some small jobs to do in the mill?", he asks, trying to make the most of the opportunity.

The workers sympathize with him and arrange to get him into the mill.

Once he becomes a worker, he becomes a close friend of all.

In the dormitory, he hands out books and picture stories to the workers.

In the mill, he has heart-to-heart talks with the female textile workers, explaining to them the rationale for freeing themselves and making a new start.

On the railroad, he is the founder of the clandestine Party in the maintenance section. He also organizes its drama troupe to propagandize resistance to Japan and national salvation.

Inspired by him, more than 100 workers secretly fled to the bosom of the Party, Yanan.

Now black and white are turned upside down and, in addition, a small booklet containing Wang Ruowang's report to leaders of the Shandong Branch Bureau at a democratic meeting of the Shandong Party organization arouses controversy. This small booklet is deemed flashy but lacking in substance, an overstatement, and offensive to some people. It is claimed that Wang Ruowang attacked the branch leaders. He is reported to the department for the elimination of traitors in Shandong at that time, and plans are made to seize him and kill him. Luckily the intervention of Shandong Branch Bureau

First Secretary Luo Ronghuan [5012 2837 2719] saves him from death. Nevertheless, he is relegated to a remote rural village in the Bohai area.

Beneath a scholar tree in the village, he walks in solitude facing the mountain wilderness and thinking about a way out and what hope remains. Would he let himself be crushed by a burden of unjust accusations? He missed his wife Li Ming even more. Were she by his side, at least he would have someone to whom he could give vent to his dejection! Who is there to talk to?

Not long ago, a young teacher at the Marxism-Leninism Institute in Yanan was shot for simply publishing a critical article in a newspaper..., and a poet named Wang Shiwei [3769 1395 0724], who was branded a "Trotskyite," was dragged out of his cell and dispatched with a knife. Didn't some people also say that Wang Ruowang was Shandong's Wang Shiwei? The term "Trotskyite" fills people with dread....

In no time at all, it is the middle of autumn. The autumn winds of north China turn cold earlier than usual, and at night a cold moon shines through the window lattice to the heatable brick bed increasing the sense of loneliness. He lays on the brick bed tossing and turning. He cannot help thinking of the words to Turgenev's poem: "I am ready; I am willing to undergo every hardship and every attack."

He begins to cheer up. A smile appears on his face once again. He has no cotton quilted gown to ward off the cold. All he can do is wrap the stiff mat from the brick bed around his body, tying it at the waist with a length of grass rope. He looks just like a monk.

He finds a support in life to get rid of his sorrow. He becomes a doctor in the rural villages of the Bohai area. Relying on the knowledge he gained about medicine while at the New Asia Pharmaceutical Plant, and by reading medical books, he is able to save a villager who was at death's door, and he even comes to the rescue of a midwife who was having difficulty in delivering a child.

One evening, an old peasant and three children come to him leading a sick ox. The peasant says, "Show mercy. Save my ox!"

"Ox...this...I don't know how!" Wang Ruowang is in a real dilemma.

"We know you can. Be merciful."

Unable to bear their entreaties, all he can do is risk a try. He mashes up some herbs, fills a gourd ladle with them, and pours them into the ox's mouth.... Early the following morning, the ox stands up a little.

"Its hungry! See, it wants hay," the old peasant roars, his eyes brimming with tears. He hugs Wang Ruowang saying, "You are really a miracle doctor!"

Thus, the "miracle doctor's" name spreads through the countryside.

The people thank him by sending him red dates, salted duck, and pork. They also send him shoes and a quilted gown and trousers. His feeling for the masses has not faltered under heavy pressure. So, how can the people fail to express their warmheartedness toward him? Suddenly he becomes a "rich man," because of the richness of his spirit.

He does not forget writing, and his oil lamp is often lit when Venus appears on the horizon.

His experience in treating animals makes him want to write a book titled, "Problem-free Domestic Animals."

He also thinks a lot about Yanan. He cannot forget the times in Hu Qiaomu's cave when he warmed himself at the charcoal fire while listening to Hu Qiaomu, Mao Zedong's secretary, talk about Mao Zedong's work and life. He wanted to publicize his leader, depicting a historical parsonage who shook heaven and earth. Later on, the Shandong DAZHONG RIBAO ran in serial form for the first time Wang Ruowang's more than 20,000 words long, "The Mao Zedong Story."

One night when he was busy writing by oil lamp, he suddenly heard a slight tapping on the door. He unlocked the door, and there stood a young peasant woman.

She lowered her head and said nothing for a long time, but just inched her way to the edge of the brick bed.

"What do you want?" Wang Ruowang was puzzled.

This 20-some year old woman, the corners of her eyes stained with tears, lowered her head and, after a long time, she finally mumbled the single sentence, "You're a miracle doctor; my mother-in-law had me come to you to put your seed in me."

"What?" Wang Ruowang's eyes opened wide with astonishment, and the blood rushed to his brain. Flustered, he waved her away. "No, no...."

"Help me! I have it hard. My mother-in-law despises me... She does nothing but beat me and curse me. You...,," she sobbed.

It turned out that this woman had given birth to a freak that died within a short time. Blame was heaped upon her. Her mother-in-law damned her day in day out as an evil spirit and a comet; then she had an idea. Since you can't bear a decent child, why don't you go to the miracle doctor? Let him put some of his seed into you. When the child grows up, it will also be smart.

After listening to the woman, Wang Ruowang did not know what to make of it. Such benighted villagers! "I am not a supernatural being. You have a husband and I have a wife. You had better go back home!"

The woman returned shyly, and her mother-in law continued to curse her. "You'll never amount to anything."

The mother-in-law said stiff necked, "Isn't he one or the other? He's either a god or a supernatural person. You! You just don't have the luck."

Wang Ruowang hurried over to see the woman's husband and said, "You go tell your mother that she should not bully her daughter-in-law. Just tell her that the gods have said that whoever bullies her will not die a natural death!" Then, turning covering his mouth with his hand, he began to laugh.

The simpleminded man agreed. "Yes. I'll go back and tell my mother."

Later on, whenever the woman met someone, she said gratefully, "He is not a god nor an immortal; he is a sage!"

Actually, if ever there were sages on this earth, the mission of some was to look after the simpleminded villagers! You positively do not know that this "sage" quietly served you while under suspicion as a spy, and that many sorrows were concealed in his merry laughter.

The villagers in the Bohai region heard that Wang Ruowang was about to leave. Everyone hurried to the village, the poor villagers carried basket after basket of fresh red eggs and saw him off with the most solemn ceremony. No one said anything. They just looked at him, or they just held out a pair of rough hands to say farewell....

They would not forget that there was such an Eighth Route Army man with the name of "magical doctor" in the Bohai region. If one said that he had magical powers, it was because he used his knowledge to treat the pernicious influence of ignorance and superstition in the villages, and people learned from him about the warmth of the Eight Route Army.

Possibly it was at this time that Wang Ruowang began to be hurt by the "extreme leftist" line for his actions, making him particularly sensitive to future "leftist" tendencies coming from within the group.

### III

"Bing, bang. Bing, bang." The sound of the steel drills and iron hammers drilling rock and clearing a way through the mountain resounded through the valley in

the suburbs of Suzhou. This crisp and powerful sound gave expression to the yearnings of impoverished Chinese workers for socialist construction.

This was 1953 when more than 20,000 unemployed workers under Party organization excavated rock from the mountain and hauled it to Shanghai to raise the height of the outer banks and Zhongshan East Road in order to prevent the Huangpu Jiang from flooding.

The scorching sun baked the worksite. Beads of sweat made petal shapes as they struck the dirt!

A wired broadcast relayed a rousing speech of encouragement: "Comrades. The people of Shanghai will not forget your efforts. Work harder!..."

Follow the sound to its source, and there at the foot of the mountain stands a bamboo shed where a tall, thin cadre wearing a straw hat is vigorously waving his arms while shouting loudly into the microphone. This man is Wang Ruowang.

Actually, he suffered a setback this year. He was demoted from his position as deputy director of the Propaganda Department of the Shanghai Confederation of Labor to deputy director of the Education Office of the Unemployed Workers Relief Committee. Judging from his high-spirited voice and his state of excitement today, one would never guess he was the slightest bit disheartened. Demotions were, without doubt, a disguised form of punishment to him, but what error did he commit?

His error lay in his candid personality, and his uncompromising refusal to yield on principles. Had he the slightest understanding of a philosophy for dealing with life, his way to a career might have been easily greased, considering that he entered the Party in 1937.

As soon as Shanghai was liberated, he became the deputy director of the Propaganda Department of the Shanghai Confederation of Trade Unions. During his period in this position, he felt that a tendency toward factionalism existed among the leaders of the trade union, and he delivered an excoriating criticism of this matter. Possibly, the way he made the criticism was a little too intense.... When handling relationships among comrades, for some leaders the meaning of unity is often synonymous with willingness to yield. But Wang Ruowang happened to be one who was not that willing to yield, and naturally this offended some people. For some of our cadres, reverence for Marxism does not mean the extinction of their personal traditional small peasant mentality; therefore, beautiful sounding falsehoods become loyalty to the revolution for them, while diligence on the part of people like Wang Ruowang, who are not adept at making things look pretty, is naturally interpreted as arrogance and presumptuousness.

The 31 year old Wang Ruowang was too intense about his work. While he was deputy director of the Propaganda Department of the Confederation of Trade Unions, he traveled everywhere making reports and publicizing the history of social development, and the Party's policy for national construction. He knew Shanghai inside out, and he was versed in the language of the workers. Before each report, he would discuss matters informally with the workers first, solicit timely views, and listen to worker complaints. Then he would reply to them in the report he presented. His talks were also so witty that meetings were often interrupted by the sound of the workers' laughter. Almost three-quarters of the 1 million industrial workers in Shanghai at that time heard his reports. At this stage, Wang Ruowang put aside his clangestine work to found the LAODONG BAO [LABOR NEWS] in which he published his serial article titled "Journey to Korea to Convey Greetings and Appreciation." He also backed the opening of a trade union cadre training class. Before his talents and energies were applied to the full, he was demoted, but it didn't matter anyhow since he had no desire for power. For him, demotion was like a cup of water dumped on the ground that evaporated in an instant. Among the workers, his jokes and the sound of loud laughter continued to circulate.

The shades of night are descending, and the moon hangs atop the mountain. In tents in the outskirts of Suzhou, a different lively scene is unfolding.

In one tent or another, someone is singing the Beijing opera, "Gather Fish To Kill a Family," which rivets the attention of the workers. Everyone is listening to find out who is singing.

Wang Ruowang strains his neck and belts it out in a rhythmic and tasteful way.

"Good," the workers jeer.

Rather pleased, he takes a drink of water and asks the workers with self intoxication, "Shall I sing you another stanza?" Without waiting for applause, he begins to sing again, not noticing that some people have spread out on mats and begun to snore while he satisfies his itch for opera....

After a bitter war waged by 200,000 unemployed workers, the outer banks and Zhongshan East Road are raised 1 chi. This 1 chi holds in check the muddy waves of the Huangpu Jiang, and the outer banks no longer need to fear floods. The organizer of these labors, Wang Ruowang, has long since been forgotten, it is feared....

In 1954 the organization again assigned him as plant manager of the Shanghai Diesel Engine Plant, but it was obviously impossible to change his personality. He offended Ma Tianshui [7456 1131 3055], the person on

the municipal CPC committee who was responsible for industry. This plant manager liked to decide things for himself, and when he saw with his own eyes that numerous workers were living in slum areas, on damp and muddy ground, and in crowded lofts, he felt very upset. The workers who had supposedly made a new start in life had no dwelling place where they could rest. What kind of expression of the superiority of the new society was this? One should do all possible for the welfare of the workers, he believed.

Wang Ruowang "utilized" the authority of his own office to buy a large tract of farmland near the diesel machine plant where ground was broken and construction begun. Very quickly, a 20-room dormitory was built. In addition, he proposed expansion of the outdated casting workshop to improve working conditions for the workers. This two events made the workers feel happy and encouraged. They felt that the plant was caring.

However, Ma Tianshui and other leaders of the municipal CPC committee believed that Wang Ruowang's arbitrary decisions and preemptory actions violated the capital construction project system, and they instructed Wang Ruowang to make a rigorous self-criticism. He would not straighten out his thinking, and he refused to have anything to do with it. He said to the diesel machine plant CPC committee secretary: "I have nothing to criticize myself about. The plant did not solve the workers' dormitory problem, and if plant housing problems are not solved, how can production be assured?"

Once the dormitory building was built, he suggested allowing the workers to name the place where they would live. What a flurry of activity ensued. Some suggested "Happiness Village," others proposed "Liberation Village," and some said "Sun Village." Didn't such names reflect the workers' gratitude to the Party? In the end, it was Wang Ruowang who decided the name, calling it "Workers and Peasants New Village."

The row after row of storied buildings in "Workers and Peasants New Village" standing near the diesel engine plant, and the two open gates look like two extended arms warmly welcoming the workers to move into their new abode.

He is transferred out, the municipal CPC Committee maintaining that he was unsuited for the position of plant manager.

On the evening before he left the diesel engine plant, he walked slowly all around "Workers and Peasants New Village," feeling rather pleased. He had no grievances worth mentioning. One lamp after another lighted like teardrops excited by the good earth....

[This serialized article will be continued in future JPRS issues.]



## CENTRAL-SOUTH REGION

### Guangdong Provincial CYL Urged To Conduct Self-Reform

40050311p *Guangzhou GUANGZHOU RIBAO*  
in Chinese 8 Jan 89 p 1

[Article by Shen Tuan 3088 0957: "Promoting China Youth League Organizations To Reform Themselves"]

[Summary] At an expanded meeting of the 2nd plenum of the Eighth Guangdong Provincial China Youth League [CYL] party committee, Guangdong Provincial party committee Deputy Secretary Guo Rongchang urged all levels of the provincial CYL to earnestly study the CYL's special role under the new situation and actively carry out internal reform.

Guo Rongchang urged the provincial CYL to make strides in finding a role for youth in the ongoing development of a commodity economy. He also said that all levels of the provincial CYL should educate youth about the new situation and adopt effective means of dealing with some of the prominent problems currently facing young people and help them develop in a healthy social environment. He also pointed out that all levels of the CYL also need to bolster their ranks.

### Guangzhou Education Fund Established

40050313p

[Editorial Report] According to an 11 Jan 89 GUANGZHOU RIBAO article in Chinese on page 1, written by Wang Jue [3769 3778], the Guangzhou City Education Fund was established on 12 Jan after four months of frenzied planning. GUANGZHOU RIBAO had previously reported that the city party committee and city government decided to set up an education fund in order to obtain support for education and has solicited funds from many sources. After several months work, funds were collected from people in Hong Kong and Macao, overseas, and in Guangzhou's industrial and commercial circles. Nearly 150 calligraphers and painters donated over 200 of their works to be sold on behalf of the fund. Many of the units involved in Guangzhou's urban planning also decided to donate money to the fund. A number of entrepreneurs who have promised to donate to the fund include Li Guowei of the Hang Seng Bank Ltd. of Hong Kong; Jian Huanzheng of the Dun Huang Group, Kuang Shi of the Gaoli International Enterprises Co., Ltd.; and several dozen other entrepreneurs in Guangzhou.

## SOUTHWEST REGION

### Biodata on Hu Jintao

40050264 *Hong Kong KUANG CHIAO CHING [WIDE ANGLE]* in Chinese No 196, 16 Jan 89 pp 16-20

[Article by Jiang Bei 3068 0554: "At the Behest of Troubled Times: Hu Jintao"]

[Excerpts] [Passage omitted] He is from the same home town as Hu Shih. When this native of Anhui Province's Jixi county was one of the outstanding students at

Qinghua University, he dreamed an "electrician's" dream. Whenever discussing past events in his life, he always says that "getting involved in politics was not my original intention."

In July of 1965, one year before the Cultural Revolution, he graduated from Qinghua University's Water Conservancy Department, where he had specialized in key hydroelectric power plants. He was not assigned to a power plant, though. Instead, he remained at school as a political assistant, and also participated in some scientific research.

The next year, when the Cultural Revolution broke out, he was one of few students who were members of the Communist Party, and became a target of struggle sessions. Afterwards he entered the ranks of the "devil-may-care."

In 1968, he was assigned as a technician to subdistrict number 813 of the Ministry of Water Resources and Electric Power's fourth district in Gansu, one of China's poor northwestern provinces. He had served but a few days in his technical post when he became secretary, and the organ's general branch deputy secretary. He became a political cadre.

Once in the political arena, he was never able to turn back.

In 1974, he was transferred to the Reconstruction Committee of Gansu Province. He served first as a secretary and later rose to deputy director of the Design and Management Department.

His star rose rapidly in 1980. He was highly regarded by Song Ping, [1345 1627] then the Gansu provincial party committee's first secretary, and now a member of the Chinese Communist Party's Central Political Affairs Committee. With Song's backing he bypassed regular lines of promotion to become the Deputy Director of Gansu province's Reconstruction Committee. Later he went to Beijing to study in the Young Cadre Training Course at the Central Party School.

The Central Party School organized the Training Course for the purpose of turning out high-level cadres. A large contingent of important officials in the Chinese Communist Party are graduates of the Training Course. These include the current Vice-Chairman of the All-China Federation of Trade Unions, Zhu Houze [2612 0624 3419], the Deputy Secretary-General of the State Council, Luo Qian [5012 0051], and the Propaganda Department's Vice-Minister, Zeng Jianchang [2582 1696 0617].

Hu Jintao naturally belongs to the cream of this crop. Not long after graduating from the Party School's Training Course, the 11th Congress of the Communist Youth

League convened. Hu Jintao and Wang Zhaoguo [3769 0340 0948] were chosen at the same time for the Secretariat. Wang Zhaoguo served as First Secretary and Hu Jintao as Second Secretary.

Wang Zhaoguo was chosen by Deng Xiaoping at No 2 Automobile Plant to take this position. There are different theories about who chose Hu Jintao. Some say it was Song Ping who recommended him strongly to the central leadership. Others contend that Hu Yaobang, then the Communist Party General Secretary, discovered Hu on an inspection tour in Gansu. [passage omitted]

Whatever the case, it is apparent that Hu Jintao has supporters. [passage omitted]

Hu Jintao is a man of action who does not seek false acclaim.

In 1985, when he received orders to transfer to Guizhou and serve as secretary of the provincial party committee, he commented that he intended to stay there a long time.

In July of 1985, news of his assumption of his new duties had barely reached the northwestern Guizhou district of Bijie when he arrived at the place himself. The people were quite surprised, and felt that this new provincial party secretary was different.

On this occasion, he travelled for 11 days through areas in Guizhou bordering the provinces of Yunnan, Sichuan, and Guangxi. He visited villages and mines in 12 counties.

The majority of these places are poor districts inhabited by large concentrations of minorities. He travelled, observed, inquired, and deepened his understanding of Guizhou.

Whenever interviewed by reporters, he would always say that ever since he set foot on Guizhou soil, he felt that his fate was linked to the prosperity and well-being of 30 million ordinary people in Guizhou.

By the end of 1987, he had used his two years to travel to every one of Guizhou's 86 counties, municipalities, and districts. He would speak lovingly of Guizhou, as if counting his family heirlooms: In ten years of reform, the gross output value of Guizhou had increased by 120 percent; government revenues, and the average income of peasants and urban residents, had all risen by at least 180 percent. [passage omitted]

He believes that in order to climb out of poverty, a corps of people willing to devote themselves to their work is needed. Having participated in youth work, this provincial party secretary understands young people very well. He says that during the process of reform, young people must not only have a sense of urgency and mission, but

must also understand the difficulty and complexity of reform. Hopes must not be too high, and ability to absorb defeat must not be too low.

This is just one reflection of Hu Jintao's steady nature. [passage omitted]

Many people abroad believe that Hu Jintao is one "the three Hu's" of mainland China's Communist Youth League.

Some people abroad believe that the so-called "three Hu's" are Hu Yaobang, Hu Qili, and Hu Jintao, but this is not actually correct. In the 60's, there was talk of the "three Hu's" in the Communist Youth League. Apart from Hu Yaobang and Hu Qili, the other Hu was Hu Keshi [5170 0344 1395], presently a member of the Standing Committee of the National People's Congress.

However, even though Hu Jintao is not one of the "three Hu's," he has nevertheless stood in good favor with them. It would be quite proper to consider him as part of their "camp."

It is said that Hu Jintao owed his appointment to his post as Guizhou party secretary to the recommendation of then General Secretary Hu Yaobang. After Hu Yaobang's fall, one of the camp's main figures, Wang Zhao-guo, was transferred to Fujian Province. At the time, some people said that it was unlikely that Hu Jintao would keep his position.

Contrary to expectations, not only was he not demoted, he even stepped up to the post of party secretary in the sensitive Tibetan Autonomous Region. This indicates that the new faction headed by Zhao Ziyang still places much trust in Hu Jintao.

The fact that Hu Jintao did not fall from power has much to do with his easy-going, non-combative personality. He does not resemble the outspoken, aggressive Wang Zhao-guo, and is quite well-liked by the central leadership. [passage omitted]

A few years ago, the first words of a Japanese person upon seeing Hu Jintao were: "I liked you the minute I saw you."

The handsome Hu Jintao does indeed win the hearts of many. While in the central leadership of the Communist Youth League, Wang Zhaoguo was known for his loud, clear voice. Hu Jintao was known for his handsome features.

A tall physique, fine facial features, elegant bearing, good humor, and dignity are the main characteristics of Hu Jintao's unique personality.

As the provincial party secretary, he excelled at work which required personal skills, and was adept at solving difficult contradictions. In his work, he holds firmly to principles, but is flexible in formulating tactics.

He is especially careful about his image, and does not seek to publicize himself. He rarely accepts interviews from reporters. He believes that one must work conscientiously, and cut publicity to a minimum. Inaccurate reports can only hasten the fall from power of this type of young provincial party secretary.

When in Beijing to attend conferences, he repeatedly reminds reporters not to report on his activities "in order to avoid unnecessary trouble."

Among the leaders of the mainland's 30 provinces, autonomous regions, and municipalities directly under the jurisdiction of the central government, he has thought through his philosophy more thoroughly than most. With respect to leadership qualifications, he believes that a good provincial party secretary must possess four qualities:

A leader must have strong beliefs and firm goals, must have his or her feet firmly on the ground, and not seek false acclaim. A leader must not flaunt authority and lord it over other people, but should be in harmony with ordinary people. A leader must uphold democracy, but be able to take decisive steps when necessary. A leader must have an intense enthusiasm for life.

Hu Jintao explains that what he means by "enthusiasm for life" includes: a sense of responsibility in one's work; a faithful and honest attitude toward friendship; and a love of physical activity, the arts, and everything in life that is beautiful.

He has an avid appreciation for the arts, movies, theater, and novels. His love of life extends to the dance floor, where he often is "Prince Charming," although he can only do the three-step and the four-step. He often charms people with his singing voice....

However, as a provincial party secretary in the Chinese Communist Party, he continually reins himself in, and will not relax too far. During his few years in the central leadership of the Communist Youth League, everyone, whether superior or subordinate, liked him. Everyone appraises him as a caring person and a deep thinker. However, they also consider him rather soft and unforceful, without sufficient trailblazing spirit.

Will someone with this kind of personality work out in Tibet? [passage omitted]

As with many provincial- and ministry-level officials in the mainland, Hu Jintao did not take his family with him to his post in Guizhou.

Like Hu Jintao, his wife originally worked in the Communist Youth League's central leadership. After Hu Jintao left the League, she got herself transferred from the central leadership's Chinese Youth Travel Service to the Beijing Municipal Reconstruction Committee in order to avoid suspicion.

This was quite a coincidence, since before Hu Jintao started his political career he had worked for Gansu Province's Reconstruction Committee. Who would have thought that ten years later, his wife would work for the Reconstruction Committee. It reminds one of "different roads leading to the same destination."

Hu Jintao and his wife were university classmates, and had maintained a lengthy courtship. They now have one son and one daughter. In the mainland, a couple like Hu Jintao and his wife, with both a son and daughter, is especially fortunate.

When Hu Jintao assumed his post in Tibet in early 1989, there was no question of his wife or children accompanying him. However, being the top leader in the Tibetan Autonomous Region, he will often shuttle back and forth between Beijing and Tibet. His time spent in Beijing every year will not be less than four months.

However, it is said that his wife and children are attracted to the charming scenery of the high Tibetan plains. The best season in Tibet every year runs from May through October, and there is no doubt that his wife and children will not miss the opportunity to go to Tibet and take in the beauty of the high plains. [passage omitted]

This transfer shows that Hu Jintao still commands the complete confidence of the Communist Party's highest strata of leadership. When Yan Mingfu [7051 2494 1788], the official in charge of propaganda work in minority areas and Taiwan, went on an inspection tour of Tibet from October 30 to November 20, he specially called Hu Jintao to Beijing, and took him along on his tour of Tibet.

This action on the part of Yan Mingfu was taken, in the first place, to observe Hu Jintao up close, and in the second place, to pave the way for Hu's promotion.

However, as a new star on China's political stage, Hu Jintao's future following his promotion to leadership in Tibet is not at all clear.

As the successor of Wu Jinghua [0124 4737 5478], Hu Jintao will have to make a great effort to calm unrest in Tibet. At the very least, he must assure that protest marchers will not be shot at again. However, Wu Jinghua's "right" tendencies caused him many problems in his work. The influence of the Dalai Lama and uneasiness among the Tibetan people will present Hu Jintao with one headache after another.

If he handles the situation too harshly, he may commit errors on the "left," thereby repeating the disasters of Yin Fatang [7113 3127 0781], (formerly provincial party secretary for Tibet, and deputy political commissar in the second artillery division of the PLA). If Hu Jintao is not an "iron rice bowl" type, but is merely short on decisiveness and long on caution, he will also have a hard time avoiding mistakes. How to develop Tibet, improve the education of its populace, encourage a modern world view, and promote peaceful relations between Han Chinese and Tibetans, are all delicate and difficult problems which require Hu Jintao's study and attention. [passage omitted]

Hu Jintao has quite a bit of experience handling sudden emergencies. Guizhou is a province where these incidences occur frequently. When military police were dispatched to surround and arrest a gun-wielding murderer, and when a train was derailed, he was involved in work to restore order. To take an example from this year, on October 14, 1988, a graduate student at Guizhou University injured 11 undergraduates with a weapon. Afterward, more than one thousand university students surrounded the offending student's dormitory, cut off supplies of water and food for more than 30 hours, beat more than 20 policemen who came to deal with the situation, destroyed their vehicle, and staged a protest march. Nevertheless, the affair was satisfactorily resolved in the end. [passage omitted]

However, there are several factors which are disadvantageous to Hu Jintao which he has yet to overcome. It remains to be seen whether he has the ability to do this. These factors include: Firstly, Hu Jintao lacks a substantial corps of able assistants in Tibet with whom he has worked for years. Secondly, it will take some time before

him to develop a rapport with the local Tibetan cadres. Thirdly, he has no strong ties to any of the military stationed in Tibet. Of the four "highest officials stationed in Tibet" prior to Wu Jinghua, some were generals who entered Tibet with the earliest occupation forces, and some were generals who entered Tibet with the second arrival of occupation forces. Hu Jintao, on the other hand, is the first "Viceroy of Tibet" who comes from a civilian background. Therefore, in order to be understood by the people of Tibet, and to establish his position of authority on the basis of trust, Hu Jintao must first accomplish something visible, and at the same time establish good social relationships by communicating with people from all sectors. Only then will there be any success to speak of. [passage omitted]

If he can stabilize the situation in Tibet, that would, of course, be the first step toward a rapid rise in Hu Jintao's political fortunes. He might even be promoted to, for example, the Secretariat. If he cannot contain the situation, the consequences would be disastrous. As a friend of his said when Hu received the order to transfer to Tibet: "He would be better off if he stayed in Guizhou." [passage omitted]

A problem facing Hu Jintao in early spring, 1989, is that the Chinese Communists intend to carry out negotiations in a foreign country with the Dalai Lama on the Tibet problem. If unrest were to occur again and affect these contacts, the central leadership of the Communist Party might not be satisfied with Hu's ability, and his political career would fall under a cloud.

Hu Jintao's success or failure depends on his performance in Tibet. If he rules Tibet successfully, perhaps the question on everyone's mind in the near future could be: Will Hu Jintao become a superstar on China's political stage?