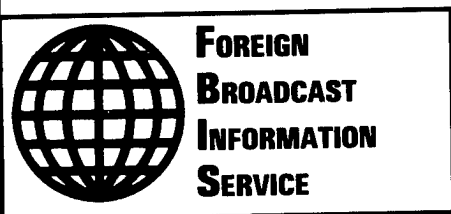


JPRS-CAR-89-028  
31 MARCH 1989



# ***JPRS Report***

# **China**

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

19980812 077

**DTIC QUALITY INSPECTED 1**

# China

JPRS-CAR-89-028

## CONTENTS

31 MARCH 1989

### INTERNATIONAL

#### GENERAL

- Qin Benli Discusses Freedom of Speech With U.S. Broadcasters  
[SHIJIE JINGJI DAobao 6 Feb] ..... 1

#### SOUTHEAST ASIA/PACIFIC

- Australia's 'Geopolitical Shift' From U.S., Europe [GUOJI WENTI YANJIU No 4] ..... 2

#### EAST EUROPE

- Hungarians Discuss Need for Multiparty System [SHIJIE JINGJI DAobao 6 Feb] ..... 6

### POLITICAL

- Ideological, Political Workers Urged To Respect Privacy [BAN YUE TAN No 1] ..... 8  
Wu Jiayang Gaining Prominence in CPC Think Tank [KUANG CHIAO CHING No 196] ..... 9  
Researcher Sees Need for Strengthening, Clarifying Ideology [GUANGMING RIBAO 2 Feb] ..... 11

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- Contract, Shareholding Systems Compared [JINGJI CANKAO 2 Feb] ..... 13  
Article Views 'Vicious' Economic Cycle [JINGJIXUE ZHOUBAO 15 Jan] ..... 15

#### PROVINCIAL

- Symposium Discusses Guangdong's Achievements, Tasks in Reform  
[ZHONGSHAN DAXUE XUEBAO No 4] ..... 17  
Strategy for Economic Cooperation Between Sichuan, Hong Kong [SICHUAN RIBAO 20 Jan] ..... 23

#### FINANCE, BANKING

- Editorial on Strengthening Macroeconomic Control [JINRONG SHIBAO 19 Jan] ..... 25  
Reform of Interest Rates Discussed [JINRONG SHIBAO 17 Jan] ..... 26  
Adjustment of Interest Rates, Price Rises [JINRONG SHIBAO 17 Jan] ..... 29  
Raising of Interest Rates Termed Urgent [JINRONG SHIBAO 17 Jan] ..... 30  
Director of State Administration of Taxation on Tax System [Hong Kong LIAOWANG No 5] ..... 32

#### FOREIGN TRADE, INVESTMENT

- Xinjiang Official on Using Foreign Investment [GUOJI MAOYI No 12] ..... 34  
Handling Management of Foreign-Funded Enterprises [CAIWU YU KUAIJI No 12] ..... 36  
Concerns Following Shanghai's Implementation of Contract System  
[GUOJI SHANGBAO 19 Jan] ..... 39

#### ECONOMIC ZONES

- Shandong Open Economic Zone Uses Foreign Capital [DAZHONG RIBAO 8 Feb] ..... 41

**LABOR**

Labor, Employment Challenges Facing Country [ZHONGGUO JINGJI WENTI No 6] ..... 41

**AGRICULTURE**

Increasing Rural Mechanization Investment [JINGJI CANKAO 8 Feb] ..... 47  
Vegetable Supplies Improve [JINGJI RIBAO 17 Mar] ..... 48  
Shortage of Hybrid Rice Seeds [JINGJI CANKAO 17 Mar] ..... 48  
Anhui Aquatic Products Output [ANHUI RIBAO 12 Feb] ..... 48  
Commodity Bases To Reduce Hog-Raising Losses in Heilongjiang  
[HEILONGJIANG RIBAO 13 Jan] ..... 49  
Hunan 1989 Crop Goals [HUNAN RIBAO 25 Jan] ..... 49  
Inner Mongolia Peasant Income [JINGJI RIBAO 15 Mar] ..... 50  
Jiangxi Grain Storage [JIANGXI RIBAO 6 Feb] ..... 50  
Jilin Sunflower Seed Area [JINGJI CANKAO 17 Mar] ..... 50  
Xinjiang Cotton, Salt Output [JINGJI CANKAO 14 Mar] ..... 50  
Peasant Income in Yunnan [YUNNAN RIBAO 24 Feb] ..... 50  
Yunnan Rural Savings [JINGJI CANKAO 14 Mar] ..... 50

**SOCIAL**

Cultural, Social Development of Initial Stage of Socialism [SHEHUI KEXUE ZHANXIAN No 4] ..... 51  
Professor Outlines Research on Modernization [LIAOWANG No 3] ..... 53

**TAIWAN**

Regulations for People-to-People Relations With Mainland [TZULI WANPAO 12 Jan] ..... 57

**HONG KONG, MACAO**

'Mainstream Proposal' Leads to Ruling by Politicians [MING PAO 26 Jan] ..... 59

## GENERAL

### **Qin Benli Discusses Freedom of Speech With U.S. Broadcasters**

40050289 Shanghai SHIJIE JINGJI DAobao  
in Chinese 6 Feb 89 p 3

[Article: "Responsibility of the News Media"]

[Text] *First, tell the real truth. Inform readers of really true facts. Second, have many opinions rather than merely reflecting those of the higher ups. Also reflect the views of those at lower levels, the views of the people. Third, safeguard expressions fundamentally advantageous to reform and opening to the outside world and to motivating and inspiring the enthusiasm of the people. Give people who want to speak but dare not or have no chance to the full opportunity to do so, particularly intellectuals.*

On 31 January, at a riverside restaurant on the beautiful Potomac in Washington, DC, Qin Benli [2953 2609 4539] had lunch with Larry Moffet, executive chairman, and John Robbins, public relations manager, of Washington's "Council of World Broadcast Media." They had a very frank discussion on some fundamental issues regarding broadcast media.

Mr Moffet said that the aims of the "Council of World Broadcast Media" can be summarized in two words: trust and responsibility. His main responsibility is to assist the broadcast media attain the right to freedom of the press in those countries that still do not enjoy it. At the same time, he also assists the broadcast media in countries which enjoy a certain degree of freedom of the press to improve their sense of bearing a social responsibility. Toward this end, the "Council" convenes an annual "World Broadcast Media Convention" at which these matters are discussed in theory and practice. It also periodically organizes reporters from different countries to visit certain countries and do on-the-spot investigations.

Qin Benli endorsed the aims of the "Council." He said that trust and responsibility are also two basic principles sought by SHIJIE JINGJI DAobao. He believes that any broadcast media striving to attain the trust of the masses must follow these three points: First, tell the real truth. Inform readers with true facts. Seek truth from facts. Second, have many opinions. Simultaneously publish different and even opposite ideologies and viewpoints. That is to say, broadcast media must not only reflect the views of those in power, the government. They must also reflect the lower level views, the views of the people, allowing them to make independent judgments about important state matters according to facts. Third, and this may be of even more significance for China right now, safeguard expressions fundamentally advantageous to reform and opening to the outside world and to motivating and inspiring the enthusiasm of the people. Give people who want to speak but dare not or have

no chance to speak the full opportunity to do so, particularly intellectuals. The masses will have reason to trust broadcast media only if they do these three things.

In speaking of the responsibilities of broadcast media, Qin Benli held that their greatest responsibilities are to make their words and actions helpful to promoting the cultural development of the people and the progress of society, to allow the people to fully enjoy democracy, freedom, and to live happier lives. With reference to China's present reality, this means being helpful in promoting the even more smooth and healthy development of China's reforms and opening to the outside world, which is the only path for the country. The successes of reform and opening up will not only make China bigger and stronger, but will allow the people to live happier lives. Furthermore, they will make China give its proper contribution to humanity as a major nation. If the reforms and opening up should fail, that would be a disaster not only for all the nationalities of China but would imply that the Chinese people forfeited the chance to make a contribution to the world.

In this respect, SHIJIE JINGJI DAobao is a young newspaper. It has and is making arduous efforts. But naturally, the efforts are scarcely enough.

The two American colleagues entirely agreed with Qin Benli's opinions. Moffet added that the most important and fundamental thing in getting the public to trust the broadcast media and undertake their social responsibility is the necessity of maintaining independence. The media should be responsible only to the Constitution, the people, and facts, rather than to governments, any political party, individuals, or officials.

Qin Benli had a very interesting dialogue with a dozen students at the Johns Hopkins School of Advanced International Studies, which has long held a high reputation.

When asked about the current state of journalism in China, Qin Benli explained that in the several decades since the communists took power in China, the basic state of Chinese broadcast media has been one of "a single voice" and "unanimous public opinion." The broadcast media exists only as the mouthpiece of the party. Broadcast media were naturally considered to be the mouthpiece of the people since it was considered that the aims of the party were synonymous with the good of the people. However, in reality, in the history of the republic, the ruling party has proved to be exactly wrong on several important resolutions. Contradictions and conflicts still exist in certain circumstances between the aims of the party and the good of the people. For example, the party started the "Great Cultural Revolution" which was basically against the good of the people.

The aforementioned situation has already and is in the process of being gradually ameliorated since China implemented reforms and opening to the outside world.

Differing opinions are beginning to appear in Chinese broadcast media. Although they are still limited, supervision and criticism of the party, the government, and some officials have increased. In this regard, that the existence and development of SHIJIE JINGJI DAobao have won the support and love of a majority of its readership is enough to prove this progress. Now, it is nothing new to see pointed criticisms in the most influential and greatest party paper, RENMIN RIBAO.

Qin Benli gave a simple and clear response to a question on what the basic principles of China's journalism law which is under deliberation and contention should be: to provide and protect for complete freedom in the work of those in journalism as stipulated by the Constitution, and to strive to attain the right of freedom of the press while supervising the work of journalists according to legal means and processes. Otherwise, the journalism law is totally meaningless.

## SOUTHEAST ASIA/PACIFIC

**Australia's 'Geopolitical Shift' From U.S., Europe**  
40050238 Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese  
No 4, 1988 pp 24-29

[Article by Cheng Qizhen [2052 0796 4394]: "Australia's Geopolitical Shift and its Problems"]

[Text] Since the Second World War, Australia's geopolitics have begun to shift towards the Asian-Pacific region. In pace with this geopolitical shift, Australia has made corresponding adjustments in foreign relations. It has increased its distance from the United States and drawn closer to Asian and Pacific countries; adopted a more realistic attitude towards the South Pacific region; actively developed relations with the countries of the Eastern Alliance; and given serious consideration to developing relations with China and changing its policy towards the USSR. However, there are still some political and economic problems in Australia's geopolitical shift.

The rise and growth of Australia covers a 200-year history. On the eve of Australia's bicentennial, an exploration of some of the problems of this country, which is located in the Asian-Pacific region but has European "ancestry," and which is now shifting its geopolitical focus towards the Asian-Pacific region, and the implementation of this shift, is of immediate significance. As a country whose ethnic makeup, culture, and democratic system of government have historical roots which are European—especially English—the rise and growth of Australia and its security have long been linked with the "power" of England. After the war, with the retreat of English colonial influence from the Asian-Pacific region and changes in international relations and economic patterns, Australia concluded alliances and developed economic relations with the United States and at the

same time actively developed relations with Asian-Pacific countries and regions. Yet, Australia's geopolitical shift (including security, politics, and economy) went through a long process of development and preparation. This paper will explore this.

### Historical Strategic Shifts

Viewed from a historical perspective, the Second World War was a turning point in Australia's geopolitical shift. The Australians of English descent were not entirely the same as the English emigrants to North America. Although they lived in the remote Pacific Ocean, they always considered themselves British subjects and were loyal throughout to the English motherland. Before the Second World War, the pattern of Australian foreign relations was influenced and dominated by England's diplomatic, economic, and general colonial interests. In the last half of the 19th century, England, which was developing a colonialist system, was in a period of major industrial development and Australia was an important overseas market and a source of agricultural and industrial raw materials in this system. Agricultural products, especially wool and wheat, developed by Australians of English descent who had settled [in Australia], not only played a crucially important role in the development of Australia's own economy, but were also continuously shipped to England to satisfy her need for food and the needs of her textile industry. Australia was absolutely obedient to England politically, and participated in England's wars to subjugate and suppress colonial peoples, for example the Sudan War of 1885 in East Africa; the Boer War of 1898-1902 in South Africa; and the suppression of the Boxer Rebellion in China in 1900. Australia also followed England in participating in the First World War, losing 60,000 men as a result. For a country with a population of only 6,000,000 at the time, this was undoubtedly a heavy price to pay, but Australians still felt it was their duty to "defend the motherland." Although Australia participated in the Second World War, the situation was different. From Pearl Harbor, Australians discovered that the immediate enemy was not in Europe, nor in the Middle East, but was made up of the Japanese aggressors who were already drawing near their gates; those who were able to defend Australia from invasion were not their English kinsmen, but their distant relations, the Americans. In December 1941, John Curtin, the Australian prime minister, had a disagreement with the British prime minister Churchill about for whom the Australian troops were fighting. Finally, Prime Minister Curtin insisted that Australian troops stationed in the Middle East return home and at the same time sought U.S. assistance to deal with the direct threat to Australia of the invading Japanese army. In a policy statement he said, "I declare unequivocally that Australians regard Americans as brothers and are just as close as our traditional blood relationship with England. Without Australians, Britain would still exist. Thus, we have decided to spare no effort to formulate a plan with the United States to make it the mainstay of Australia's trust until the high tide of

resisting invasion subsides." This was an extremely important policy statement, marking the end of the traditional special security relationship between Australia and England, and thus gradually shifting her security, political, and economic strategic center of gravity toward the United States and other countries of the Asian-Pacific region. The signing of the ANZUS Treaty in 1951 was a natural consequence of this shift.

#### **An Important Indicator of the Geopolitical Shift—The Australian-U.S. Alliance**

Australia's appeal for U.S. protection during the Second World War, because England was powerless to defend her, led to the post-war Australian-U.S. strategic alliance. This is an important indicator of Australia's geopolitical shift because by this, Australia made relations with the United States the cornerstone of her defense and foreign policies and an effective line of defense for maintaining her social system and values, and viewed the United States as the sole guardian of Australia's security in the great nation balance of power. However, Australia's reliance on and subordination to the United States were twin products of the Australian-U.S. alliance. This was quite like the pre-war relationship with England. As a small nation friendly to the United States, Australia had worked for the strategic war which the United States conducted in Asia and the defense of U.S. strategic intentions. Australia played an inglorious part in the U.S. war of aggression in Korea, in the containment and hostility towards China, and in the war of aggression in Vietnam. In addition, in support of the United States's farfetched notions and the unlikely aggression and threat of the CPC, Australia also participated in the Southeast Asia Collective Defense Treaty. The United States traded on Australia's security dependence to utilize Australia's favorable geographical position to establish in secret over 20 military and monitoring facilities for its global strategy. Beginning in the mid-seventies, there was a major change in the geopolitical situation in Southeast Asia. The Soviet Union increased its military forces in the entire Asian-Pacific regions and traded its support of Viet Nam's invasion of Cambodia for the right to use the Cam Ranh Bay military base plotting thus to gain a foothold in the South Pacific. Under these circumstances, Australia also actively cooperated with the U.S. policy to contain the Soviet Union. Thus, post-war Australian diplomatic and defense policy, basically unable to break free of U.S. overall strategic pattern and strategic intentions, has followed the U.S. lead.

As concerns the economy, the United States took advantage of the significant weakening of England's power during the Second World War to break into the Australian market and make it an important investment site. While constantly strengthening its military and political influence, through the ANZUS Treaty, the United States used the Marshall Plan and bilateral finance and trade agreements to force England to remove tariff barriers and relax foreign exchange restrictions, sweeping away

obstacles to the penetration of U.S. economic influence. Since 1956, the United States has become the major source of Australia's foreign investment. England had been the largest investor in Australia. In 1962 British investment still made up about 60 percent of foreign investment in Australia. But now, the U.S. investment has reached A\$40 billion [Australian dollars] and is in first place, surpassing England (A\$36 billion) and Japan (A\$21.3 billion). In addition, the United States has become Australia's second largest trading partner. According to statistics, in 1986-87, the value of Australian exports to the United States reached A\$4.1 billion, and imports from the United States were A\$8.1 billion. If money for Australian purchases of weapons from the United States (Australia and the United States signed a contract for A\$7 billion worth of arms) is added, the number is even more considerable. In addition, the United States probably has over 300 commercial firms with head offices in Australia and 850 companies investing in Australia. The Australian and U.S. economies have become a basic factor which cannot be overlooked in the relations between the two countries. However, there are still some dissatisfactions and sharp contradictions in the economic relations of the two countries. This is not only evidenced in the lack of vigor in Australian-U.S. trade and the large trade deficit with the United States, but also in U.S. policies regarding export subsidies on agricultural goods, and the struggle with Australia for markets for agricultural goods, especially wheat, causing Australia to sustain losses. The Australian government is intensely dissatisfied with this.

#### **The Shift of the Economic Focus Towards Other Asian-Pacific Regions**

1. In the early eighties, Australia had basically completed the shift of the foreign economic focus towards the Asian-Pacific region. This is primarily evidenced in: (1) There was a major change in the volume of trade with Australia's export target countries. Australia's pre-war trade was primarily with European countries. In 1936, for example, European countries accounted for 72.5 percent of Australia's exports, and 50.6 percent of her imports, and Asian-Pacific region only accounted for 19.9 percent and 37.2 percent, respectively. 1955-56 was a key period in Australia's shift in focus on trading partners to the Asian-Pacific region. At the end of the fifties, Japan's economic development was moving towards the stage of high speed growth and her demand for primary products increased sharply. Beginning in the sixties and seventies, Australian-Japanese trade grew rapidly and Japan quickly replaced England as the largest importer of Australian goods and her largest trading partner. By 1985-86, Australian exports to the Asian-Pacific region accounted for 64.2 percent of exports and 62.4 percent of imports, while exports to Western European countries made up only 14.6 percent and exports [sic] made up 26.7 percent. It should be emphasized that in 1981 Australia's trade with East Asia had reached A\$15 billion, exceeding the A\$13.839 billion of trade with Western Europe and North America. (2) There have

been evident changes in the mix of Australia's primary post-war target trading partners. In 1955 Australia's primary export countries were England, Japan, France, the United States, and New Zealand, but by 1985 the export target countries were Japan, the United States, New Zealand, China, and South Korea, all in the Asian-Pacific region; in 1955 Australia's primary import countries were England, the United States, the Federal Republic of Germany, India and Canada, but by 1985 they had changed to Japan, the United States, England, the Federal Republic of Germany, and New Zealand. Here we should point out that imports from England and the Federal Republic of Germany made up only 13 percent of Australia's imports, while imports from Japan, the United States and New Zealand made up 49.5 percent. (3) There have been changes in the source of foreign investment in Australia. In 1962, England was still in first place in foreign investment in Australia, but in the early eighties, apart from U.S. capital, investment in Australia by Japan and the countries of the Eastern Alliance had exceeded total investment by England and other countries of the European community. In short, in terms of trade with Australia's target countries, the mix of primary target trade countries and changes in the sources of foreign investment, Australia has shifted the economic focus towards the Asian-Pacific region. No doubt this will have a positive influence on Australia's economic development and on economic cooperation and the distribution of productive forces in the Asian-Pacific region, especially East Asia.

2. The shift of Australia's economic focus from Europe to the Asian-Pacific region is not by chance. After the Second World War, Australians came to understand that the most important element in Australia's strategic, political, and economic environment was not Europe but the Asian-Pacific region, especially the neighboring East Asian region. This understanding was based on changes in the post-war world economic patterns. First, today, the old European patterns which developed and were formed by several centuries of industrial revolution have disappeared and the rapid economic development of the Asian-Pacific region, especially the economic upsurge of East Asia, are major changes which have been caused by the international division of labor in world economic patterns. After the Second World War, the British colonial system collapsed; the French colonialists withdrew from Indochina; with U.S. support, the economy of Japan which had been defeated in the war developed rapidly and all of a sudden became a world economic power; most of the governments of the Asian Pacific countries gained their independence and there were dramatic results in economic development. According to statistics, in the past twenty or so years, the annual rate of economic growth in the Asian-Pacific region, especially East Asia (including China), has been 6-11 percent. In 1980, East Asia accounted for 17 percent of world gross national product and 14.8 percent of world import and export trade; the increase in the rate of foreign trade has exceeded that of Europe and North America: in 1967-69 European community export trade increased

7.3-fold, that of Japan increased 9.9-fold, that of the Eastern Alliance increased 11.2-fold, and that of South Korea, Taiwan, and Hong Kong increased 18.6-fold. Thus, Australian Prime Minister Hawke pointed out that the Asian-Pacific region now encompasses a large part of the world's population, its gross national product makes up a large share of world gross national product, and its economic development is the fastest of any region in the world. Australia's future relies on Asia. The economic promise of the Asian-Pacific region without a doubt has an economic, political and psychological impact on Australia, stimulating her desire to seek to expand trade and economic exchange and cooperation. Second, there have been major changes in the pattern of international economic relationships. This is another important manifestation of the changes which have taken place in post-war international economic patterns. The emergence of the European Community not only changed Australia's economic relationship with England and other Western European countries, but also determined the necessity of the shift in Australia's economic focus. Before the 60s, Australia provided agricultural products primarily to England and other Western European countries, at the same time importing the industrial goods Australia needed. When England joined the European Community, the mutual benefit of this trade was greatly weakened. The Community's agricultural policy, especially the policy on export subsidies for agricultural goods, made it difficult for Australian goods to enter the European Community market. In addition, some of the countries in the Community also vied with Australia for markets for agricultural goods in other regions, which led to a reduction in Australian markets, a decline in trade, and an increase in the trade deficit. In 1954-55, 41 percent of Australian exports were to countries of the European Community. By 1984-85 this had declined to 3.3 percent, and imports dropped from 39 percent in 1958-59 to 7 percent today. Third, Australia has an abundance of natural resources: in output of iron ore and bauxite she is among the largest in the world and she is also a major exporter of coal. In 1984-85 trade in ores and metals made up 48 percent of exports. Australia's agricultural industry is highly developed and has long enjoyed a good reputation. Eighty percent of her wheat is exported making her third place in the world. In wool exports she is in first place in the world, and can satisfy 70 percent of the demand of the world market. In summary, Australia's agricultural exports make up 38 percent of total exports. Australia is a capitalist industrial country, but in terms of economic structure, it also has some of the features of a developing country. On the one hand, Australia is a country with major resources and a well developed primary products industry, but on the other hand, as a capitalist industrial country, capital intensive industries are also well developed. These economic characteristics give Australia rather good complementarity in developing economic relationships with Asian-Pacific countries and regions. In short, the growth of Japan's economic power, the new industrial countries and regions, and the rapid development of China's

economy not only can absorb a large amount of Australia's primary products, but also can provide raw materials and consumer materials for Australia, and have created indispensable conditions for a smooth shift of Australia's economic focus.

#### Measures Adopted To Coordinate the Geopolitical Shift

Australian Prime Minister Hawke recently said that a major challenge Australia faces when entering its third century is how to expand its markets in Asia. With Australia's geopolitical shift towards the Asian-Pacific region, Australia has also made some corresponding adjustments in diplomacy and the economy and adopted a variety of measures to create a strategic, political, and economic environment favorable to Australia in order to ensure the smooth progress of this shift. These measures include primarily: In foreign relations, Australia has made some important adjustments in foreign policy. First of all, in developing relations with neighboring countries, Australia wanted to change her image of following the lead of the United States to eliminate this psychological obstacle in these countries. Therefore, the Australian government, especially since the Labor Party government has come to power, has again repudiated its policy towards the United States, increased her distance from the United States, and carried out a more independent policy. Because Australia's form of government and social outlook are similar to those of Western countries and due to historical political, economic, and strategic ties, Australia's foreign policy and activity abroad is bound to have interests identical to those of the United States and other Western countries; however, post-war history proves that their interests cannot always be identical. Australia's growing rapport with the countries of Asia and the Pacific is derived from Australia's considerations of self-interests. Australian Foreign Minister Hayden has said, "in the Asian and Pacific region where we are situated, to create a stable, harmonious and active economic situation is much more important than any treaty." This is an excellent footnote to Australia's pursuit of her own special interests and her desire to implement a more independent foreign policy. Second, Australia has put aside as much as possible the stance of "big brother" with regard to the South Pacific region where it is situated and adopted a more realistic and prudent attitude. In recent years, there has been continued unrest in the political situation in the South Pacific, which heretofore has been known as tranquil. The military coup in Fiji, riots in Vanuatu, and bloody incidents in New Caledonia have forced Australia to choose: is it to be "regional policeman," taking it on itself to intervene or is it to put aside the "big brother" stance and accepting reality, be able to maintain its traditional influence and position seeking the peace and stability of the region in line with the principle of negotiation. Australia chose the latter, although in terms of some policies it was contrary to its convictions and even painful. For example, Australia finally adopted an attitude of acceptance with regard to the military coup in Fiji; stressed support of "true self-determination" with regard to New Caledonia, changing its past position which was clearly in support of independence to

ameliorate the contradictions between the European whites and the local Kanaks; actively assisted Vanuatu to calm down the situation as quickly as possible. Third, Australia actively developed and maintained close relations with the countries of the Eastern Alliance, and strengthened cooperation in defense, paying special attention to improving relations with India. In addition, Australia views developing and improving relations with China very highly and has made China policy an important element in Australia's foreign policy. Australia believes that China has come out of her closed-door state due to reform and relaxation, her economy is developing rapidly, and China's vast and potential market has allure for Australia. At the same time, Australia's development of excellent political and economic relations with China not only plays a beneficial complementary role in her relations with the United States and Japan, but also has extremely practical significance for maintaining the stability of the Western Pacific and strengthening her contacts with the "south" when discussing north-south issues. Since China and Australia established diplomatic relations in 1972, there have been gratifying developments in the areas of politics, economy, trade, science and technology, and education between the two countries. Sino-Australian trade grew from A\$220 million when it was first established to A\$193.2 million in 1985-86. The social systems of China and Australia are different and there are clear differences in politics and culture, but Sino-Australian relations have established an excellent model for development of friendly, mutually beneficial and sincere cooperation between countries with different social outlooks. Finally, one rather noticeable feature of Australia's foreign policy adjustment is that Australia has now viewed the Soviet Union as a Pacific country and in 1984 announced overall normalization of relations with the Soviet Union, removing all prohibitions on official contact with the Soviet Union and cultural, academic, sports, and scientific exchanges. Australia continues to be on guard against the Soviet Union, but there are frequent contacts between the two countries. Soviet Foreign Minister Shevardnadze visited Australia in March, 1987 and at the end of that year, Australian Prime Minister Hawke and Foreign Minister Hayden visited the Soviet Union. This was the first time since 1945 that a head of the Australian government had visited the Soviet Union. During his visit to the Soviet Union, Prime Minister Hawke also welcomed the "constructive" commercially-oriented economic participation of the Soviet Union in the South Pacific, changing her past opposition to activity of the Soviet Union in the South Pacific for "economic" benefits. Recently, Australia expressed approval and support of the Soviet Union's request to participate in a Pacific Economic Cooperation Conference and with the signing of an agreement on the Afghan question and the future political solution to the Cambodian question, Australian-Soviet relations, especially trade relations, will further develop.

#### Problems in the Geopolitical Shift

History has proven that Australia's post-war geopolitical shift has increased Australia's exports, expanded trade



and had a major impact on Australia's economic development. One of its primary results is that in the past twenty-odd years, Australian exports to Asia have risen from 30 percent to 64.2 percent of exports. A second result is that it has alleviated the shock of the economic crisis in the major Western countries. Although there was a world economic crisis in the mid-seventies and early-eighties, Australia was able to maintain relative economic stability and although growth declined, it did not drop as far as in other developed countries.

There are still some conditional factors in Australia's geopolitical shift, to be sure. In terms of political factors, the Australian-U.S. alliance is bound to have an impact on Australia's policy of better realizing her independence and autonomy. As more and more knowledgeable Australians have said, for the Australian-U.S. alliance to turn its back on reality damages Australia's independent image as a sovereign nation and lowers the diplomatic flexibility. In addition, in recent years the island countries of the South Pacific have opened up and foreign relations have become diversified. This trend will increase. It will probably also be difficult for Australia to achieve its desired goals. Whether the immigration problem is resolved appropriately may directly affect relations between Australia and Asian-Pacific countries. Currently, Asian immigrants make up about 12 percent of Australia's population. Like the European immigrants they are bound to have an impact on Australia's government, economy, and culture and they can have an appropriate influence and role in Australia's economic dealings with Asian countries. However, it should be noted that although in 1973 the Australian government legislated a policy abolishing discrimination and exclusiveness with regards different races, colors, and national origins, still today some people feel that large numbers of immigrants constitute a threat to Australia's democratic system and have a racist attitude toward Asians. It is clear that in the near term it will be difficult to eliminate the "white Australian policy" which discriminates against immigrants of non-European extraction. This may play a constricting role in Australia's associations with Asian and Pacific countries.

Viewed in terms of economic factors: (1) In foreign trade, Australia should try to resist and overcome protectionism. It should be admitted that Australia is still rather protectionist. Of course, when an industry needs support so that it can develop, protectionist policy is necessary. Some sectors of Australia's manufacturing industry developed under such protectionist policies as restricted importing and high customs duties. Subsequently, because over-implementation of these policies by policy makers led to saturation of domestic markets and declines in industrial production, unemployment increased and the motivation to increase technical progress and productivity was lost. Since it goes against the principles of free trade, this kind of protectionist policy can have a negative effect abroad, damage the trade opportunities of other countries, and by violating the principles of free trade the appearance of friction in foreign economic exchanges is unavoidable. (2) Australia still carries an enormous debt. Official Australian statistic indicate

that in 1981, Australia had only 18 billion dollars in foreign debt, but by 1987 this had grown to about 65 billion dollars, more than 41.6 percent of GNP, and the interest on foreign debt made up about 18 percent of annual income from exports, is the third largest debtor nation in the world after Brazil (\$106.7 billion and Mexico (\$98.4 billion). Australia is the largest debtor nation in terms of population, and generally speaking if the foreign debt is to be repaid by trade surpluses and foreign exchange reserves, this enormous debt is bound to have a negative impact on the domestic economy as long as Australia has an unfavorable balance of trade and a poor international balance of payments. (3) Australia still has not escaped the old basic product mix: it still exports mainly primary products (making up about  $\frac{3}{4}$  of total exports) such as wheat, wool, meat, ores, and fuels. However, in the past few years, the prices of primary products have tumbled on the international market, trade conditions have worsened, markets are contracting daily, so that the trade income of Australia, which has been regarded as a "fortunate" country, has diminished, limiting Australia's ability to expand trade and placing her in an unfavorable position in the international market. In addition, foreign capital plays a dominant role in Australia's economic development. Numerous foreign companies control Australia's important economic lifeline while the goods produced are primarily for the domestic market and this is not favorable for Australia's expansion of foreign trade and ability to pay.

Summing up the above, for post-Pacific War Australia to capitalize on the geopolitical shift towards the Asian-Pacific region and place her hopes for future development and prosperity in the Asian-Pacific region is an important historical evolution for Australia. Australia's positive orientation towards the Asian-Pacific region, participation in this region's economic activity, and improving friendly and cooperative relations with Asian-Pacific countries presages that Australia will gradually become a part of this region's mainstream. This undoubtedly will have a positive impact on the economic development and maintenance of peace and stability in the Asian-Pacific region.

## EAST EUROPE

**Hungarians Discuss Need for Multiparty System**  
40050285 Shanghai SHIJIE JINGJI DAobao  
in Chinese 6 Feb 89 p 5

[Article by Sun Tianping [1327 3944 1627]: "More Elements of Pluralism—Hungary Shows New Interest in the Multiparty System—Grosz Opines: 'Having one party or a plurality of parties is not at all a question of principle, but a question of actual working method. Issue of principle is only the excellent progress of socialism, and if it is necessary for this purpose to have several parties, then let there be several parties.'"]

[Text] Hungary has been conducting economic structural reforms since 1968, i.e. for a period of 20 years already. The most important achievement of the reform is that it

began to discard the model of command-type unified distribution, representative of Stalin, and established the "new economic system," which integrates plan and market factors. At that time, Hungary also initiated consideration of a "new political system," and prepared to carry out a reform of the political system. However, due to historical factors, mainly the Soviet Union's dispatch of troops into Czechoslovakia, the political reform died at the start together with the "Prague spring," which had embodied political and economic structural reforms. The reform of the Hungarian political system was postponed indefinitely.

Since the start of the 1980's, Hungary is increasingly plagued by economic difficulties, and its people are again seriously and earnestly pondering Hungary's political structure, and they are in particular newly exploring the function of the party. Berecz, member of the Politburo of the Hungarian Socialist Workers' Party and secretary of the Central Committee, expressed the opinion in an article which he published in the PEOPLE'S FREEDOM, a newspaper, a short time ago, that in Hungary, after 1968, "the political structure has not undergone any major changes, and that there has been no renewal within the party." He even went so far as to say that the cause for confusion in public opinion is "that for many years we lopsidedly emphasized the leadership function of the party." When interviewed by the Soviet magazine NOVY MIR, the Hungarian minister of justice indicated that it is necessary to restudy the function of the party. People with breadth of vision in Hungary believe that the serious delay in the reform of the political structure has had an adverse effect on the reform of the economic structure, leading to a standstill in the economic reform, and even forcing it to retreat in big strides.

Reform of the economic structure will inevitably have to deal with the question of readjustments and shifts in the structure of interests. All the various social interests will have to voice their aspirations and make known their demands, in particular their ideas on the reform of the political and economic structure, through the organizations that represent their interests. On 27 August last year, Hungary put forward a draft law on assembly and association, permitting the formation of social organizations. Favored by this circumstance, all kinds of social organizations and societies mushroomed everywhere in Hungary. Some of these organizations openly declared that they "will not rule out the possibility of developing into political parties."

The rapidly increasing plurality in Hungarian society compels the Hungarian party to give consideration to a multiparty system. The first secretary of the Hungarian

party, Grosz, quite frankly pointed out last year: "I propose and support our development toward a multiparty system," which is really an astonishing statement from a socialist country that has for such a long time maintained and protected a one-party system. As to the question whether a multiparty system will erode socialist principles, he said: "Having one party or a plurality of parties is not a question of principle, but a question of actual working method. Issue of principle is only the excellent progress of socialism, and if it is necessary for this purpose to have a plurality of parties, then let there be several parties." He pointed out that plurality of parties is not a panacea, but he also expressed the belief that "under the present conditions in Hungary, it may be easier to solve certain social problems in a multiparty system than is possible in a one-party system." But what has to have our attention is that Grosz seemed to have backed down a bit in his speech, when he said: "We have to view the future under the one-party system. As far as the legal system is concerned, we cannot deny that Hungary may institute a multiparty system."

The fact that the leader of the Hungarian party openly acknowledges and expresses himself in favor of a multiparty system, is not only without precedent in the history of socialist countries, but also highly abnormal. However, if the socialist political system is to operate democratically and effectively on the basis of a multiparty system, it will obviously require a period of adjustments. It is precisely as Berecz expressed it: "A multiparty system is acceptable, but will require a transitional period." The road to political pluralism will, of course, not be smooth. Massive revival of the dregs of the small peasants party, provocations by hostile forces, the inordinate exaggeration of the multiparty system, all these will be factors that will impede the multiparty system in Hungary, factors that must not be overlooked. However, if the multiparty system will truly be a democratic and efficient socialist political system, it will break all fetters and emerge as the time requires, in spite of all setbacks and obstacles that may be met on the way. As to the prospects for a multiparty system in Hungary, an optimistic assessment is that if everything progresses smoothly, the multiparty system will be approved by the next national assembly. This will make Hungary the first socialist country with a multiparty system. If that happens, the multiparty system will no more be merely a topic of discussion, but will have become a living reality. The political restructuring of socialist countries will then perhaps be able to obtain some workable ideas from the Hungarian experiment. A pessimistic view would be that it is still a long way, if Hungary really wants to go the road toward a multiparty system, and one cannot really be optimistic about the prospects for its multiparty system.

### **Ideological, Political Workers Urged To Respect Privacy**

40050245 Beijing BAN YUE TAN [SEMIMONTHLY TALKS] in Chinese No 1, 10 Jan 89 p 28-29

[Article by Zhu Ming 2612 6900: "Please Close One Eye—On Respecting an Individual's Private Affairs When Doing Ideological and Political Work"]

[Text] In order to gain a "trump card" in ideological work, certain authorities always like to pry into soldier A's "secrets" while working with soldier B. Or they may glean "secrets" about a soldier from what his old neighbors or fellow students say about him. Moreover, when a soldier who has made mistakes before enlisting contradicts a superior in a soldier's conference, the superior will not hesitate to show this "trump card" drawn from everyday life. As a result, the soldier will for a long time be too ashamed to raise his head.

The cudgel this superior has used to subdue the soldier is the soldier's private affairs.

What we mean by "private affairs" are the individual private matters that people are unwilling to tell others or do not want to have revealed in public. The right to privacy is the right to conceal one's individual, personal affairs. The "right to privacy" is the right of each individual to an independent, undisturbed social existence. Except where laws and regulations apply, such as in the case of "pre-approved" monitoring or observation, each citizen has the right to avoid "unapproved monitoring or observation." Otherwise, there is no respect for the right to privacy. It is unethical to infringe upon other people's privacy.

The lack of respect for individual privacy puts our lives on stage, where we rehearse again and again the things that should not have happened to us. In this nation, with its deep accumulation of feudal ideology and its long history of government by the people, the right to privacy seems like a "luxury." Today there are still people who are never tired of spying endlessly and then publicizing and exaggerating other people's private affairs.

If ideological and political workers do not respect people's privacy, they cannot achieve the goal of political and ideological work. The reasons are as follows:

First of all, this behavior will result in the loss of popular trust in ideological and political workers. Ideological and political workers commonly interrogate people about their private affairs, casually rummage through subordinates' drawers, peek into other people's letters, spread malicious gossip, make irresponsible remarks, and even expose people publicly while conducting ideological and political education. This behavior makes people think this kind of leader is a fundamentally immoral person who enjoys sowing discord. Being overly "solicitous" or failing to respect other people's privacy occurs frequently only because these leaders, having very little

truth at hand, cannot integrate major principles with minor ones to persuade people, so they seize upon other people's secrets as weapons and either drop hints, make insinuations, issue warnings, or make threats.

Second, this behavior will make the work more difficult. The purpose for ideological and political education is to resolve problems. If, in doing ideological and political work, we reveal our subject's secrets, we will most likely fail in our efforts and, contrary to our intentions, complicate the situation further. We know that everyone, to protect his own security and guard his reputation, has certain matters he does not want other people to know about. If people in leadership positions rummage through other people's secrets while conducting ideological education, not only will old ideological misunderstandings remain undisputed, new ones will be produced. For example, people will be very anxious about what view that leading cadre has of their personal affairs. People are all social animals: nobody stands alone. Sometimes it is unavoidable that one person's private affairs will involve other people. This can further complicate the original ideological problems, which will obviously make ideological education efforts more difficult.

Third, it is easy for sudden mishaps to occur. Of course, people are ordinarily on guard against other people discovering their secrets, for fear that other people will find out. After comrades in positions of leadership know and expose these private matters the parties concerned will be even more alarmed and have a heavy load on their minds. In particular, where private male-female relationships are concerned, when the parties involved realize that the information is already in the hands of the authorities the burden on their minds may be more than they can bear, to the point that they may even give up all hope for their lives and futures and commit suicide. Furthermore, once their secrets are revealed to other people, that is, after they are made public, the only result would be to produce or exacerbate conflicts between the parties concerned. The conflicts may become so acute that someone loses his reason. Friendships may be dissolved, families destroyed, and mutual reprisals made. It goes without saying that personal secrets are the private affairs in a person's life, and they constitute no threat to society or other people. Sometimes the parties involved may gradually forget them over the course of time. But when the authorities make them public during the course of their ideological education work, or even use them as "trump cards" to "control" someone, sudden dreadful mishaps are likely to result.

In the final analysis this is a moral issue. Ideological and political workers who respect someone's "right to privacy," respect the person himself and safeguard his honor. This is the major factor involved in affirming someone's personal worth. When ideological workers respect a person's privacy, this satisfies that person's heartfelt demand that his personal affairs and life not be made public. From the individual's viewpoint, respect

for a person's privacy allows him to have his own "secret place." This can relieve people of the emotional pressure and fear that "other people will find them out," and create a more open social and emotional environment. In this sense, not only ideological and political workers, but also all members of our society should restrain their unnecessary love of intrigue. As far as other people's affairs are concerned, please close one eye.

### **Wu Jiaxiang Gaining Prominence in CPC Think Tank**

40050246 Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese No 196, 16 Jan 89 pp 22-24

[Article by Luo Yu 7482 7183: "Star of the CPC's Think Tank, Wu Jiaxiang 0702 2367 4382—Deng Xiaoping's Policy Interpreter"]

### **[Text] A Book That Created a Furor Among Chinese Theorists**

At the end of 1988, the first book which analyzed the thoughts of the highest ranking leader alive today made its appearance in Mainland China: *Deng Xiaoping: His Thoughts and Practices*. The author of this book which stirred China's circle of theorists is 33 year old Wu Jiaxiang, deputy director of the CPC Central Committee General Office's Investigative and Research Department.

### **Zhang Wei's Classmate**

Wu Jiaxiang is medium-built; he wears glasses all the time; he dresses casually, and on the street, he is seldom recognized.

Wu Jiaxiang was born in Anhui's Tongling City in October 1955. He entered Beijing University in 1977 and studied economics. He was a classmate of the illustrious Zhang Wei [1728 3555], former director of the Tianjin Economic Development Zone Management Committee and current director of the Tianjin Commission on Foreign Economic Relations and Trade.

### **Founder of Beijing University's "Xueyou Society"**

"Never judge a person by his appearance." Even in his school days, Wu Jiaxiang was always active and participated enthusiastically in all social activities. Because of his excellent literary skills, he became a member of the "May 4th Literary Guild" and participated in literary works and art critique. In 1977, amid the liberalization movements that had spread across China, Wu and his fellow students founded the "Xueyou Society," a student association in the Economics Department. They boldly proposed the founding principle of "appear valiantly as an explorer at the leading edge of historic change; step courageously into the dangerous forbidden zone." They also founded the journal, XUEYOU; economist and Beijing University professor, Li Yining [2621 0110 1380], was an advisor to the journal at one time.

Wu Jiaxiang was in charge of XUEYOU at one time. Because of limited funds, he had to block-print, mimeograph, and bind the copies himself, and he often had to scrounge for a sheet of waxed paper and beg for a dozen sheets of mimeograph paper, and he often went without food or sleep and worked well into the night.

Through his and his classmates' efforts, XUEYOU began to flourish, and the journal gradually took on its own unique style. That was a time when economic theory circles were being revived and given a new lease on life, and these young people who had just stepped into the economic world boldly attacked the old dogmas, besieged the forbidden zone, and challenged traditional concepts. Many articles reflected the fruit of the deep thinking and probing of the students and their invaluable truth-seeking spirit. They delved into the latest subjects in economics circles, topics such as the production objective of socialist enterprises, the commodity economy and market mechanisms, and the value of labor and services and so on. Their works have triggered strong reactions in economics circles, and many have been adopted by decisionmakers in the central government.

### **New Concepts Are Needed To Change the State's Economic Functions**

The debate over the shareholding system has been one of the hotly debated subjects in economics circles in the last year or two. But the idea of a shareholding system was first brought back in 1980 by Beijing University professor, Li Yining, but has been forgotten by most people until 1985, when Wu Jiaxiang and classmate Jin Lizuo [6855 4539 1563] collaborated on the re-examination of the shareholding system from a theoretical point of view. Their article "The Need for a New Strategic Concept to Reform the State's Economic Functions" was published in SHIJI JINGJI DAO BAO in March 1985. That was one of the earliest systematic discussions of the shareholding system.

Wu Jiaxiang brought to light the need to promote the shareholding system from the vantage point of the serious conflict between the state's present dual economic functions and the way the economy works in the real world. He also suggested reducing the number of state-owned enterprises, advocated selling a large group of state-owned mid- and small-sized enterprises, and encouraged enterprise workers and other forces in society and even foreign investors to buy stock, and he also advocated the plant manager responsibility system under the leadership of the board of directors. All these suggestions have been accepted by decisionmakers in the central government in later years. The "state-owned stock department" he suggested has been developed and turned into a more mature "state-asset management bureau."

Between 1984 and 1985, China's economic theory circles shifted the focus of their attention to macroeconomic control, trying to solve the problems generated by reform, cool the overheated economy, eliminate the bloated investments and the excessive consumption

funds, and slow the excess rate of economic growth by reinforcing macroeconomic control. But Wu Jiexiang had a different idea. He keenly observed the deep-seated microeconomic foundation underlying the loss of macroeconomic balance. He suggested creating an enterprise system by tackling the asset relationship. This heralded the full-scale discussion of the "remolding of the microeconomic foundation" and other important issues in Chinese economics circles in 1986 and 1987.

#### Deng Xiaoping's Policy Interpreter

With an inquisitive mind, Wu Jiexiang has worked long on the research of basic economic theories so essential to the present restructuring of the economic system, and finally, he has become a member of the think tank that influence the CPC decisionmakers.

Wu Jiexiang's research interest is in the modernization of property rights. Wu's major works in recent years include: *Conversion to the Shareholding System: One Way to Further the Reform Process*, *Choices in the Reform of Product Rights, Creditor's Rights, Stock Ownership Rights, and Property Rights*, *A Tradition of Incomplete Social and Individual Property Rights*, and *Germination and Transplant: the Historic Course of Maturity of Personal Property Rights*.

#### "Leaders, Like Ordinary People, Need To Be Understood"

The most interesting, however, is Wu's recent work on Deng Xiaoping's thoughts. His new book *Deng Xiaoping: His Thoughts and Practices* is a comprehensive discussion of Deng Xiaoping's ideas of opening up to the outside world and reform in the recent decade, even though Wu himself said, "I interpret [Deng's thoughts] from the perspective of one who tries to understand."

This writer has asked Wu what prompted him to write this book. He explained frankly, "first, I regard Deng Xiaoping as the founder of the theories behind China's modern thoughts. Second, I feel that we should have a correct attitude toward our leaders. We should understand our leaders. Like ordinary people, leaders need to be understood. If we do not understand them, they will have no heart-felt impact on us. In the past, either we followed our leaders blindly or opposed them blindly; we seldom had a 'scientific' attitude of respect or understanding."

Wu Jiexiang went on to say, "China's reform needs profound theoretical guidance. . . . But we must halt any attempt to distort Deng Xiaoping's ideas—whether these distortions are intentional or not, and whether these distortions have come from the 'left' or the right—all distortions will be stripped of their validity."

#### Wu Jiexiang on Deng Xiaoping's "Cat Theory"

Wu Jiexiang spent a whole chapter in his book discussing Deng Xiaoping's famous "Mao Lun" ["cat theory"]—"it matters not whether the cat is black or white as long as it

catches mice." Wu suggests, "no matter what kind of system or thought, as long as it can solve China's problems, it should be adopted."

Wu thinks, "in Deng Xiaoping's mind, the quality of the people comes first. Education, science and technology are the first tasks he tackled as soon as the 'Gang of Four' was toppled. He definitely gives improving the quality of the nation top priority."

Wu Jiexiang told this writer, "it is utopian to bring a load of plans at the early stage of reform. In a nation heavily loaded with dogmatism and burdened with orthodox ideologies, a transitional stage is inevitable. The politicians must have the support and acceptance of the majority of the people in those circumstances, and if they are not accepted, they are useless and will be swept away like a heap of garbage. A politician must first consider whether the people of this country will accept his ideas. Deng Xiaoping's 'Mao Lun' and 'Mo Lun' ['groping theory'] (groping for rocks when crossing the river) have been accepted by the people because they respect the people's quest for truth, and the probing from the conclusion to the premises is complete."

Wu Jiexiang also emphasizes that Deng Xiaoping's reform is an attempt to convert ideological and political problems into economic problems before solving them, leaving no room for dogmatism which cannot solve China's problem.

#### China's present System Embodies Two Interest Structures. It Must Be Revised.

Today, China is seriously threatened by inflation. The continuous rise in prices has brought an element of instability to the people's life. I asked Wu Jiexiang about price reform. Wu said, "our price reform in recent years has centered around the delegation of authorities and the yielding of profit. It tries to mobilize the people's enthusiasm by giving them material benefits, and society has gained solid benefits to various extents. But that kind of reform has exhausted its utility by now. Because the state has limited resources, if we continue to dish out more benefits, we will only bring two things: inflation and the people's disapproval. Thus, one of the main problems facing the present reform is the constant demand for more material benefits. In other words, we must reform the interest structure."

In Wu Jiexiang's analysis, China's present system embodies two interest structures: one is the interest structure in the market which has emerged in recent years and the other is the traditional interest structure, that is, the small town and township structure, the industrial structure, the structure of central versus local interests, the ownership system structure, and the status structure. These five structures complement and reinforce each other. They all stubbornly cling to the old system's allocation standards

when allocating profit today. This kind of interest structure which recognizes status but does not recognize contributions is obviously a poor structure.

For this reason, Wu feels that price reform connotes reform at least three levels: one, reform of the price system itself; two, the revision of the interest structure; three, further reform of the old system.

Wu Jiaxiang said, many people think that rising prices is the result of the too much money being printed, but we cannot stop at this point of the analysis, just as we cannot assume that a hot head causes fever. In this sense, price increase is not the symptom of excess money supply but a phenomenon of the system itself.

I asked him, how do you think price reform should proceed? Wu said, controlling overall demand, tightening the money supply, and raising the interest rate will all ease the problem of surging prices and excess demand in the short run, but in the long run, we should consider solving the more insidious problems, that is, the interest structure and the ownership system.

Wu Jiaxiang said, "the focus of controlling the environment should be on putting the consumption funds in order and converting them into production funds promptly. This basically means we should reform the property rights, investment, and banking systems, and we need to establish a sound legal system. The most pressing task now is to limit the money supply to the level necessary to guarantee the credit needs of this country. Only in this way can we cool the overheated economy."

### The Price of Reform

I asked Wu Jiaxiang about the prospects of price reform. He said, implementing price reform and setting up a new system require the same amount of time, and the success of price reform is the success of the new system. For price reform to succeed, we must endure hardship in three areas: first, governments at all levels will be the first to suffer. They must take the lead in reducing their own collective consumption funds and tightening their belts for a few years. Second, all the people, especially the workers, must struggle arduously for the new system, and they must be ready to make sacrifices. They must be spiritually prepared to endure the hardship of temporary unemployment and the pain of hard labor. Third, everybody will suffer the pain of accepting a new concept if we want to protect not just our personal properties, that is, our everyday consumption goods, but also the assets of a private economy. The stability of product prices and property rights can be regarded as a concept, and to stabilize prices, we must first stabilize property rights. If we can endure hardship in these three areas, price reform can succeed.

Wu Jiaxiang has been very active in recent days. He wants particularly to understand better the current situations to help the government make the right decisions. He has made many public speeches and published many

papers. His viewpoints are both in vogue and practical; they address immediate as well as chronic problems, and many people have begun to pay more attention to him. At the "10-Year Reform Theory Symposium" held in late 1988, again, Wu Jiaxiang was the focus of attention. To Wu, a man in a key position in the CPC, his economics background and his down-to-earth academic demeanor have become the basis of his success, yesterday, today, and even tomorrow.

### Researcher Sees Need for Strengthening, Clarifying Ideology

40050278 Beijing GUANGMING RIBAO in Chinese  
2 Feb 89 p 2

[Article by Yi Yunwen 2496 6663 2429: "Ideology: To Weaken or To Strengthen—An Interview of Feng Lun" 7458 0178]

[Text] Feng Lun is a social science researcher from Zhejiang Province who was born in 1959. In 1981, he graduated from the Economics Department of Northwest University, and passed the examination the same year to enter the Central Party School as a graduate student specializing in scientific socialism. In 1984, he received a masters degree in law. He is currently in charge of the Hainan Provincial Research Institute for the Development of Reform. He has written "Ideology: Distinctive Problems and Real Choices," and he edited "Ideological Control Systems" (Data File). Recently he published many articles pertaining to ideological control systems and economic reform research papers.

[GUANGMING RIBAO]: There are many sensitive areas in theoretical research in China, and ideological issues is probably one of them. Why is it that people out of office insist on selecting this area for their research?

[Feng Lun]: During the past several years, I have been thinking about the following problem: "How are the minds of Chinese controlled?" Ideology and "controlling people's minds" are related. Socialist countries share a common trait, namely that ideology is particularly developed. When I was studying at the Central Party School, some people enjoyed confronting me with all sorts of things they had thought up about my ideology. One question that constantly tormented me was, "Why do they want to control my thinking? The conclusion I reached after thinking about it was that the problem is not how to find ideological 'vacuum zones,' in people but rather how to readjust and improve ideology itself and its control system so that ideology is more consistent with people's inherent nature."

[GUANGMING RIBAO]: Because of the great strengthening of ideology during the 10 years of the Cultural Revolution, ideology virtually dominated people's every thought and action. It is understandable that people nowadays want to get away from it and are, to a certain extent, tired of ideology. Can one suppose that this state of affairs means that China is entering an area of ideological pluralism and weakening?

[Feng Lun]: On the basis of my study of ideology for the past several years, my conclusion happens to be just the reverse. It is not a weakening but a strengthening of ideology that we need.

[GUANGMING RIBAO]: Your conclusion is unique. But as soon as ideology comes up, most people think about propaganda, inculcation, unified thinking, unified actions, and no individual creativity and individual will allowed...

[Feng Lun]: This is the evil consequence of many years of distortion of ideology and ossification of the control system. Actually, ideology is like a magic wand. It can both make people concentrate on their energies to advance the development of society, and it can destroy social order, thereby delaying the advance of history. It all depends on how you handle it and use it. Western intellectuals of the 1950's and 1960's, who desired uncentralized authority, proposed the theory of "an end to ideology." In China today, there are also some people who propose such an "end." Two reasons account for this "end" thesis. First people think with their emotions. Ideological control during the Cultural Revolution was too fierce, and they had too much suffering. Second is the notion that Marxism is not flexible, necessitating plural ideologies. On the basis of international society's experiences, however, during the period when a country goes from being a traditional society to a modern society, ideology is always strengthened rather than weakened. Strong ideology is not incompatible with economic take-off and prosperity.

[GUANGMING RIBAO]: What is the role of ideology during the period of change of social forms?

[Feng Lun]: It plays two roles. The first is social mobilization, meaning rallying the mass of people to intensify a sense of crisis about national decline and feelings of urgency about accelerating modernization. This is for the purpose of arousing and concentrating people's energies to struggle with all their might for modernization. Ideology also produces social conformity. There are numerous different groups in society, the interests of which often generate frictions. Ideology may be used to regulate relationships, to coordinate interests, to moderate conflicts, and to reduce clashes. China is presently in a period of transition from a traditional to a modern form of society. It is also a large nation with 1 billion people in need of a force to bind them together, everyone thereby having a common understanding, and struggling for modernization. When there is ideological turmoil with different value systems fighting, it is difficult to harmonize different standards of behavior. The result is a sheet of shifting sand that makes it impossible to do anything. Among the masses there is a growing hope for stability, security, and order to put an end to the current chaotic state of affairs. This will require a strengthening of ideology to play a role.

[GUANGMING RIBAO]: Your analysis seems a pretty good one. It is just that on the basis of past experience in China, frequently just as soon as ideology is strengthened, it turns into ideological imprisonment. Is this contrary to the current emancipation of thinking, independent thought, advocacy of democracy, and creative development of Marxism?

[Feng Lun]: If it is done in the old way, the apprehensions you have expressed will be difficult to avoid. The key lies in the need to reform the existing ideological control system. The method of reform is to have openness and legality. Closed minds result from closed ideological control systems. Our political, economic, and cultural information is distributed according to administrative level; the higher one's rank, the more complete and factual the information received. Conversely, the more screened and filtered the information received. A mind that receives information through just one channel for a long period of time is prone to become simple, one-sided, and ultimately rigid. The closed nature of ideological control methods contain yet another shortcoming, namely the arbitrary nature of standards of judgment. For example, "maintenance of unanimity with the Central Committee" may, in the course of actual operation, come to mean maintenance of unanimity with the words, the instructions, and some temporary rulings of a certain leader. As these words and comments change with time, constancy in the "maintenance of unanimity" becomes very difficult. Therefore, making the party's ideological work overt, operating within the limits of the law, and accepting supervision from public opinion is a fundamental change in the ideological control system. Only when the system is open can it have legality. When matters are open, they become everybody's concern; they have to be supervised by the masses; there will be clashes and frictions, so standards and the legal system will have to be strengthened.

[GUANGMING RIBAO]: Openness and legality sound good, but why didn't we do this in the past?

[Feng Lun]: This was caused by our having made ideology too mysterious and too special for a long period of time, always emphasizing the "need to maintain ideological purity." We can introduce the principles of a commodity economy into the realm of ideology. There are two basic rules of the marketplace, namely competition and exchange. Both are conducted openly. Once there is openness, there is legality. Then central control over micro-behavior in the ideological and cultural realm can be reduced, and there will be no need for constant ideological campaigns. Possibly you have not noticed that capitalist countries rarely conduct ideological campaigns, and they very rarely declare that "we will adhere to a capitalist orientation." Nevertheless, capitalist ideology is pervasive in capitalist countries. Their "unique skill" may also be simply explained. It is that all broadcast media and cultural groups operate like businesses and markets, and are rooted in the law. The result is to make capitalist ideology completely commonplace.

[GUANGMING RIBAO]: This is a very telling point. What you are saying is that the strengthening of ideology does not mean just simple inculcation, me pushing ahead and you giving way with daggers drawn.

[Feng Lun]: Yes. The strengthening of ideology during the period of change in the form of society is unavoidable for the country. What we have to study is strengthening methods and results. Ideology cannot be ended in our society. We can only creatively develop Marxism and transform the existing ideological control system to meet the real needs of the day, ideology thereby becoming an enduring force in the process of China's modernization.



## NATIONAL AFFAIRS, POLICY

### **Contract, Shareholding Systems Compared** *40060326 Beijing JINGJI CANKAO in Chinese* *2 Feb 89 p 4*

[Article by Wu Fumin 0702 1788 3046 and Cheng Wanquan 4453 8001 3123: "Contract System Is an Immediate Option, Shareholding System Is a Policy for the Future—Looking at the Controversy Regarding the Contract System and the Shareholding System"]

[Text] The relationship between the shareholding system and the contract system has recently become a topic of wide interest and one that is rather controversial in China's economic and enterprise circles.

#### **Two Diametrically Opposed Views**

Theoretical and enterprise circles have diametrically opposed views concerning the contract system and the shareholding system.

An influential professor in academic circles believes that if enterprise doesn't have responsibility over property and doesn't have steadfast control over the property, we will be forced to choose between the following two painful options "enterprise vitality being inhabited" or "enterprise behavior being distorted" and will be unable to build true enterprise. Establishing this modern shareholding system for enterprise will under the scope of specific laws clearly set boundaries for property owned by public enterprise and prevent the existence of the imaginary ownership phenomena.

A high-level researcher from the Chinese Academy of Social Sciences thinks there is no basis for having the shareholding system along with private ownership. State operated enterprises in China conducting the shareholding system are not changing to enterprise ownership but an actual form of public ownership.

A researcher from the Technological and Economic Research Center of the State Council pointedly brought up: "The contract system can cause socialist enterprises to create a higher labor to production ratio, and prove its superiority over capitalism." "Large- and medium-sized enterprises operated by the state don't see the need for carrying out the shareholding system." "The contract system is developing into the shareholding system," "the contract system is an interim measure with the shareholding system being the end result." This type of formula is not based on facts. This researcher represents the view that the contract system should be perfected, his main argument can be summed up as: The contract system will not change the situation of ownership by all the people but will improve the substance of the ownership by all the people. In capitalist shareholding systems, enterprise contracting is given to the chairman of the board and general manager; the socialist contract system gives enterprise contracting to all the workers and staff

and the factory manager, no contradiction exists between labor and capital. The socialist contract system is far superior to the Capitalist shareholding system. As for Sino-foreign joint ventures, consolidation of enterprises, central authorities and local areas, collective capital enterprises, and each enterprise with links to bordering districts can test out implementation of collective shareholding, become shareholding companies and even issue shares. But even if its a Sino-foreign joint venture it must have one party contracting, if China has the technology it must be contracted by China, otherwise the foreign party can do the contracting.

#### **Devoting the Near Future To Improvement of the Contract System Is the Realistic Option**

As for the relationship between the contract system and the shareholding system, what way of appraising and selecting will be the most fair. After visiting many enterprises in various areas, reporters believe that starting from China's national situation, we should at present work hard to supply all materials, deepen, perfect, and develop the contract system. When full play can't be given to the efficiency of these reform measures, the reform measures can be changed but it is not advisable to use the shareholding system that has not been fully tested, this has been negated by the contract system being carried out in 90 percent of large and medium-sized enterprises nationwide. However, using the contract system to negate the shareholding system also does not have a leg to stand on. Drawbacks to the contract system are clear. In essence it is a type of directed plan for finances, admitting it is not suitable for a starting point for "one on one negotiations," it legitimizes unfair competition between enterprises, it promotes enterprise in the short term but is not beneficial for bettering the overall scope of society's combined resources; it is the major means that leads to using product price increases to make up for price inflation of consumable natural resources, and causes rigidity in enterprise benefits that are difficult to adjust. In order to improve the country's future policies, a firm grasp should be used in conducting various types of enterprise reform experiments, especially towards the accomplished experiments attained by developed countries and experiments in the shareholding system that show vitality.

The thoughts of factory manager Huang Guancong [7806 7070 1783] of the Shanghai No 2 Textile Machinery Factory, the first large enterprise in Shanghai to implement all personnel contracting, are a definite representation of a comparison of the contract system and the shareholding system. He hopes that this reform will not follow the fashion of being eager for quick success and instant benefit but will have clearly defined objectives and standards, get a firm grasp on these objectives and be persistent and dauntless in pushing ahead. He believes that the contract system is an advancement but that it isn't sufficient, and that it would be satisfactory to carry out further testing of "loosening up management" concerning the basics of the contract system.



During this trial basis the state will reduce its administrative intervention and there are 10 regulations that strengthen enterprise self-control. Relations between the state and enterprise will mostly be in legal management and tax regulations. The Shanghai No 2 Textile Machinery Factory estimates that in 1990 it will realize a doubling of profits in comparison to those of 1986, reaching a profit total of 42 million yuan; will turn over 10 percent more in tax revenue to the state in comparison to when there was joint contracting stipulations, and enterprise investments in technology reform each year are at least 10 million yuan, which is nearing the level of advanced countries.

Huang Guancong is also eager to try out the shareholding system but is apprehensive in five areas.

First, if funds are raised and they try the shareholding system, the present dividends and bonuses become too large and unlimited development occurs. With this the responsibilities of the enterprise will become greater and greater, it would be better to acquire a bank loan with low interest that could be repaid.

Second, if public shares are issued, the cream of the crop in labor, cadre, and intellectuals will not have sufficient finances to purchase that many, and the enterprises will not want rich upstarts conducting disorderly management of enterprise production through their ownership of shares.

Third, if shares are issued to personnel within the enterprise, the shares held by workers and staff will not be even, which could lead to an increase in conflicts between workers and the staff members; if the shares held by workers and staff members are equal it would be a new form of "the big pot."

Fourth, year-end awards, dividends, and bonuses could expand the consumption of funds; the issuance of bonuses after taxes may reduce funds for production development and affect technology reform.

Fifth, major policies of the enterprise will be decided by the board of directors, a situation may arise where the responsibilities of the chairman of the board and the general manager are unclear with the result that they hold each other back. The expected result of this along with lessening of administrative intervention will be that a new level of authorities will be established.

According to what these reporters have learned, the misgivings arrived at by analyzing concrete matters relating to work, is the viewpoint of experimenting with the shareholding system in large and medium sized enterprises. The hope that further "relaxation of management" in the contract system will be carried out represents the desire of most managers in large and medium sized enterprises.

### Studying the Links Between the Contract System and the Shareholding System

Present day economic and theoretical circles have the view that the shareholding system and the contract system are compatible with each other. The reason behind this is that the two systems have some of the same mechanisms. These theorists believe that enterprises that use the contract system can employ the shareholding system to raise funds and develop production; and that enterprises using the shareholding system should establish a responsibility system like the contract system has as its core.

After investigating this, these reporters believe that the compatibility of the two systems is very limited. This could only be manifest by enterprises using the shareholding system promoting internal contracting which in essence would be instituting layers of responsibility. One could not criticize this but conducting a shareholding system under unyielding contract policies would be a major reason for a shareholding system enterprise to operate in an abnormal way.

There are basically two sides to the current investigation into links between the contract system and the shareholding system: The first is the "shareholder rights contracted responsibility system" conducted by Shenzhen on a trial basis. This was designed for solving the problem of division when the state has ownership of the shares and the shareholder's rights, it is a system where ownership rights to the share reverts to the state and a form of contracting is used to entrust management of the shares to individuals. Under the prerequisite of holding on to a public ownership system as the mainstay and having property rights clearly defined, state-owned capital and property rights are divided into certain portions and using a competitive selection process and set standard profits, contract these portions out to different individuals. These contractors receive their income from the excess profit on the state-owned shares according to certain rules; when the profits of state-owned shares is less than the standard profit, these individuals also suffer economic losses according to certain rules. Only with the state carrying out a contracting system for capital and shareholders rights will enterprise capital be fully contracted out, the operations level of management. The municipal government of Shenzhen established an investment management company to act as a management organization for state-owned assets. This company represented the state but acted as the owner and did not give the appearance of working for the state. This company is the party that issues contracts for the "shareholders rights contracted responsibility system," its contract quotas are decided by a competitive means and winners may continue their contracts for an unlimited period.

Secondly, through enterprise contracting enterprise (or enterprise annexation) management checks property to determine shares and establishes a new shareholding

company. Representatives of the annexed enterprise owners will have their enterprise property turned into shares of the enterprise that annexed their enterprise.

These former owners then become a stockholder. At the same time the annexing enterprise will appraise and check its shares. The annexed enterprise can participate in shareholding through other enterprises and attain control of shares. Shanghai has several superior enterprises that have contracted inferior enterprises and conducted negotiations and preliminary discussions with these contracted enterprises. In addition, enterprises that conduct "risky mortgage contracting by all personnel" have appraised the property of former enterprises and determined shares and converted the enterprise's risky funds into share certificates, established a shareholding company, and selected a board of directors. The enterprise can be transformed into a shareholding system enterprise but the enterprise must know that the shares will be under the control of and also be aware of any differences in the policies of the contracting system.

Theoretical and enterprise circles both have several different arguments about the links between the contract system and the shareholding system. In the future there will be painstaking experiments and trials in actual practice.

**Article Views 'Vicious' Economic Cycle**  
40060322 Beijing JINGJIXUE ZHOUBAO in Chinese  
15 Jan 89 p 3

[Article by Jiang Jinyong 1203 6602 0516: "Escaping From the Whirlpool of Cyclical Shocks"]

[Text]

- **The Key To Retrenchment Is To Make an Effort To Straighten Out Economic Relations, and Especially To Straighten Out the Money Flow.**
- **We Must Reverse the Traditional High-Speed Strategy Concept and Carry Out Major Adjustment of Industrial and Regional Policy.**
- **We Must Deepen Reform; Beginning With Property Relations, We Must Rebuild the Enterprise System and Achieve a Thorough Transformation of the Government's Functions.**

Since 1978, China's national economy has gone through several repetitions of the cycle of "adjustment—retrenchment—landslide—decontrol—readjustment—re-retrenchment." The reason for this is that China's economy has not yet achieved a basis for coordination in the transition between the old and new systems and between reform and development. Therefore, we must make a penetrating analysis of the origins of the current economic overheating, inflation of aggregate demand,

and currency inflation; only in this way can we really coordinate the relationship between bringing the economic climate under control and deepening reform.

**First, We Must View the Situation From the Angle of the System.** The increasing superficiality of reform is seen primarily in the fact that enterprise reform has not yet broken away from the idea of delegating authority and yielding profits, which reform had initially put forth, with the result that, at the same time that enterprises are expanding their authority, there has been no corresponding establishment of a check and balance mechanism within enterprises; and when the government has delegated authority, there has been no corresponding change in, or reorganization of, the government's functions and organizations. This has caused ceaseless mutual friction between the new and old systems. The imbalance of reform is manifested primarily in the contradiction between the economy's decentralized administrative authority and its centralized political authority. Political interests often override economic interests; therefore, under conditions in which government organizations still intervene in the economy and directly enter the market, planning and the market cannot run parallel without coming into conflict; they can only interfere with one another and infiltrate one another.

**Next, the Development Strategy Model and Development Stage Characteristics Are the Main Causes of Economic Overheating and Macroeconomic Imbalance.** Since socialism's strategy of overtaking and surpassing was systematized by Stalin, it has not yet changed. The strategy of overtaking and surpassing constantly affirms the centralized economic system, and the centralized economic system constantly strengthens the strategy of overtaking and surpassing. This is also the case in China; the strategy of overtaking and surpassing and the centralized administrative system has always made us insist on pursuing high speed and extensive expansion of economic scale in policy-making. After each time that economic retrenchment gives rise to speed and "landslide," we immediately decontrol currency issuance and credit circulation, and invariably cannot use stable economic growth to straighten out economic relations and adjust the economic structure.

Viewed from the standpoint of the stage of development, we are confronting two problems. One is structural transformation, and the other is structural adjustment. Structural transformation has two aspects. The first is rural industrialization and urbanization, and the second is modernization of urban industry. However, in the present situation, rural capital accumulation is seriously inadequate and the urban industrial base is extremely weak. The capital source of both township enterprises and urban construction relies primarily on credit circulation. The development and modernization of urban industry not only requires arranging for employment of the newly-increased labor force and the labor force transferred from rural areas, it also requires increasing the extent of fund provision for the existing labor force;

it not only requires carrying out renovation of traditional facilities, it also requires equipping new high-tech industries. These factors have all created an enormous pressure of demand for funds, and the central government's currency issuance and banks' credit circulation are often relaxed due to pressure from these quarters. The problem for structural adjustment is to reverse the long-standing problems of sluggish development of basic industries and overinflation of the processing industry. The key problem in this is the failure of the market mechanism to start working, and particularly the absence of production factor markets. In recent years, although we have done our utmost to catalyze market development, the market for such factors of production as labor and capital is still in the initial stage of development; in particular, the circulation of reserve capital has not yet begun. Under this kind of slanted market organization system, not only has the deviation in the economic structure not been resolved, it has, on the contrary, increased. The greater the structural deviation becomes, the more underdeveloped industries lag behind, and the greater becomes the pressure on central financial authorities to invest; it thus becomes unavoidable for the central government to increase currency issuance, thereby inducing inflation. Under this fiscal balance of payment pattern, inflation and structural slanting becomes a vicious cycle.

**Next, Faults in the Operation of Reform Have Increased the Dominance of the Above Contradictions.** During the first half of this year, at the same time that the contract system was being deepened and perfected, price reform was carried out to a great extent, adversely affecting the contract base figure and enterprise reform; moreover, simultaneous with decontrol of prices, currency was also decontrolled, leading to inflation of aggregate demand and serious distortion of market signals, and causing a return to rotation between price increase and price parity. Thus, price reform is not completed and the climate for ownership system reform worsens. Another fault in reform strategy is that the financial guarantee system and foreign trade guarantee system were implemented before the actions of the various levels of government and the nation's overall economic development strategy model systematically and fundamentally switched tracks, which actually intensified conflicts between regional interests and intensified the unreasonable actions of local governments in seeking output values and growth speed.

It is evident that the current worsening of the economic situation is caused by many factors. In order to enable economic reform and development to really tide over difficulties, we should stress the resolution of the following several issues in the task of "improving the economic environment and rectifying the economic order."

**1. Starting By Controlling Currency Issuance and Credit Circulation, Ascertain the Dynamics of the Current Economic Retrenchment.** The key to retrenchment is to make

an effort to straighten out economic relations, and especially to straighten out currency flow, allowing the income distribution of enterprises to coordinate the proportion between reproduction investment and the income of staff and workers, and allowing the fiscal balance of payments of the localities to be established on the basis of the coordinated development of their own economies, while central financial expenditure stresses nationwide, long-term industrial structural adjustment and the realization of a long-term industrial policy. Such regulatory methods as comprehensively applied interest rates guide the flow of funds. With regard to fund distribution, we shall endeavor to ensure additional investment in infrastructure and raw and processed materials industry departments, ensure the scale of development of scientific, educational, and cultural undertakings, and ensure the development of new high technology industries; to control the development of processing industry departments and control nonproductive construction investment; and to resolutely reduce group consumption. Under this kind of rational currency flow, we will implement a "soft landing" for controlling currency issuance and credit circulation and create a favorable economic climate for reform and development.

**2. With Respect to the Development Model, Reverse the Traditional High-Speed Strategy Concept.** China is facing enormous population pressure and shortages of resources and capital due to population pressure, so that it has been preordained that we can only adopt the "marathon" strategy as our development strategy. Similarly, our national conditions have preordained that China's economic development must open the door and go out to the world, using international capital, new international technology, and new international management experience to accelerate China's economic development; however, we cannot count on the introduction of foreign capital to be able to fundamentally effect a major change in our national strength. In addition, with respect to industrial policy and regional policy, we should now carry out large-scale adjustment. With regard to industrial development, we should strengthen the formulation and execution of protective policy and assist in the development of new industries and high technology industries; and with regard to regional policy, we should eliminate discriminatory policy measures, and we must make clear that the advantage of opening the coastal region is a geographical advantage and an advantage of industrial structure and economic base, and not a policy advantage. With regard to policy, we should allow different regions, regardless of whether they are coastal or interior regions, to confront the global economic climate and international market on an equal basis, and allow international economic regulations and macrocosmic interest principles to coordinate foreign economic relations between regions; through organization and integration among enterprises, rather than through separatism and closing between regions, we will form a rational pattern of opening. In the first half of this year,

the state implemented policy protection of the externally-oriented development strategy for the coastal region, thereby causing rapid growth in the volume of export trade; however, this export growth relied primarily on the support of entrepot trade in the central and western regions' natural resources, raw and processed materials, and primary products, and the result of implementing this kind of regionally discriminatory policy was to artificially increase further the disparity between the economies of the eastern and western regions, which had already been wide to begin with. In the long term, this kind of regional economic setup is not only liable to cause the economies of some regions to hover at a low level, it is also liable to cause an imbalance in overall economic development.

**3. Deepening Reform Is Still Our Future Long-Term Task.** The deepening of current reform must resolve at least two problems. One is to rebuild the enterprise system, starting with property relations, and remold the traditional public economy, taking privatization as the main direction. This includes transferring possession of capital to the private sector, combining public capital and private capital, and implementing private management of public capital, thereby clarifying the ownership of property, strictly fixing property rights boundaries, starting the flow of capital, especially reserve capital, and on this basis establishing a unified and complete market. The second problem is to promote the deepening of economic reform and cultural concept reform through the method of deepening political system reform. This includes gradually establishing fully democratic politics and a sound legal system, adjusting the government's function of socio-economic management, and newly establishing government administrative organizations, allowing the government to gradually withdraw from the market and the economic stage and implement macro-control and management from outside the market through economic law and administrative methods, ensuring the development and soundness of the market and establishing a controllable overall economic system based on the market mechanism.

## PROVINCIAL

### **Symposium Discusses Guangdong's Achievements, Tasks in Reform**

40060318 *Guangzhou ZHONGSHAN DAXUE XUEBAO [JOURNAL OF SUN YAT-SEN UNIVERSITY]* in Chinese No 4, Sep 88 pp 1-17

[Article: "Abstracts of Addresses Delivered at the Symposium Commemorating the 10th Anniversary of the 3d plenum of the 11th CPC Central Committee"—first paragraph is source-supplied editorial note]

[Excerpts] Editorial Note: *To commemorate the 3d plenum of the 11th CPC Central Committee, the editorial department of this journal recently convened a symposium of university instructional staff, at which everyone*

*expressed his views on reform and opening up of Guangdong's economy, law, and other areas. Here we publish abstracts of the addresses delivered by some of the staff at the symposium [passage omitted]*

### **Advancing Toward the Market Economy Model—Dong Xiaolin [5516 1420 7792]**

From the reform process since the 3d plenum of the 11th Central Committee, it is apparent that Guangdong, as a province that has implemented special policies and flexible measures, has achieved great success in certain areas, thus confirming the truism that "whoever reforms first benefits first." Some of Guangdong's experience, especially in enlivening circulation and in opening up markets, has had a positive effect on reform throughout the nation. Nevertheless, the province cannot be satisfied with its achievement, and the central authorities have urged the province to make further progress. Guangdong should become a general testing ground for reform and opening up and explore the way to national reform.

What, then, should Guangdong's economic model be? I believe it should be market economy.

Market economy often used to be associated with capitalism and equated with capitalist economy. This is "leftist" bias or at least a gross misunderstanding. Before we finally recognized that socialist economy is commodity economy, was it not true that many people viewed commodity economy as capitalist economy? This is something we must never forget. As a model and mechanism, market economy may be employed by capitalism, and it may also be used by socialism.

Some people may ask, "Isn't 'planned commodity economy' a good thing? Why must we advocate 'market economy'?" On this issue, I believe the following. First, the existence of "planning" is not the mark of distinction between socialist and capitalist commodity economy. Microscopically, planning within capitalist enterprises is very strong. Macroscopically, many capitalist countries also effect regulation through planning of the economic activity of their societies, even though this planning is largely limited to the guidance variety. Second, although there are similarities between "commodity economy" and "market economy," there are also distinctions. First, historically speaking, commodity production and exchange had already begun during the later stages of primitive society, and there was considerable small commodity economy during the subsequent slave and feudal societies. Small commodity economy is also a type of commodity economy but certainly is not equal to market economy, which does not emerge until commodity economy reaches a high level of development. Market economy is developed commodity economy and only in this respect is it synonymous with the latter. Second, in terms of market systems, the emergence of markets for material commodities and the production and exchange of such commodities qualifies as commodity economy. The

emergence of market economy, on the other hand, implies the basic completion of the market system, from material commodity markets to financial markets, from consumer good markets to markets for factors of production, from markets for visible trade to markets for invisible trade, and from local and national markets to involvement in world markets—all fully in place and forming an integrated network. In developed commodity economy, namely market economy, material commodity markets, which once occupied the central or leading position, give way to financial markets. Third, in terms of the economic operational mechanism, under market economy enterprise productive operations must be guided by the marketplace. The old concepts of "producers guide everything," "output decides sales," and even "sell to buy," which arose under underdeveloped commodity economy, are eliminated. Enterprises must submit to market regulation and exist in dependence on and profit by serving the marketplace. In essence, the market mechanism rejects vertical and horizontal barriers and the use of purely administrative measures or the will of senior officials to guide enterprise behavior.

Thus the establishment of the goal of developing market economy is profoundly significant both theoretically and practically and serves notice that what we are undertaking is commodity economy, not small commodity economy or partial and incomplete commodity economy that is partially subject to market regulation and partially subject to the will of senior officials, but developed commodity economy, namely market economy, in which market regulation informs all of society. Once we specify market economy as our economic objective, we will be able to ensure that reform is not abandoned halfway and to struggle to the end to develop socialist economy. We may say that market economy is the goal not only for Guangdong but for all of China. The preliminary stage of socialism will be characterized by the advance from commodity economy from an undeveloped state to an advanced one; in other words, this stage is that of the development of market economy.

Guangdong enjoys many advantages as the leader in establishing the market economy model, as follows.

First, the province has a tradition of openness, and the concepts of commodities and markets have struck root in people's thinking. In addition, we have carried out special policies and flexible measures for 9 years, the market mechanism has played a definite role and achieved good results, and the people of Guangdong welcome the model.

Second, Guangdong has had long and broad ties with global markets, leads the nation in volume of foreign trade and use of foreign capital, and boasts a much larger externally oriented economy than any other fraternal province (or municipality or autonomous region). Thus the large propulsive effect the global economy has had on

the province has induced the province to draw on the economies of developed nations and regions and to establish its own model of market economy.

Third, Guangdong borders on and has strong links with Hong Kong and Macao and plays an important diffusionist role vis-a-vis the interior, transferring much advanced foreign technology and many provincial products to the interior and exporting many hinterland products and much hinterland technology. Thus, objectively speaking, Guangdong must strengthen its role in exchanging goods, finances, information, and technology; enliven circulation; and thus take the lead in perfecting its market system. Similarly, Guangzhou, as a key central city, will be much different from other such cities. Cities that serve as regional centers primarily serve their own economic regions. But Guangzhou must enjoy the conditions greatly to expand its scope of service, function as the principal economic center of South China and of the entire nation, and strive to become a major economic center of the western Pacific.

To enable Guangdong to take the lead in advancing toward market economy, three problem areas must be resolved. First, government organizations must change their economic management function; second, a market system must be established and perfected; third, enterprise reform must be advanced. In market economy, the direction, scope, mode, and the like of enterprise production must be guided by the marketplace and not be directly administered by various government agencies. There can be no doubt on this point. However, if the market system is imperfect, the market mechanism cannot play its proper role. Or if relations internal to enterprises or between enterprises and the state and are not properly reordered, enterprises naturally cannot be guided by the marketplace. In addition, the issue of "market regulation by the state" requires further study. We must make special effort to emphasize that the state must above all be a student of, not the wise savior dominating, the marketplace. Otherwise, the state may do such things as stifling prices by overcentralizing them or reestablish such systems as rationing. This may be known as the "state regulates the marketplace," but such "regulation" is completely different from the demands of the market mechanism, runs counter to the goal of invigorating the economy, and should be repudiated. [passage omitted]

#### **New Issues Involved in Using Foreign Borrowing To Develop the Economy—Zhu Jiajian [2612 1367 0256]**

In its 10 years of reform and opening up, Guangdong has achieved striking success economically, which achievement is inseparable from the province's efforts to steadily improve its investment environment and bring in foreign capital. Guangdong's experience in utilizing foreign capital poses new questions for the theory of socialist development: Why should China utilize foreign capital? Is borrowing from abroad a feasible way by which to develop socialist economy?

Economic growth always requires inputs of capital, labor, and technology, and whenever an economy "undergoes development" it often tends to face shortages of capital and technology. If a "closed" economy pursues a policy of "doing without foreign capital," it can expand reproduction only through domestic accumulation. And because the national income of such an economy is low, the government often tends to suppress popular consumption in order to maintain high levels of accumulation or plunders agriculture in order to develop modern industrial sectors. As a result, such an economy often gets mired in a "vicious circle" in which agricultural growth slows, heavy industry grows lopsidedly, and the people's standard of living is very low. Even more serious is the fact that the gap in overall scientific and technological levels between that country and advanced nations tends to widen. During the economic start-up stage, Guangdong lacked funds for development and foreign exchange with which to bring in technology. As the economy was opened up to the outside world, the province took the lead in breaking out of autarky, and in its use of foreign capital and technology, the province managed to resolve its problem of shortages in developmental funds and foreign exchange and led the nation in rate of economic growth and in volume of export trade. Clearly, the fact that foreign capital and technology can be used to accelerate China's economic development are widely accepted both practically and theoretically. However, using foreign capital is by no means synonymous with borrowing from abroad. It is foreign borrowing and selling stocks and bonds abroad that create foreign debt. For Guangdong, the use of foreign borrowing to develop the economy is a new issue.

Since 1978, Guangdong has gone through three stages in its use of foreign capital. During the first stage (1979-1980), the dominant form employed was commodity credit, of which the "three forms of import processing and compensation trade" supplied one-half of the foreign capital Guangdong used. During this stage, foreign business bore most of the investment risk, received most of the earnings from investment, and retained most of the initiative in investment. Guangdong used this approach to bring in large amounts of suitable technology and equipment, to arrange employment for many workers, to expand exports, to improve enterprise quality, and to upgrade products. This approach did not create any foreign debt for the province but did place us in a passive role in investment and operations. During the second stage (1981-1985), direct investment by foreigners accounted for 66 percent of the foreign capital Guangdong employed, and most of this was involved in Sino-foreign joint ventures. During this stage, Guangdong began to become directly involved in investment and operations through joint ventures and shared risk and earnings. However, we could only guide the investment of foreign businessmen and had no decision-making authority. During the third stage (1986 on), borrowing from abroad became a major form in Guangdong's utilization of foreign capital, accounting for 40 percent of the foreign capital the province used in

1986-1987, and the upward trend in 1988 is even more striking. The biggest difference between this approach and the two forms described above is that it creates foreign debt for Guangdong, which bears all of the investment risk, but by the same token the province can decide where to direct investment in accordance with the needs of its national economy. The changes in Guangdong's use of foreign capital show that the province's ability to employ foreign capital is steadily improving.

Since the second half of 1985, the readjustment of foreign exchange rates effected by major capitalist countries has engendered new changes in the international division of labor in Asia, which development has created an advantageous "international opportunity" for the takeoff of Guangdong's economy. Now Guangdong, in its effort to orient its economy toward the outside world and to expand exports, must accelerate improvement of the province's enterprises to compete in international markets, improve the province's infrastructure, and develop raw material and energy industry. These desiderata will require both large amounts of investment and imports of advanced technology. Without a doubt, expanding Guangdong's use of foreign capital is an important link in the province's effort to exploit international opportunity to achieve economic takeoff. The experience of both developing countries and Guangdong demonstrates that, although attracting direct foreign investment can help introduce advanced productive technology and managerial experience, this approach cannot be controlled by the nation receiving the investment and be directed toward the optimization of that nation's own industrial policy and resource deployment. Thus to increase use of foreign capital and to maintain one's own initiative in choosing the direction in which to steer investment, one perforce has to switch to borrowing from abroad. And when one takes into account the fact that foreign borrowing will create foreign debt for Guangdong, we—indeed, the nation—urgently need to study, in terms of both economic practice and theory, such new questions as how to set the appropriate level of our foreign debt and how to manage that debt effectively.

Some developing countries and regions have used foreign debt to industrialize, whereas others have been stuck with heavy "debt burdens." Macroeconomically, foreign borrowing should enable a nation to propel its economy into a "benign cycle." Since the debt must be repaid, the factor that directly conditions the amount of debt a nation can assume is that nation's ability to repay the debt. In other words, the amount of foreign exchange a nation earns from increment in exports accruing from the foreign debt the nation assumes or the amount of foreign exchange the nation saves from the reduction in imports resulting therefrom must at least exceed the amount the nation will have to pay to service the debt. Second, there is a factor that indirectly conditions the amount of foreign debt a nation can assume, and that is the contribution the debt makes to that nation's economy. The increment in economic wealth engendered through foreign borrowing should at least exceed the cost

of servicing the debt. The goal in foreign borrowing is to resolve the problems of "insufficient accumulation" and "dearth of foreign exchange" nations face in economic development, and taking on foreign debt requires "surpluses" in both the amounts of foreign exchange and accumulation engendered thereby. Only thus will the economy be propelled into a benign cycle.

Microeconomically, there is much we have to master in managing our foreign debt. For example, in raising funds we should seize every opportunity and exploit every advantageous situation to obtain preferential loans; use the newest credit vehicles current on international markets so as to avoid foreign exchange risk and to reduce our debt burden as much as possible; be very attentive to changes in international financial markets, seize opportunities to repay our loans, and readjust our debt maturity structures, interest mixes, fund structures, and the like. [passage omitted]

**An Examination of New Developments in the Field of Marxist Legal Study From the Perspective of Guangdong's Experience in Reform and Opening up Over the Past 10 Years—Wu Shihuan [0702 0013 1360] and Yang Jianguang [2254 1696 1639]**

Since the 3d plenum of the 11th CPC Central Committee, Guangdong's legal research work has broken out of the traditional concepts that were imported from the Soviet Union during the 1950s—Andrei Vyshinski's theory of the class- and class-will based nature of law; blasted the feudal ideology of rule by man, which had been dominant for several thousands of years; and took the first steps in exploring the use of law in governing the province. A new triple-link structure of "democracy—rule of law—science" rooted in socialist commodity economy is now emerging throughout the province and is concretely manifested in the following ways.

1. Propelled by the ideology that all rights-possessing actors are equal, the province is everywhere carrying out democratic appraisal of state cadres or election campaigns, thus bringing to an end the traditional practice of having the state appoint all cadres and invigorating democracy. To develop commodity production, people are getting together with their close friends and acquaintances to exchange ideas and to explore new approaches, thus giving rise to the practice of free association (the forming of voluntary associations). There are 22 city-wide youth groups in Guangzhou and more than 60 such groups at the prefectural, county, and bureau level, with a total membership of some 40,000. The Guangzhou Youth Modern Science and Technological Research Promotion Society alone has initiated key-task activities that have produced more than 100 new results, thereby promoting reform, opening up, and the development of commodity economy and receiving praise from the community.

2. The province has promoted socialization of legal functions. One example of this is the emergence of public security service. The community public security service center of Panyu County, the first such county-level organization in the nation, is self-funded and managed and effects mass prevention and cure of public security problems without costing the state a penny or adding another agency to the state's table of organization. In 1980 alone, the center helped public security agencies nab 40 gamblers and pickpockets and 230 swindlers and other crooks, cracking in the process 29 criminal and 20 public security cases. Eleven prefectures and cities across the province have established 45 public security service organizations involving more than 3,000 activists, ranking the province first in the nation. In May 1987 the Ministry of Public Security convened a discussion meeting in Panyu which was attended by representatives from Beijing, Tianjin, Shanghai, and other large cities and which praised the significance and achievements of Guangdong's effort to lead the nation in initiating public security service. Another example of the socialization of legal functions is the establishment of legal-system work bodies (sections or offices) in government agencies, enterprises, and other organizations for the study and formulation of supplementary systems of rules and regulations which ensure enforcement of legal supervision as "quasi-law" and the great effort "to use law to govern the city," "to use law to govern the prefecture," "to use law to govern the factory," and "to use law to govern commerce." As of June 1987, 102 large and medium enterprises in Guangzhou alone had established legal-system sections or offices. And many factories have achieved excellent economic returns in their effort to carry out reform that is planned and protected by laws drawn up by their legal-system bodies.

The new triple-link structure has developed on the basis of but is also distinct from the old triple-link structure. First, the democracy the new structure provides is to allow the people truly to wield sovereignty over the state and fully to enjoy their basic rights and is not to be the democracy of "class rule," in which a single ruling class governs or effects dictatorship. The rule of law provided for under the new structure is to involve the use by the broad masses of people, led by the most advanced class (the working class), of laws that reflect objective natural law in the governance of the country, not the use of law by a single class to effect that class' rule. Third, whereas under the old structure "science" studied the natural world, the "science" of the new structure will study society and man, as well as nature. Whereas under the old structure the methodology employed was largely analytic, under the structure systems theory will be the dominant methodology. Whereas the old structure usually employed mechanical decision-making, the new structure will focus on the use of statistics and systems theory in decision-making. Whereas the old system was characterized by free research practiced by individuals, the new system will find greater enjoyment in social or



group cooperative research. And whereas under the old structure individuals eagerly pursued their own specialties, the new structure will favor national scientific projects.

Guangdong legal circles have also studied, gained a new understanding of, and applied legal forecasting, prediction, creativity, and anticipatory legislative activity.

Under the traditional theories that "law is merely the tool of class rule" and that "law is but punishment," law was restricted to the punishment of acts after they were committed; was limited to the functions of coercion, punishment, and establishing norms (governing existing types of behavior); and could not have such functions as forecasting, prediction, creativity, and anticipatory legislative activity. In a joint article written in 1984, three comrades from Sun Yat-sen University, the Guangzhou Economic and Technological Development Zone, and the Guangdong Provincial Law Society argued that the fact that the development of the province's commodity economy required anticipatory legislation demonstrates the theoretical and practical significance of the functions of forecasting, prediction, creativity, and anticipatory legislative activity. Subsequently, two comrades from Sun Yat-sen University and the Guangdong Legal System Bureau wrote an article that demonstrated that "law must look toward the future" even deal with the issue of communism (and not mere class society). Over the past several years, Guangdong's legal-system development work has done much to elaborate the anticipatory function of law, and a series of laws and regulations have been drawn up to protect reform and opening, such as the special regulations governing persons entering and leaving, land, labor, and enterprise registration, which legislation has helped to attract investors from the United States, Japan, the UK, France, Australia, the FRG, Singapore, Thailand, Hong Kong, Macao, and other countries and regions.

According to the traditional view, legislation merely "reflects the will of the ruling class," so highly centralized government must be practiced, and only one level, the organ of supreme state power (the National People's Congress and its Standing Committee), can pass legislation. In recent years, however, some people have treated the laws and regulations formulated by the State Council as another level of legislation and argued that a two-level system of legislation exists. And Guangdong has recently broken out of the fetters of traditional theory; applied rule-of-law systems engineering and other scientific methods; and, in accordance with the procedures and limits of authority established in the constitution and in other relevant law, transferred legislative authority down to each level wherever such transfer facilitates reform, opening up, and invigoration; and thus has created a multitiered legislative network, as follows. (1) The first level includes laws and regulations approved, promulgated, and implemented by the standing committee of the Guangdong people's congress, such as the Guangdong Provincial Temporary Regulations Governing

Control of Persons Entering and Leaving Special Economic Zones [SEZs]. (2) The second level includes laws and regulations reviewed and approved by the standing committee of the Guangdong people's congress and promulgated and implemented by city people's governments, such as the Shenzhen SEZ Regulations Governing Control of Commodity Real Estate. (3) The third level includes regulations examined and approved by the Guangdong people's government, revised by the State Council's Economic Laws and Regulations Center, discussed and approved by the standing committee of the Guangdong people's congress, and promulgated and implemented by the Guangdong people's government, such as the Shenzhen SEZ Regulations Governing Economic Contracts Involving Foreigners. (4) The fourth level includes laws and regulations that the standing committee of the Guangdong people's congress has authorized the Guangdong people's government to review and approve and that the Shenzhen people's government promulgates and implements, such as the Shenzhen SEZ Enforcement Provisions for Administration of Enterprise Registration. (5) The fifth level includes laws and regulations that the standing committee of the Guangdong people's congress has authorized the Shenzhen people's government to decide and approve itself, such as the Shenzhen SEZ Regulations Governing Standards for Land Use Fees. (6) The sixth level includes the rules and regulations drawn up and implemented, in accordance with the empowering provisions of relevant laws and regulations, within factories and approved by relevant administration-legal departments, which rules and regulations constitute quasi-law.

This legislative structure is suited to the transition from a highly centralized economy to an economy combining centralization and distribution of power, has made legislation more flexible while retaining its stability, and fits the need promptly to coordinate various social relationships in an open environment in which international market conditions change rapidly.

It should be noted that the effort to use law to govern the province has just begun, to a large extent has emerged naturally in response to the objective needs involved in the development of commodity economy and of the concept of democracy, lacks sufficient consciousness, and thus far has failed organically to integrate theoretical innovation and empirical development. The evils of using special privilege to pervert the law, of supplanting the law with verbal orders, of practicing rule by man instead of rule by law, of replacing the government with the party, and of supplanting law with party still frequently occur, and the concept of the rule of law has not widely taken root. Thus great effort is still required to disseminate the new theories described above so as to strengthen all the people's and the entire party's understanding thereof and to establish decision-making patterns and a system using law to govern the province. The 13th National Congress of the CPC urged us in our theoretical and practical work to "broaden outlook,



develop new concepts, and enter new realms." To this end, we present some ideas and suggestions on how Guangdong's legal system can be made to enter a brand new realm.

1. Leaders must make more changes in their ideas. (1) Leaders must shed the customary notion that they are beyond or above the law, consciously stick within the scope of activity set forth in the constitution, and ensure the continued, healthy advance of reform and opening up. (2) Leaders must abandon the customary practice of using policy to carry out their work and the notion of "making sufficient use of policy" and begin to emphasize the use of law as well as policy in carrying out their work, placing law above policy. (3) Leaders must eschew the customary practice of using verbal orders to supplant law and strive to establish the authority of law.

2. We must achieve a full and deep understanding of the theory of why law can govern. (1) Our socialist law reflects the conscious will of the broad masses of people, under the leadership of the CPC, toward the basic natural laws operating in all realms of society. Rule of law is all-encompassing and permeates everything; enhances economic, political, and scientific-technological functions and their effect on society; and greatly improves and strengthens the leadership of the party. The regularity, scientificness, and objectivity of the rule of law limits or eliminates the subjectivity and arbitrariness of a handful of leaders or of the so-called will of "the ruling class." (2) Our law establishes the authoritative concept that popular sovereignty is supreme, and all organs, groups, and political parties and organizations must stick to the scope of activity provided by law. (3) The rule of law championed by feudal and capitalist society serves the exploiting classes. We must clearly disassociate ourselves from such law but also analyze things scientifically and not categorically deny all things of a popular nature. (4) As we reform and open up, while vigorously importing capital, technology, and other "hardware" from capitalist countries, we must also supplement this "hardware" with the "software" of the legal civilizations and concepts created by the people of capitalist countries. This will certainly facilitate the development of the triple-link "democracy—rule of law—science" structure of our society.

3. We must raise the concept of "using law to govern the province" to a position of strategic importance. The main reason why central authorities decided to make Guangdong an advanced general testing ground for opening up and reform, to grant the province greater authority, and to apply special policies to the province was to develop the economy, but the goal is not limited to the economy. Guangdong's development should reflect the complete development of China's distinctive socialism, including its spiritual and rule-of-law civilizations, so as to demonstrate the unique superiority of socialism. This should be the strategic objective of Guangdong's development. Thus we must stress the issue of shifting the importance of the objective of

achieving rule of law and raise the concept of "using law to govern the province" to a strategic position affecting the entire picture. We should establish rule-of-law and legal systems and apply science and technology, systems engineering, and other such methods to complete our legal system, establish rule of law, and make our study of law more scientific and modern. This will not only help ensure the prosperity of Guangdong but will also facilitate socialist spiritual (above all, rule-of-law civilization) development and help make Guangdong the leader in China's effort to effect rule of law.

4. Strategically, we must first establish the notion of using law to govern the province and, in line with actual conditions in Guangdong, rewrite popular legal educational materials, and spread knowledge of the law (not just common legal knowledge) more deeply, beginning with cadres and students and then extending to the people of the entire province.

Second, we suggest that new concepts and methods be used to establish a law school for the province that will recruit students through examination from both the humanities and the hard sciences. We must eradicate the traditional defects of establishing narrow, specialized, and self-enclosed fields for each type of law or regulation and use the concepts and methods of modern systems science and engineering to develop general and soft-science fields, specifically, fields of legislation, judicial organization, SEZ economic law, legal system education, rule-of-law systems engineering, and the like. And we must attract people skilled in natural sciences (primarily physics, mathematics, and computer science) to participate in legal education so as to combine social and natural sciences, which is the growing trend. Many such people are flocking to Guangdong, so we can choose and employ the best.

Third, the Guangdong people's university, the provincial legal system bureau, the Guangdong law school, and the department of law of Sun Yat-sen University should work together to set up a rule-of-law systems engineering general design department that would attract legal workers, legal researchers, and natural scientists; employ computers to create legal data banks and specialist systems; and search and retrieve data and intelligence, which would be provided for legislative, executive, judicial, legal consultation, and legal supervision use. In this fashion, we can integrate all rule-of-law systems into an organic whole and transform the traditional method, which used to be entirely manual into a modern method combining manual and computer operations.

Fourth, while accelerating improvement and completion of regulations governing land, investment, banking, imports and exports, and skilled personnel, we must also place emphasis on the formulation of regulations on the environment and on eugenics and integrate these regulations into a coordinated system. Environmental law systems engineering will maintain natural ecological equilibrium, and eugenics law systems engineering will

maintain the ecological balance in the quality of mankind itself. Both are major forces in economic, cultural, scientific, and technological development, and neglect thereof usually leads to tremendous irreparable loss.

Fifth, we must initiate study of systems engineering to control the unhealthy tendencies of juvenile and economic crime, create a healthy social atmosphere, and check and eliminate the growth and development of all unhealthy trends and evil practices.

A summarization of the rich experience that has been obtained in Guangdong's reform and opening up demonstrates that unhealthy party, bureaucratic, and social tendencies can be overcome only through rigorous rule-of-law enforcement and that only thus will such practices be made honest and upright. If we can break out of the fetters of traditional legal theory, employ modern scientific and technological—especially systems engineering—methods, and strictly adhere to the use law in governing the province, Guangdong's development will provide even more evidence of the superiority of China's socialist system.

#### **Strategy for Economic Cooperation Between Sichuan, Hong Kong**

40050332 Chengdu *SICHUAN RIBAO* in Chinese  
20 Jan 89 p 4

[Article by Xi Wenju 1598 2429 5282 and Shi Huagao 4258 0553 7559: "Opening the Way and Launching an Assault—Strategy for the Development of Economic Cooperation Between Sichuan and Hong Kong"]

[Text] Since the launching of reform, economic cooperation between Sichuan and Hong Kong has already begun, but Sichuan clearly lags far behind the coastal provinces and municipalities. In order to promote cooperation between the two localities, not long ago, under the guidance of the Sichuan provincial party committee and the provincial government, the provincial overseas cultural exchange center organized a "Sichuan-Hong Kong-Macao Conference" at which scholars, entrepreneurs, and observers from both Sichuan and Hong Kong met and presented many tentative plans and proposals for developing economic cooperation between Sichuan and Hong Kong.

#### **Necessity and Possibility**

In the past, it was always felt that Sichuan and Hong Kong were far apart, transportation was inconvenient and transportation costs high, communications backward and access to information slow, and the commodity economy inadequately developed, and that it would be impossible for Sichuan to compete with the coastal region in attracting Hong Kong capital for developing a labor-intensive processing industry comprising "three forms of import processing and compensation trade." Furthermore, the disparity between the economies of Sichuan and Hong Kong was very wide with respect to

economic structure, natural resources, processing capability, management level and the like. Is there, then, an objective necessity for, and realistic possibility of, developing commodity trade and expanding economic cooperation between Sichuan and Hong Kong? This was the first important question brought up in the discussion.

The experts and scholars of Sichuan and Hong Kong have answered this question in the affirmative. Conditions and possibilities exist for economic cooperation between Sichuan and Hong Kong. Yin Xiezu [1438 0588 4373], an assistant researcher at Sichuan University's Southern Asia Research Institute, stated, "Analyzed according to the principle of dynamic comparative advantage, the disparity is actually a material basis for the objective possibility and reality of mutual benefit." Sichuan, "land of abundance," is rich in products; it has over 134 varieties of mineral resources, and leads the nation in more than ten of these, including vanadium, titanium, cobalt, and strontium, while its reserves of over ten other minerals are among the largest. Its output of natural gas accounts for 45 percent of the national output, its hydroelectric resource reserves account for one-fourth of the nation's reserves, it occupies second place nationally in scientific and technical personnel and industrial fixed assets, and has a number of high-grade, precision, and advanced industrial product facilities which are rank first worldwide. Judging from the new trend which has emerged in Hong Kong's economy in recent years, Sichuan is qualified to engage in cooperation in the several main areas needed by Hong Kong. Some experts point out that Sichuan's agricultural by-product and food processing industries are rich in natural advantages. Although Sichuan cannot compete with the coastal region in the processing industry comprising "three types of import processing and compensation trade," the coastal region cannot compete with Sichuan in agricultural by-products, which the coastal region does not produce or produces very little. Sichuan's food product industry has developed rapidly in recent years. It has 22 major varieties and 75 minor varieties, and has developed a large number of well-known products, while its average annual increase in output value has been over 30 percent. During these years, the coastal region has stressed the development of industry and commerce, while agriculture has become a relatively weak link. Therefore, Sichuan can accomplish a great deal if, instead of competing with the coastal region in popular products, it stresses its own advantages. As long as Sichuan seriously studies the likes of Hong Kong's people, develops new products in accordance to their tastes, and improves the quality of processing, it is fully capable of attracting Hong Kong firms to Sichuan to invest in setting up food processing enterprises and allowing Sichuan's agricultural by-products to enter every home in Hong Kong.

Other experts believe that Hong Kong's needs include both direct and indirect needs. Beginning in the 1980's, Hong Kong's volume of trade with the interior has increased rapidly, and Sichuan's ranking in the Hong

Kong export market has risen from 37th place to second place; also, since over 70 percent of the products imported from the interior to Hong Kong are in transit to other nations via Hong Kong, the interior has absorbed a large portion of Hong Kong's transit goods from other nations, allowing Hong Kong to play the role of "commodity middleman" in the great international economic circle. As regions needing Sichuan's products open up throughout the world, the scope of Sichuan's cooperation with Hong Kong will expand further.

#### Ways and Forms

Experts and scholars believe that Hong Kong's economic structure is currently in a state of adjustment and change, and the industrial structure is becoming increasingly pluralized; there is a rapid increase in the proportion of such industries as plastics, toys, electronics, and watches, and a rapid increase in the degree of technology- and capital-intensiveness, while other industries are moving overseas. Gu Zongcheng [7357 1350 2763], Deputy Director of the Sichuan Provincial Social Science Institute, has analyzed this evolution and suggested the following forms of cooperation:

- Absorbing strengths and compensating for weaknesses. The traditional products which Hong Kong wants to gradually abandon or transfer overseas, such as ready-made clothing, textile products, and ordinary electronics, are precisely the products which Sichuan still must develop. Sichuan can take advantage of Hong Kong's transfer of technology and facilities in search of low-cost production sites and bring in this technology and these facilities to develop its own textile, apparel, and ordinary electronics products, as well as raise the quantity and quality of these products to a higher level.
- Lateral integration. This means joint investment and cooperative production by both sides by such means as combining capital with capital, land with capital, technology with capital, and facilities with capital. This kind of cooperation can be carried out in such areas as the clothing, textile, electronics, and raw and processed materials industries.
- "Borrowing ships to go abroad." Some of Sichuan's machinery and electrical appliances, light industrial products, and native products have a certain degree of competitiveness on the international market, but what is lacking is an understanding of the international market. If "windows" are set up in Hong Kong and Hong Kong's information network and marketing network are utilized, these products can be transported to other places.

#### Climate and Conditions

During the conference, several Hong Kong businessmen discussed their experience as far as the difficulties of doing business with Sichuan. One Hong Kong businessman said

that airline flights between Sichuan and Hong Kong were too few, round trip airline tickets were difficult to purchase, and there was no way of determining one's own route, while going by train took too long. Another Hong Kong businessman had done business with a Sichuan enterprise which had not fulfilled the terms of the contract and had not delivered on time. He had phoned this enterprise from Hong Kong, but had been unable to get through for 2 days. Left with no alternative, he had then called Beijing from Hong Kong, had the call relayed from Beijing to Chengdu, and relayed again from Chengdu before finally reaching the enterprise, and even having made such a tremendous effort to make the call, he had still been unable to get any feedback. The Hong Kong businessman remarked with a sigh that the way to Sichuan was difficult, and doing business with Sichuan was just as difficult as the way to Sichuan. Mr Yu Simu [0151 1835 3668], President of Hong Kong's Westpac Group, spoke on the topic of "An Inquiry Into Investment Climate and Introduction of Foreign Capital." He said that although Sichuan had many aspects which were preferential to foreign capital, it still fell far short of the coastal provinces and municipalities. It should form a favorable investment climate; foreign businesses invariably hoped for small investments, large returns, and little risk. The experts of Sichuan and Hong Kong believe that in order to attract Hong Kong businesses to Sichuan to invest and do business, it is necessary to improve the investment climate. Of the tangible and intangible aspects of the investment climate, what is important is to improve the intangible aspects, which include policies, laws, management level, and quality of personnel. Although Sichuan has formulated a number of stipulations for attracting foreign capital, it must further perfect and enforce them. The management level of some enterprises is low, and even though the labor force is cheaper than that of Hong Kong and the coastal region, final returns are poorer than those of the coastal region. This naturally causes a loss of competitiveness. Some enterprises get entangled in trifling disputes with Hong Kong businesses over certain matters, and what Hong Kong businesses fear most are disputes like those with enterprises in the interior which invariably cannot be resolved due to a trifle. Sometimes, even though these enterprises obtain advantages through these disputes, they scare away the Hong Kong businessmen and lose a chance at more investment and cooperation, which had originally been possible. It may therefore, be stated that overcoming the "basin mentality" and raising the level of management is a task of top priority for foreign cooperation.

Experts believe that in order for Sichuan to develop economic cooperation with Hong Kong, it must endeavor to train a number of talented personnel in the field of foreign trade. Mr Zhang Renkang [1728 0088 1660], manager of Hong Kong's Gold River Trading Company and a member of the Sichuan provincial political consultative conference, told about a number of people from Sichuan who had been cheated while doing business in Hong Kong, and said that this proved that it was imperative that foreign trade personnel obtain up-to-date knowledge about such fields as international economy, international laws and regulations,

and international trade, and that they could not work based on the small-scale peasant economy and the same old domestic methods.

The experts and scholars also presented suggestions for changing the tangible aspects of Sichuan's investment climate. Mr Cheng Xiang [4453 5046], assistant general editor of the Hong Kong newspaper WEN WEI PO, noted that a number of landlocked nations in Northern Europe were very far from the sea but that their economies had developed very rapidly, and that an important cause of this was that they had opened up inland river transport and solved the problem of transporting import and export goods. Even though Sichuan is far from the coast, there is the vast and mighty Changjiang River; why not open it? One Changjiang is equivalent to more than ten railroads, but only a fraction of its transport capacity has been developed up to now. If the Changjiang can be opened, allowing foreign steamships to travel directly to Sichuan, even though foreign businesses may grudge a little money, it will benefit Sichuan and the Changjiang shore. Some Hong Kong businessmen suggested increasing the number of flights from Hong Kong to Chengdu. They said that at present there were only mainland planes flying to Hong Kong, and that Hong Kong planes should be allowed to fly to Chengdu, passenger transport as well as cargo transport, since the rhythm and frequency of personnel contacts and cargo transport between Sichuan and Hong Kong had increased. Others pointed out that it was necessary to improve communications in order to promptly obtain rapidly-changing international market information. Since the transmission of information is not limited by space, reducing the time it takes to obtain information is equivalent to reducing the spatial distance, and therefore, we should raise the concept of information to the level of policy-making. If the international economy is a fast cycle and Sichuan is a slow cycle, and it takes a long time to get a response, Sichuan will naturally always be late, and will be unable to catch up.

## FINANCE, BANKING

### Editorial on Strengthening Macroeconomic Control

40060314 Beijing JINRONG SHIBAO in Chinese  
19 Jan 89 p 1

[Article: "Strengthen Macrocontrol in Administrative Reorganization"]

[Text] "Strengthen macrocontrol, improve the financial order, intensify financial reform." This was the urgent and formidable task put to the country's fiscal workers at the People's Bank of China [PBOC] nationwide branch manager meeting which concluded yesterday.

In reviewing 1988, the efforts of the leading cadres and masses of employees at all levels on the fiscal front were memorable. The economic problems we encountered

during the year were severe, and included obvious inflation and excessively sharp rises in commodity prices. Although these were problems and difficulties which appeared throughout the economy, the masses of fiscal workers did not shirk their responsibilities in the slightest; rather, they made positive contributions by pressing forward in the face of the difficulties, bravely shouldering heavy responsibilities, working hard, overcoming difficulties brought on by a drop in the growth of savings, reversing the excessive increase in the money supply we experienced the first half of the year, supporting rational fund requirements for production of daily necessities for the people and commodity supplies for the market, devoting major efforts to sustaining construction of state key projects, enhancing cash management, actively and conscientiously inventorying stocks and developing potential, conducting large-scale reviews of credit and foreign exchange, beginning a comprehensive rearrangement of fiscal priorities, and working assiduously to preserve China's overall favorable economic situation. At the same time, the nation's 2 million fiscal workers were tempered, and their mastery of macrocontrol increased. All this should impel us to do even better in our fiscal work.

In order to rectify our understanding and overcome the difficulties we encounter, there is something we need to know. Some people think the rise in prices and panic buying that society experienced for a time were stirred up by the banks, arguing that the banks issued too many notes. It is true that issuing too much currency can lead to inflation and a rise in commodity prices, but why would the banks want to issue more notes? We must seek an explanation for this. Everybody knows the excessive amount of currency put into circulation in 1988 was a summary reflection of problems inherent in economic life, as well as a concentrated manifestation of problems stemming from accumulation in recent years. The primary representations are the "four excessives:" excessive economic growth, excessive investment in fixed assets, excessive growth in consumption funds, and excessive increases in market prices. These "four excessives" forced the banks to print more notes and issue more money.

However we also should note that it is difficult to ignore the fiscal aspects of too rapid an increase in currency. In reviewing the year's work, we come to the realization that we must enhance analysis and forecasting of developmental changes in the economy and fiscal situation, and promptly attend to these changes; this is a key issue in successfully exercising macrocontrol in the fiscal sphere. At the same time as maintaining the overall amount of macrocontrol, we must handle fund adjustments in a timely fashion. We must conscientiously enhance fiscal management and supervision, and adapt to the developing requirements of the economic and financial situation. We must increase the ability of financial institutions to assume risks and cope with change within a commodity economy, and set up a self-restraining mechanism which will help enhance macrocontrol and increase returns on funds.

Practical experience over the past year tells us that the status and role of the financial sector in the nation's overall economic life is becoming more and more important with development of China's commodity economy. Doing fiscal work well is critical for steadying the economy, allaying people's concerns, maintaining order and stabilizing society. At the same time, it also has made us understand that the impact of finances on the economy is pervasive, and that banks are an important means by which the state exercises macrocontrol over the economy; of the many means of exercising macrocontrol, the banks are an extremely important link. The financial sector must fulfil this onerous yet glorious task, and only by enhancing macrocontrol and rearranging fiscal priorities will we achieve the desired goals.

Enhancing macrocontrol above all requires rigorous control of the total money supply. Beginning this year, comprehensive management will be implemented on three levels, including the overall social credit program, the national bank credit program and the non-banking financial institution credit program. For loans, we will adopt the "limited loans based on deposits" and "annual disclosure, quarterly control, monthly review" measures. At the same time, we will employ the method of "local and central coordination, emphasizing local authority," strengthen cash management, and rigorously control the amount of currency put into circulation.

Enhancing macrocontrol requires actively building up deposits. Relying solely on controlling the scale of credit while not emphasizing stable savings makes it difficult to control inflation. Banks at all levels must seize the moment, get deeply involved in disseminating information on savings, improve the quality of their work and their attitude toward service, conscientiously set up and manage guaranteed deposits and interest-bearing deposits, create better terms, gradually popularize substitute wages, personal checking and credit cards, and strive to exceed the savings deposit plan.

Enhancing macrocontrol requires the specialized banks and non-financial institutions to foster the concept of "setting loans based on deposits, and seeking equilibrium." It also requires that they set up and perfect an adequate payments system, intensify regulation of the credit structure and ensure loans are being used in an appropriate manner, improve and perfect bank profit retention methods, and examine and verify attainment of profit norms, which must be intimately integrated with scrutinizing credit management quality indices and whether or not macrocontrol has been achieved. Joint bank debit funds must be managed separately from credit funds. Primary agricultural and sideline product procurement funds must be managed as special items. We must gradually equip modern facilities and set up PBOC account clearing centers.

Enhancing macrocontrol requires strengthening the central bank's macrocontrol function, and increasing its ability to manage and regulate social funds. The PBOC must better

utilize the economic lever, such as offering differential interest rates, initiating guaranteed deposits, and increasing the reserve fund ratio, in order to strengthen control of all finances. We must enhance central bank leadership of the specialized banks and strengthen vertical leadership of the banking system. Together they must implement the state's fiscal policies, and take on the function of macroeconomic control.

Enhancing macrocontrol also requires rearranging fiscal priorities, successfully managing various financial operations, and enlivening capital circulation. Trust and investment companies of various types at all levels must continue to reorganize; only after re-examination and approval will they be allowed to launch business activities as provided. The insurance institutions, urban credit cooperatives, and rural cooperative fund organizations set up in various localities also must proceed with reorganization, and adopt measures to exercise control. We must dissolve financial companies in the spirit of the CPC and State Council initiatives in company reorganization. The PBOC must enhance management and supervision of capital fund markets. We also must conscientiously enhance management of lateral fund borrowing among financial institutions, social capital formation, bank loans, foreign exchange and foreign debt, and debit funds. At the same time, we must strengthen the fiscal legal system and do more checking up, gradually bring financial management under the aegis of legal control, and have the fiscal legal system play a larger role in enhancing central bank macrocontrol, stabilizing finances, and promoting steady, long-term economic development.

Fiscal work involves the economy as a whole. Stabilizing finances is not solely a matter for the financial sector; rather it is a systemic undertaking and involves numerous industries, links, and sectors. Control over issuing currency and controlling inflation require a coordinated fiscal policy, monetary policy, wage distribution policy, and pricing policy. All regions, sectors, trades and professions should make their own contributions to stabilizing finances.

In the new year the leadership at all levels in the financial system must unify their thinking, increase solidarity, guide the broad masses of workers, strengthen confidence, be of one heart and one mind, and work soundly to realize the 1989 monetary and credit control plan. Provided we pay close attention to our work right from the beginning of the year, through unremitting efforts we will achieve the desired goal of rearranging fiscal priorities, controlling inflation and promoting steady expansion of the national economy.

**Reform of Interest Rates Discussed**  
*40060268a Beijing JINRONG SHIBAO in Chinese*  
17 Jan 89 p 3

[Article by Qian Zhongtao 6929 0022 3447, Wu Qiang 0702 1730, and Wang Yongjun 3769 7167 0689: "Ideas on Reform of China's Interest Rates"]

[Text] I. Seriously Challenged by Reality

Since 1978, interest rates on bank deposits and loans have been raised five times in China. Beginning on 1 September 1988, interest rates were increased again in most parts of the country. However, with inflation high and volatile, this "turtle-chasing-rabbit" type of interest-rate adjustments have not only failed to solve the basic problems caused by low interest rates, but widened the "scissors gap" between nominal and true interest rates and between nominal and market interest rates. The true interest rate on 1-year time deposits was -2 percent in 1985, 1.2 percent in 1986, -0.1 percent in 1987, and -11 percent or worse in 1988 (based on last year's estimated price rise of more than 20 percent and interest rate of 8.64 percent on 1-year deposits). Interest rates on private loans also rose from 20-30 percent to more than 50 percent. Thus the existing level and structure of interest rates are facing serious challenges.

- High prices and low interest rates have resulted in negative interest rates and shrinking value of money deposited in banks. There are runs on banks and panic buying of goods and precious metals as a hedge against inflation. Deposits by individuals and enterprises are falling; banks are running out of loan funds; and society is faced with an acute capital shortage.
- Simply raising interest rates without changing the old interest-rate mechanism has failed to produce the expected results. Adjustment of interest rates in a piecemeal fashion has increased friction in the double-track price system and created unreasonably big gaps in the cost of money, thus defeating the purpose of rate adjustment.
- The tight money policy is "rigidly uniform" in controlling the total money supply; the structural reforms are also characterized by their rigidity; interest rate adjustments are ineffective; and demands for money are increasing steadily.

## II. Heavy Economic and Social Prices for Low Interest Rates

The social and economic prices for maintaining the low interest rates (which at present are really negative interest rates) are high.

- The ability of the financial system to mobilize the economy's surplus financial resources is seriously hampered. China's huge demands for capital has made increasing capital accumulation, raising the investment rate, and quality improvement its major tasks before the economy takes off. In a developing country like China, capital accumulation cannot rely on large amounts of foreign investment, nor can it rely directly on the long-term money market, still less can it follow the capitalist countries' road of original capital accumulation. The promotion of domestic savings by the banking system (mobilizing the surplus financial resources) has to a very large extent become synonymous to capital accumulation. The savings ratio in China, even during

its "rapid growth" period (except for 1988), is far below the level in Japan, West Germany, Italy and other countries during the 1970's and the early 1980's. In China, where the savings ratio is very low to begin with, the low interest rates and high prices are forcing people to quickly turn income into consumption, and the result is reduced savings and capital formation. It is estimated that at present, each time prices rise by 1 percent, savings deposits will drop by 200 million yuan. The negative interest rates have robbed the banking system of its ability to attract savings deposits.

- The negative interest rates have strongly encouraged uneconomical demands for credit and led to inefficient or needless use of large amounts of precious capital. With nominal interest rates lower than the inflation rate, borrowers need only to borrow money, buy goods, hoard for a while, and make a profit. When a borrower gets a loan, he also gets a "subsidy" from the negative interest rate. This has brought on all the eager demands for credit. It is the economic reason for both the "hens" and "roosters," the former lay eggs and the latter do not, but instead eagerly borrow money, delay repayment, and hoard goods in short supply and with rising prices. Because of the "subsidies" in the form of negative interest rates, large amounts of precious capital are gobbled up by the "roosters," who take a lot but give little or nothing in return, greatly reducing the efficiency in the use of funds and the economic returns and adding fuel to inflation.
- The negative interest rates have directly pushed up inflation and prices. The negative interest rates not only stimulate demands for loans, but directly push up inflation. For example, at present, prices are rising at an annual rate of about 20 percent, but the interest rate on 1-year bank loans is only 9 percent, and the real interest rate is -11 percent. The only way to finance the -11 percent credit "subsidy" is to issue more paper money, which feeds excess demand and adds fuel to inflation.
- The negative interest rates are forcing changes in the pattern of China's essential input and economic make-up. As China is short on capital but relatively well off in labor force, the cost of money ought to be higher and that of labor ought to be cheaper, and the emphasis should be placed on developing labor-intensive industries. However, with the negative interest rates, the cost of money is low and accompanied by "subsidies," and the cost of labor becomes too high. Enterprises are forced to turn to capital-intensive industries, which means fewer jobs and a waste of labor resources and further aggravates the capital shortage.

## III. A Big Increase in Interest Rates Is Imperative

The negative interest rates have caused serious social and economic problems, hampered the in-depth development of the reforms and sound economic growth, and are seriously challenged by the reality of the situation. Therefore, a big increase in interest rates is imperative.

Positive studies by numerous scholars abroad have shown that a country's true interest rates are directly related to its economic development. A study of dozens of developing countries and areas shows that where the economy grows at an annual rate of 6 percent or more, as in Taiwan, Singapore, South Korea, and Malaysia, the true interest rate is always more than 1 percent; where the economy grows at an annual rate of 4-6 percent, the true interest rate ranges from -1 percent to 1 percent; and where the economic growth rate is under 1 percent or even below zero, the true interest rate is always negative and under -1 percent. Even though a country (particularly a developing country) may adopt a low-interest policy to stimulate economic growth during the period of economic take-off, it still need to keep true interest rates on the positive side (nominal interest rates not lower than the inflation rate) in order to achieve the expected results.

A big increase in interest rates (to about double the current level) will not make a great impact on enterprises and prices in China. It will be a much smaller shock than the decontrol of prices was. As far as the enterprises are concerned, interest payments account for only about 1-2 percent of their costs, and they should have no problem paying twice as much interest on their loans. Besides, well-managed enterprises should have more money deposited in banks, and the higher interest earned by their bank deposits should help offset a considerable part of the interest paid on their loans. Higher interest rates can also put the poorly managed and debt-ridden enterprises out of business. As far as prices are concerned, it is estimated that based on the present assets-and-liabilities structure and financial system of the enterprises, even if loan interests are raised to double their present level, and even if the increased interests are completely shifted by the enterprises to their consumers, the overall price level will be pushed up only by 0.5-1.0 percent, which is hardly noticeable. China has a nonstock economy and will not repeat what has happened in countries with a highly developed stock economy, where an adjustment in bank interests (even an increase of 1 percent) can send shock waves through the stock market, enterprises, prices, and the entire economy.

#### **IV. A Basic Idea: Keeping a Close Watch on Prices, Introducing Flexible Adjustments and Controls, and Coordinating Reforms**

While raising interest rates to a much higher level, it is also imperative to reform the interest-rate system. The existing rigidly controlled, fixed, and inflexible interest-rate system is faced with an unstable currency and price environment, and many difficult problems have cropped up as a result. In an unstable price environment, it is objectively necessary for the nominal interest rates to fluctuate flexibly with the fluctuation of prices so that positive and stable true interest rates can be guaranteed. Based on other countries' experiences, China's true interest rates should be stabilized at about 3 percent per year, which should become the basis for the nominal

interest rates to change flexibly with price fluctuations. In practice, this is to be achieved through the central bank's flexible interest-rate mechanism. The central bank will make its relending rate the basic interest rate, which will be adjusted from time to time. It will also limit itself to setting the upper limit for interest rates on deposits and the lower limit for rates on loans to be followed by the specialized banks, instead of making a detailed interest table on all types of deposits and loans for them. The specialized banks will decide on their own deposit and loan interest rates and make timely adjustments on the basis of the basic rate and taking into consideration the price fluctuations, the money supply and demand situation, the trend in the essential market, and the market interest rates. Credit cooperatives and, especially, private lenders should be allowed to set their own lending rates.

Interest rates on deposits and loans should be determined according to time. The present practice of charging the same interest on all floating capital loans (which account for about 80 percent of all bank loans) regardless of time should be discontinued.

An end should be put to the upside-down deposit and loan interest rates. Generally interests should be higher on loans than on deposits, and the difference should be no less than the bank's operating cost. The numerous discount lending rates and preferential rates should be discontinued step by step. Loans can be granted for energy, transport, raw and semifinished materials, and infrastructure construction and for agricultural production and procurement of agricultural and sideline products at zero or small minus true interest rates. The amount of taxes and profits to be turned over to the state may be reduced owing to increased interest cost at the higher rates. The shortfall can be made up through proper regulation of the banks' profits.

Interest rates are closely related to prices, exchange rates, markets, and so forth. Adjustment of interest rates must be coordinated with adjustment and reform of the pricing and exchange-rate systems so that the cost of money will be linked to commodity prices and foreign exchange rates. Various essential markets, particularly the money market, should be nurtured and developed. The enterprise system should be reformed to keep enterprises under control by means of property, taxation, credit, and prices, and to turn enterprises really into commodity producers responsible for their own profits and losses. The free supply system of credit funds and the practice of everyone eating from the same big pot should be abolished, and credit funds should no longer be supplied by the central bank to the specialized banks, by bank offices at higher levels to those at lower levels, and, particularly, by banks to enterprises and government financial departments.



**Adjustment of Interest Rates, Price Rises**  
*40060268b Beijing JINRONG SHIBAO in Chinese*  
17 Jan 89 p 3

[Article by Wang Yuanhong 3769 6678 7703 and Zhu Baoliang 8540 1405 5328: "Interest Rate Adjustment and Flexibility and Price Rise"]

[Text] There has been a lot of discussion about interest rates in financial and theoretical circles since the last year. However, opinions still differ on the flexible adjustment of interest rates (especially the flexibility of interest rates on loans) and the relationship between interest rate increases and price fluctuation. The following are our views on three questions based on analysis of the figures.

**I. Improvement of Value Guaranteed Savings Deposits**

Although the new types of savings accounts introduced in September 1988, including the value guarantee service for savings deposits of 3 years or more and "savings accounts with famous-brand and quality products as prizes," have reversed the downtrend of savings deposits, several obvious problems remain unsolved.

1. Interest rates on savings deposits are still too low. The national retail price index rose 17 percent in the first 10 months of 1988 over the same 1987 period, and is estimated to be 17-20 percent for the whole year. But the newly increased interest rate on 1-year savings deposits is 8.64 percent, which is actually a negative interest of about 10 percent. Even for the value guaranteed savings accounts, the true interest rate is zero. If the unevenness of price rises in different parts of the country and the fact that the retail price index of large and medium-sized cities is higher than the national average are taken into consideration, the value guaranteed savings deposits have actually failed to keep pace with inflation.

2. At present, the value guarantee applies only to fixed savings deposits of 3 years or more. It is not reasonable, because the rapidly rising prices affect both long-term and short-term deposits without exception. Short-term deposits are the most fluid and have the greatest influence on the money supply. Failure to guarantee the value of short-term deposits will result inevitably in a part of the short-term deposits being turned into cash and active purchasing power to assault the markets and push prices up.

3. Appropriate adjustments have not been made to the interest rates of other financial assets, such as treasury bonds, financial bonds, etc., and the result is confusion in the bond market. For example, it is difficult to fulfill treasury bond targets without administrative measures. In the secondary treasury bond market, there are more sellers than buyers, and bond prices have kept falling.

**II. An Analysis of Interest Rate Adjustments and Flexibility**

The use of interest rates to regulate the ratio between savings and consumption and thus regulate the consumption demands has been proven effective by practice in the past few years. Since 1978, China has raised the interest rates on savings deposits five times, which have produced significant results in strengthening the people's tendency to save and reducing the ratio of cash to savings. A correlated analysis of data from 1978 shows: The increased saving tendency is about 70 percent due to increased interest rates and about 30 percent due to the people's increased income. At the same time, when interest rates on savings deposits go up 1 percent, the saving tendency goes up 1.6 percent, which means a 1.6 percent drop in the consuming tendency, and the people's consumption drops by 1.8 percent, or about 14 billion yuan. It shows that the increased interest rates have played a positive role in expanding savings, increasing repayments of loans, reducing the amount of cash in circulation, curbing consumption, and regulating demands.

As to whether investment requirements can be flexible, it is the most controversial subject at present. Many comrades think that at the present stage, there is still little room for the country's investment requirements to be flexible based on interest rates. We should make a concrete analysis of the facts. As far as the trades and enterprises under mandatory planning and management are concerned, there is indeed no room for them to be flexible in their investment requirements on the basis of interest rates. However, conditions have changed after the reforms in the past few years. The enterprises now have not only a profit mechanism but to varying degrees also a risk-restricting mechanism. To varying degrees, the township enterprises, some collectively owned enterprises, and state enterprises which have been fairly well reformed all have acquired a risk-restricting mechanism. To varying degrees, the investment requirements of these enterprises are now flexible based on interest rates. Moreover, by analyzing the data since 1978, we will discover that when interest rates on loans are raised by 1 percent, the total amount of loans drops by about 1.4 percent, or about 13 billion yuan, and that the drop in loans is about 30 percent due to increased loan interest rates and about 70 percent due to the slowing down of economic growth. It can be seen that China's economy is now becoming more flexible, and the trend is continuing, albeit in varying degrees in different fields, trades, and enterprises.

**III. Interest Rate Increases and Price Fluctuation**

Many comrades think that raising interest rates on deposits will mean more interest paid, which in turn will increase consumption demands. Raising interest rates on loans will on the one hand increase the cost of money for the enterprises and on the other hand reduce the amount



of funds they can afford to borrow, thus affecting production and reducing the supply of goods for the market. Therefore, higher interest rates will result in a combination of greater consumption demands, higher costs, and fewer supplies, which will lead to spiraling interest rate and price hikes.

We think that from the savings viewpoint, the elimination of negative interest rates will not only prevent deposits from losing value but give depositors some real income, which is entirely reasonable. From the previously mentioned analysis, we can see that a 1-percent increase in savings interest rates will reduce the people's consumption by 14 billion yuan, of which about 2 billion yuan in cash will be turned into bank deposits. Thus present consumption demands will be turned into future consumption demands, which will reduce the current pressure on the market, will not increase consumption, and will cause the retail price index to drop by 2 percentage points. On the other hand, the 2 billion yuan in added deposits will help make up the capital shortage, reduce currency issue, and improve the future supply situation.

Then from the viewpoint of enterprise cost, a 1-percent raise in loan interest rates will increase the enterprises' costs by about 7 billion yuan, which will cause the retail price index to rise by about 0.7 percentage points. If the interest rates on the enterprises' bank deposits are increased at the same time, then, at a ratio of 1:3 between deposit and loan interest rates, a 1-percent increase in interest rates on the enterprises' deposits will reduce their costs by about 2.3 billion yuan. Thus the net increase in the enterprises' costs will be about 4.7 billion yuan, and the retail price index will then rise by about 0.5 percentage points. Interest rate adjustment is different from other forms of regulation in its effect on the enterprises. When an enterprise knows that its cost will be increased too much to be acceptable because of high interest rates, it will think twice before borrowing. And, because of insolvency, the inefficient and less competitive enterprises will be eliminated or taken over by others, which is exactly what is needed to rationalize the distribution of production factors and the industrial structure. It is something that cannot be achieved by simple administrative means. At the same time, the state can protect and support the enterprises which are essential for the national economy and the people's livelihood by offering them preferential or reduced interest rates to avoid the impact of rising interest rates.

As to whether raising interest rates will result in reduced supplies, it is a question worth further studying. A regression analysis shows that when loan interest rates increase by 1 percent, the gross social product will drop by about 20 billion yuan. However, we should make a concrete analysis of this drop. The problem that has troubled us in recent years is not the excessively low speed, but the excessively high speed, of economic growth. The reduced amount of loans and lower rate of economic growth will alleviate the contradiction

between supply and demand, soften the upward pressure on prices, and cause the retail price index to drop by 0.8 percentage points. On the other hand, under internal and external pressures, the enterprises will be forced to readjust their own scale of operations, change their product mix, and use funds more economically, thus reducing the proportion of useless supplies and increasing the proportion of useful supplies.

From the previous analysis, it can be seen that higher interest rates will not lead to spiraling interest-rate and price hikes. It shows that interest rates on deposits and loans should be raised to a considerably higher level so that their regulatory role can be brought into full play and so that they can play a more effective role in checking the growth of consumption and investment and the inflation of prices.

**Raising of Interest Rates Termed Urgent**  
*40060268c Beijing JINRONG SHIBAO in Chinese*  
*17 Jan 89 p 3*

[Article by Xu Xiuqi 1776 4423 1477 and Chang Jianjiang 1603 1696 3068: "The Present Interest Rates Urgently Need To Be Increased"]

[Text] China has long pursued a low-interest policy. From the mid-1950's to the late 1970's, interest rates on deposits and loans dropped steadily. The average interest rate on fixed deposits of 1 year or more dropped from 7.92 percent to 3.24 percent, and that on loans dropped from 7.84 percent to 4.19 percent. In the decade of reforms, the state has raised deposit interest rates six times. Yet, compared with the rising price index, the interest rates have remained negative. According to computations by departments concerned, the true interest rate on 1-year fixed deposits was -2 percent in 1985, -1.2 percent in 1986, -0.1 percent in 1987, -5.08 percent in the first 6 months of 1988, and an estimated -6.36 percent for the entire year of 1988. In some big and medium-sized cities, where the price index rose as much as 20-30 percent, deposits depreciated even more seriously. Interest rates on bank loans have also been adjusted in the past few years, but never enough to rise above the low-rate level. According to a survey of 105 enterprises, at the current interest rates, interest payments account for 1.18 percent of the production costs of industrial enterprises, and 1.42 percent of the marketing costs of commercial enterprises. At present, Chinese enterprises have an average annual profit margin of roughly 20 percent, but the weighted average interest rates on various types of loans are under 10 percent, less than 50 percent of their profit margin.

As China moves into the new period of all-round development of a commodity economy and when the law of value comes into play, it is only natural to adopt a policy of flexible interest rates according to changing demands and allow a moderate degree of currency revaluation. However, under rigid administrative control, interest

rates are basically fixed and artificially kept at an unreasonably low level, not only contrary to the law of value but out of line with demands. The undesirable consequences are weakened motive for saving, increased non-productive expenditures, sharply expanding investments, and unprecedentedly strong pressures for more currency issue. A sample survey shows that the people's inclination to save, that is, the proportion they keep out of their entire money income, has weakened steadily: 19.6 percent in 1985, 17.8 percent in 1986, and 15.3 percent in 1987. From January through May 1988, the nation's savings deposits dropped by 3 billion yuan, and withdrawals increased by 73 percent, from the same period in the previous year, and as much as 100 billion yuan, equivalent to 43 percent of the 1987 state revenue, was held by consumers as cash-in-hand. While loans are often not repaid when due, unusually large sums of money are spent for nonproductive purposes. It is reported that in the 9 years from 1978 through 1986, China's private entrepreneurs turned 81.4 percent of their business income, an enormous sum of 142.95 billion yuan, into consumption funds. Wages to workers and staff members and other payments to individuals for the period January through July 1988 increased by 23.7 percent over the same 1987 period, and much of the funds became ready spending money rushing into the consumer markets. Because of the low cost of money, especially during inflationary times, getting a bank loan means profit, and the more loans one can get, the greater the profit will be. Naturally the enterprises are induced to increase their demands for money constantly and endlessly, and their "appetite for investment funds" keeps growing. National statistics show that from 1985 through 1987, loans extended by banks increased at an average annual rate of 21.08 percent, and that by the end of July in 1988, bank loans increased by 24.6 percent over the same period a year ago. As the gross national product is not growing with the same pace, the gap created by the forced increase in bank loans can only be made up by issuing more banknotes. The net currency issue in the first 7 months of 1988, not counting the part withdrawn, was over 20 billion yuan more than in the same period a year before, and it is estimated that the unplanned currency issue in 1988 was three times the planned amount. It is obvious that the low-interest policy is adding fuel to inflation.

As an important regulatory economic lever, interest rates must reflect national economic and monetary policies and be readjusted quickly as the situation changes. When economic development is being accelerated, interest rates should be lowered correspondingly to stimulate investment and expand construction. When the currency is being stabilized, interest rates should be increased to check demands for capital and reduce currency issue. At present, China's principal contradiction is its overheated economy. For this reason, it is imperative to put the interest-rate lever in action and raise interest rates to a higher level. This is an important way and most ideal regulatory means for achieving the goals of economic readjustment. If we continue to rigidly scale down credit,

cancel capital construction projects, and freeze consumption funds by administrative means, not only need we pay an enormous economic price, but certain problems will be concealed to become hidden factors for the next round of renewed inflation. Moreover, owing to the low cost of money, lower than even the price index, the "profit principle" determines that there is basically no way to check the enterprises' desire for more money, and that the banks will not be able to attract the idle funds back quickly. By raising interest rates, it is possible on the one hand to dispel people's worry about the effect of inflation on the value of their bank deposits so that they will exercise spontaneous restraint on consumption, and on the other hand to help restrain more effectively the enterprises' impulsive demands for funds, put an end to their unwarranted requests for loans, grant loans on a selective basis, make the best use of money, improve the credit structure, and maintain a balance between money supply and demand. As far as the banks are concerned, reasonably increased interest rates will solve the problem of the upside-down rates on deposits and loans, increase bank profits, and expand the state coffers.

The extent to which interest rates are to be raised should be based mainly on the state of market supply and demand and the average profit margin of the enterprises. Taking the practice of the developed countries and the average profit margin of China's enterprises as reference, the average interest rate on deposits in China should be 8-10 percentage points above the rise in price index, and the average interest rate on loans should be 7-8 percentage points above the present level, so that inflation will be forced to recede as quickly as possible.

After interest rates are raised, it is necessary to further improve the interest-rate system. A new rate bracket should be added for savings deposits of 10 years or more to encourage extra long-term savings and increase the availability of savings funds. Differential interest rates on loans should also be developed and perfected. Interest on loans for industries, whose development is restricted by the state, should be increased even more to speed up the readjustment of the production structure.

There are all kinds of worries about the effects of higher interest rates. More serious is the fear that the increased cost will be hard for the enterprises to absorb and will ultimately be reflected in prices, leading to new rounds of spiraling interest-rate and price hikes. It is a valid fear for the short run. From a long-range point of view, however, before prices of goods have entered a phase of relative balance between supply and demand, the enterprises will not stop shifting interest payments and increase production costs. But, when an equilibrium is reached on the level of prices, the inefficient enterprises are bound to lose out in competition. They can either reduce consumption or close down, and the final result will be an unprecedentedly better performance of the economy as a whole. Even more profoundly significant, after interest rates are raised, if some enterprises find that they cannot absorb the added interest cost even after

technological and managerial improvements, they will hesitate to continue borrowing from the banks to stay in business. Instead, they will be forced to merge with others or join economic associations. Even the more successful enterprises will feel the burden of interest on new loans, and will in turn tap their own potential financial resources, speed up turnover, and increase efficiency in the use of funds. For society as a whole, this is exactly what is needed to rationalize the distribution of the productive factors and the economic structure. Therefore, it seems that there is no need to worry too much about raising interest rates.

### Director of State Administration of Taxation on Tax System

40060316 Hong Kong LIAOWANG OVERSEAS  
EDITION in Chinese No 5, 30 Jan 89 pp 10-11

[By Yang Suizhou 2799 6659 6650 and Chen Lien 7115 5114]

[Text] The tax system in mainland China is being perfected in gradual stages over the last few years, and the collection of taxes has been introduced into every aspect of life in the social economy, its relationship with business and individuals becoming increasingly closer. In an interview with these reporters, Jin Xin [6855 9515], director of the State Administration of Taxation, answers several questions and discusses the status of the present tax system.

**Reporter:** What achievements have been accomplished by the taxation system over the last few years?

**Jin:** The most important achievements are the following:

- Marked improvement in the economic control function of tax collection. After two stages of revising the profit tax and reforming the taxation system for industry and business, and after adding some new tax categories at the appropriate time, we are basically progressing from a simple tax system to a complex tax system centered chiefly around running taxes and income taxes complemented by other tax categories. To implement China's economic policies, readjust its property structure, improve enterprise vitality, and regulate inequalities in the social distribution system, taxation, in coordination with reforms in areas dealing with prices, foreign trade, science and technology, investment, etc., will exert an active effect.
- Promotion of openness with the outside world. To improve the foreign investment climate, taxation is beneficial to attracting foreign capital and modern techniques, and at the appropriate time, setting up a system with low tax liability and liberal tax preferences. Agreements covering a simplified system of foreign taxation and some tax preference provisions have been signed with 21 countries to avoid duplicate taxation of foreign enterprises. At present, more than

10,000 foreign enterprises have been established in China. The foreign capital covered in the signed agreements is valued at more than 26 billion yuan.

—Accumulation of large sums of capital for national construction. Since 1978, tax agencies have devised and collected over one trillion yuan of revenue. In recent years, the annual increase has averaged more than 10 billion yuan, comprising more than 90 percent of the total revenue collected. This has provided reform and structuring activities with the necessary financial resources, and has exerted an important effect on balancing financial income and expenditures.

—New developments unfolding for law-abiding taxation. After the State Council had adopted a series of measures to strengthen the tax collection process, tax fraud and tax evasion cases are on the decline, cases of unlawful total or partial tax avoidance are gradually brought under control, cases of violent tax resistance are meeting serious crackdown, and those who misinterpret the law to suit themselves are severely punished.

**Reporter:** How many tax categories does China have at present?

**Jin:** Before 1978, the tax system for business and industry underwent several simplifications, so that only seven categories were left. At the time, a business tax was levied upon state enterprises, and a business tax and a business income tax were levied upon collective enterprises. Because tax categories were overly simplified, this affected developing the economic leverage for taxation—a situation not adapted to reform and the new openness. After comprehensive reform of the tax system, the present system of 6 tax classes, and 27 tax categories for business and industry has emerged as follows:

1. Running tax categories. These are taxes that exert a regulative effect on people's income received during the course of income production and circulation, consisting of a product tax, a reproduction tax, a business license tax, and an urban building security tax, a total of four categories.
2. Income tax categories. These are taxes regulating the incomes of production enterprises and individuals after profit taking, consisting of a state enterprise income tax, a regulative state enterprise tax, a collective enterprise income tax, a private enterprise income tax, a small town and village household business income tax, and a regulative personal income tax, a total of six categories.
3. Resource tax categories. These regulatory taxes are based on differences in grade for a particular resource product, consisting of a resource tax, a salt tax, and a land use tax, three categories in all.

4. Property and activity tax categories. These taxes consist of a real estate tax, a vehicle and boat use tax, an animal slaughter tax, a domestic animal sales tax, a local sales tax, a meal tax, and a stamp tax, a total of seven categories.

5. Special item tax categories. These taxes regulate specific objects or activities for specific purposes, consisting of permits for building construction, taxes on scholarship or other awards, taxes on wages, and taxes on fuel consumption, a total of four tax categories.

6. Foreign investment tax categories. These are income taxes levied on foreign enterprises, on joint ventures, and on personal income, a total of three tax categories.

**Reporter** Is there too much tax collected in China today?

**Jin:** The amount of tax revenue collected depends on the social economy. The more that the commodity economy flourishes, the stricter the tax system becomes. Otherwise, the state cannot effectively regulate and control the economy through its power of taxation. Compared with other nations with flourishing economies, we are not using our power of taxation fully, and the tax system is not strict enough. In comparing our tax category setup with those of fully developed or developing nations, the tax categories China implements are far fewer. Of course this is not to say that it is better to have more tax categories, but the tax setup should be based on the needs of the social economy, a scientific and logical system that is as simplified as it can be. China's tax system needs further reform and improvement.

**Reporter:** Why is it necessary to levy a regulative personal income tax?

**Jin:** Following reforms in the economic system and developments in the socialist commodity economy, the personal income of Chinese citizens is undergoing great change. In the past, wages were the chief source of income for a good segment of the masses, but now, additional sources of income are derived from contract businesses, stock investments, etc. In the distribution of wealth, we are seeing a small number of people receiving excessive amounts of income, which indicates a great gap between the income levels of various members of society. To resolve this problem, it is necessary to use taxation as a leverage to provide some regulation. The voluntary taxpayer of a regulative personal income tax is a Chinese citizen who resides in China and receives a personal income here. The regulative personal income tax determines the ceiling for deducting comparatively high expenses, and tax liability is comparatively light. At present, few people meet this criteria, and citizens with high income, even after paying the regulative personal income tax, are still left with an income much higher than that of the average Chinese citizen.

The concept of the personal income tax is found in many countries. Moreover, it makes up a great proportion of the total revenue collected. Because China did not have such a tax category over a long period, the Chinese citizen's tax consciousness is not high. The tax system is imperfect, and tax processing is backward. For this reason, instances of tax fraud occur rather frequently. Individual society figures, particularly well-known performers with a high degree of name recognition are the worse offenders. Having no regard for their reputations, they commit tax fraud and evasion, and even tax resistance by not paying any taxes. This creates a bad influence, and sets a bad example for all of society to see. To command respect for the tax laws, these serious cases of tax evasion involving society figures—singers, film stars, and contract merchants must be exposed publicly and criticized by name, and be pursued strictly to see that they meet their obligations. In the future, we must establish a personal income reporting system gradually, and improve control of tax sources. We have initiated a pilot project along these lines in the Haiding section of Beijing. After we have gained some experience, we expect to promote this system for use throughout China.

**Reporter:** What is the important problem facing tax revenue collection at present? How can this revenue collection work be improved?

**Jin:** Problems and paradoxes facing revenue collection at present are numerous, and the work is very difficult. It must be said that the government on various local levels pays great attention to revenue collection. But some localities that channel a great proportion of their revenue to the central government feel that with more taxes collected, more revenue is sent to the central government, and the more the localities feel they are holding the short end of the stick. Some people feel that the development of productivity and law-abiding taxation are counter to each other. Some people even say, "If enterprises are now by contract, and finances have dried up, what need is there for a unified tax code?" As a result, in the area of tax policy, many people provide their own interpretations. After the central government had proposed implementing an economic development strategy for the coastal sections of China earlier, some localities could not understand the central government's policy correctly, and there appeared in the area of foreign investment taxation, a tendency to compete in providing favorable tax preferences to those enterprises. Such action affected some cities and towns in the hinterland who felt there was more cause for them to receive such preferential treatment, so they also tried to make up for it by reducing taxes on their own, or avoiding all taxes possible. On the other hand, tax fraud and tax evasion are still not effectively controlled. For all of China, a little more than 50 percent of enterprises and more than 80 percent of individual households have tax fraud and tax evasion problems, and instances of violent tax resistance still occur at times. Such confusing situations are not beneficial for developing a commodity economy,

and not good for improving the objective regulation and control of revenue collection. They also affect the smooth conduct of reform and restructuring activities.

For this reason, to introduce some order into the revenue collection process to gradually set up a new model based on law-abiding taxation, the following steps should be taken:

1. The national tax code must be unified, for the power of taxation cannot be dispersed. No locality, agency, or person, can change or revise the national tax code, or reduce or avoid paying, the taxes owed.
2. All income from sales made by enterprises, commune units, or individuals must be taxed in accordance with the law. Income derived from any by-product activity (commodities) must be taxed and included in the total sales income. Units and individuals receiving business income must register and report their tax status in accordance with the tax code, be ready for tax audit, and pay taxes according to law.
3. Treatment of income received by enterprises and units must follow a strict sequence of paying taxes first, then payment of debts, payment for goods received, then profits, in that order, to assure the timely and adequate deposit of the state's share of monetary income into the treasury.
4. Management of account books and invoices and other records must follow strict procedures. All enterprises, units, and individuals engaged in production operations must follow set rules to set up healthy account books containing actual records and accurate calculations. Any falsification of records for tax fraud or tax evasion purposes must be severely punished.
5. The necessary examining and auditing authority must be given to tax agencies and their power of enforcing the law when investigating tax fraud and evasion must be reinforced.
6. Tax collection personnel must be provided protection in the performance of their duties. Violent tax resistors should be dealt with in accordance with the state's public safety laws, and those committing crimes should be followed up as criminal cases.
7. Tax agencies must be further strengthened to assure their independent exercise of power, and to increase the authority of tax code enforcement. The national taxation system should implement dual leadership by upper echelon tax agencies and government offices on corresponding levels, giving more weight to the vertical leadership of the tax agencies.
8. Society's supervision of tax collection must be strengthened by having related agencies, enterprises, production units, and individuals actively support and coordinate revenue collection work.

9. Tax collection cadres must be spotlessly clean in their work. Tax agencies at various levels must establish an open reporting system that is actively supervised by the masses. All instances of bribery, dereliction of duty in not collecting enough or any revenue, and other unlawful activities will be dealt with according to law.

At present, government offices on various levels, related agencies, and the masses have become increasingly concerned, and are supporting revenue collection activities. Recently, the State Council issued a resolution to provide some order to the revenue collection process and to intensify its management. Only our firm steady efforts at reform are needed now, for there is great hope for a law-abiding tax system to be realized.

## FOREIGN TRADE, INVESTMENT

**Xinjiang Official on Using Foreign Investment**  
40060290 Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 12, 27 Dec 88 pp 27-29

[Article by Abdulla Reyim 7093 0008 6757 2139 3583 0181 2606, Head of the Department of Foreign Investment, Xinjiang Uygur Autonomous Region]

[Text] Xinjiang is located along China's northwestern frontier, through which an important part of the world famous ancient Silk Road must pass through. China has decided to designate Xinjiang as one of the focal points for development in the 21st century. In recent years, under the policy of "openness abroad and livelihood at home," Xinjiang's foreign trade activities are expanding with good results. Trade volume is experiencing doubling growth, and import-export trade relations, and economic and technical cooperation have been established with more than 50 countries over five continents. While this foreign trade expansion is continuing, Xinjiang's use of foreign investment is developing in a stable manner to obtain good economic benefits.

By the end of 1987, Xinjiang had signed 41 agreements on foreign investment utilization. Of these, 18 pertained to joint ventures, 3 were cooperative enterprises, 2 were sole proprietorships, 11 dealt with compensation trade, 3 were processing operations, 3 were international leasing operations, and one used a foreign government loan. The value of foreign investment under discussion was over \$82 million. Actual foreign investment used was over \$45 million. Conditions for foreign investment in our region have been very good. In following this foreign investment trend, we are paying attention to maximum development of natural resources in our area, to develop goods of a productive nature. Among the 41 foreign investment involved items that fulfilled their contract agreements, 31 production items comprising 75.6 percent of the total were used chiefly in textile, light industry, food processing, pharmaceuticals, construction chemicals, agricultural products, and other industries. Foreign businesses investing in Xinjiang came from places such as Japan, the United States, France, Turkey,

Hong Kong, Macao, etc. Foremost were businesses from Hong Kong, followed by those from Japan. During the course of foreign investment use over the last few years, a number of useful projects requiring little capital quickly became productive.

For example, ground was broken for the Tianshan Woolen Textile Co., Ltd., in February 1980, but within 18 months, the plant of almost 30,000 square meters and related facilities was completed ahead of time, with all equipment installed. From October 1981 when the plant was placed in operation until the end of 1987, the value of its total industrial output was estimated to be 237 million yuan, showing an average annual growth of 28 percent. The accumulative total of various woolen yarns and fibers produced added up to 2,222 tons, the volume showing an average annual growth of 29.87 percent. The accumulated total of woolen garments produced added up to 5.66 million pieces, reflecting an average annual growth of 20.2 percent. Product quality improved steadily. The rates of cashmere yarns and woolen yarns meeting standards were 97.9 percent and 98.9 percent, respectively. The rates of woolen garments and cashmere garments meeting standards were 99.8 percent and 99.9 percent, respectively. Total labor costs added up to 29,000 yuan, showing an average annual growth of 20.73 percent. The total of sales receipts was 380 million yuan, showing an average annual growth of 53.9 percent. Total taxes paid were 27.28 million yuan, allowing a net profit of 76.03 million yuan, and the tax and profit total of 103 million was three times the value of total investment. In six years, more than \$46 million was generated in accumulated foreign exchange. The amount of foreign investment borrowed when the enterprise was first started was completely paid off in early 1985. The present foreign exchange ledger shows a good balance between receipts and expenses. The experience of operating a production enterprise over the past 6 years shows how Xinjiang's favored position as a source of raw materials and the introduction of up-to-date techniques and good management have been combined to produce a top product that is now highly competitive. Products from the Tianshan Woolen Textile Co., Ltd., have now been introduced into 13 countries, including the United States, Japan, Switzerland, Canada, Italy, Belgium, France, the Soviet Union, Western Germany, Hong Kong, and Macao. The export product is valued at more than 60 percent of the total production cost, and the company is winning wide acclaim in domestic and foreign markets to become the first export enterprise from our region, and a progressive member of China's foreign invested enterprises [FIEs], much praised by the Ministry of Economic Relations and Trade. The production enterprises operated by the Xinjiang Kunlun Woolen Textile Co., Ltd., the Xinjiang Tianshan Pharmaceutical Co., Ltd., and the Xinjiang Xinnanzhen Textile Co., Ltd., are also doing well. These enterprises are also praised by many and have been approved for exporting their first batch of goods from our region. It is obvious that attracting direct investment by foreign businesses to supplement Xinjiang's meager financial

resources, and introducing progressive technical and management expertise to step up Xinjiang's economic development and technical progress, will result in increases in export volume, foreign exchange and financial receipts etc., which demonstrate the good social and economic benefits gained.

On the basis of our experience over the past few years, increasing the economic benefits gained by foreign business investment requires good step-by-step preparatory work in the early stages to select for production those highly profitable items requiring but little capital, but easy to be produced quickly. This is done to actively establish a cooperative relationship with small and medium-sized foreign businesses, while working even harder to establish such a relationship with those large foreign businesses with greater capital and marketing resources. Next is attention to enterprise management after production items have been decided upon. During the early stages of a joint venture, the foreign business must participate in its management to help improve the level of management expertise, and to overcome the phenomenon of joint capital with no joint management. Third requires active promotion of collaboration between China's production enterprises and export trade enterprises to engage in joint ventures with foreign businesses. Export trade enterprises understand the international market better and they have more experience in dealing with foreigners. This is helpful for selecting dependable partners possessing up-to-date techniques and management experience, and for getting a good grip on marketing conditions to prevent foreign businesses from controlling the market. It is also helpful, with respect to some goods, that upon fulfillment of contract, no opportunity and time are lost for them to be exported through normal channels. Fourth requires a fair distribution of profits gained from the joint investment product, in accordance with set rules, retaining capital that should be retained. The method of distributing everything is not acceptable.

To attract even more foreign investment to Xinjiang to stimulate Xinjiang's development, we should concentrate our efforts in the following areas:

1. By active adherence to principles of stability and a knowledge of our capabilities, we base our efforts on actual conditions in Xinjiang—its needs and possibilities, in broadening the scale of foreign investment in stable development of export enterprises as comprehensive, multi-channel, or diversified projects. This is possible through a good understanding of the direction foreign investment is taking, and encouraging shipment of goods for export to generate foreign exchange, introduction of progressive techniques, and establishing import substitution items. In the future, the focus of foreign investment in Xinjiang will be on energy sources, transportation, communications, raw materials processing, and other basic industries. The quality of exports must be improved, product upgrades must be speeded

up, and production items meeting the "three highs" criteria of high profit, high taxes, and high foreign exchange will have priority in Xinjiang's plan for utilizing foreign investment.

2. We must improve the investment environment, to help realize various favorable policies and to increase the attraction of foreign investment use. We must make real progress in building and improving basic facilities such as communications, transportation, power sources etc., in an effort to improve the "hard" environment. We must also, on the basis of the autonomy given the Xinjiang National Minorities Region by the state, pass a local law that sets the rules for foreign investment in Xinjiang based on actual conditions, and provide good service and a policy that is even more favorable than those of other provinces or regions to improve the "soft" environment. Such efforts will allow foreign businesses to find foreign investment in Xinjiang to be more beneficial than that in the coastal provinces, and will attract even more foreign investors.

3. We must exert great effort to see that the foreign investment enterprises we have right now are well run, thereby increasing our economic benefits from foreign investment use. Overall, various FIEs operating in our region are in good shape, though a few are not well managed—slow in marketing their product, operating at a loss, and unable to maintain a foreign exchange balance. In the future, management of FIEs will be more relaxed to create a good environment for foreign entrepreneurs to manage. It is expected that within a definite time frame, joint ventures and cooperative enterprises will allow foreign business management or predominantly foreign management, for us to gain advanced management experience and learn scientific methods of management from our foreign investors.

In the future, we expect to prepare, on the basis of the present foundation, a plan adapted to Xinjiang's natural resources, and use even more efficiently the favorable policies the central government has given the autonomous regions for the national minorities, so that various localities within the region can cooperate with foreign investors on an even broader scale, thus stepping up the pace of economic construction in Xinjiang.

#### **Handling Management of Foreign-Funded Enterprises**

40060282 Beijing CAIWU YU KUAJI [FINANCE AND ACCOUNTING] in Chinese  
No 12, 20 Dec 88 pp 16-18

[Article by the Beijing Financial Bureau, Foreign-Funded Enterprise Financial Management Office: "How We Can Handle the Financial Management of Foreign-Funded Enterprises"]

[Text] Since the 3d plenum of the 11th CPC Central Committee established open policies and policies to invigorate the domestic economy, Beijing has approved

the formation of 318 foreign-funded enterprises, with agreements of over \$3.7 billion. By directly making use of foreign funding, we have brought in advanced technology, narrowed the gap between us and developed nations, raised the level of management, encouraged reform of old enterprises, expanded the scope of exports earning foreign exchange, and accelerated construction in the capital. In 1985 the Beijing finance bureau established a joint venture office, and in 1988 the city government again approved the finance bureau's establishing a Beijing foreign-owned enterprise accounting management branch bureau. In the past few years we have closely followed the series of policy actions of the central government in opening up and in stimulating the domestic economy. Below are the main programs undertaken in the area of financial management.

#### **I. Firmly Embracing the Direction Towards Increased Openness; Actively Supporting the Improvement of the Foreign Investment Climate, Progressively Broadening the Scope of Foreign Investment.**

You must have an investment environment that offers some advantages to the foreign businesses in order to continue to open up and attract foreign business investment. Foreign businesses that come to China are only thinking about the bottom line. If we only are looking for quick profits and are always looking at the short term, it makes the foreign businesspeople feel that there is no profit to be made and then we will have no way of gaining long term benefits such as attracting foreign investment, of bringing in advanced technology and management experience. Take for example the joint venture in Beijing between the Beijing Automobile Manufacturing Plant and the American Jeep manufacturer. In the second year of joint operations the new product could not be produced, so they continued producing the old model. The year's profits were 35.98 million yuan and the American party wanted to take 11.28 million yuan. Some people felt that all the American party had done was to help resolve 21 quality problems with the old model and that to let them take so much of the profit would be taking a loss. We feel that the American party did make a contribution to rectifying the problems with the old model, and that even though their part of the profits was a little high, that is the only way that the foreign businesspeople would feel that they are getting something out of the project. And this is the only way to bring in America's dynamic advanced technology and bring to China the 1980's most recent model of the XJ four wheel drive jeep. According to departmental forecasts bringing in this technology has speeded up the development of China's automobile technology by 10 years. So from this standpoint it was worthwhile to lose out on a little of the first 1 or 2 years of profits from the old model. It is conducive to long term benefits, to the rapid development of the automotive industry, and has opened up a new capital source.

At the same time, we are acutely aware that to improve the foreign investment climate it is not sufficient to manage the relationship between short and long term



profits well. The relationship between departmental profits and overall profits must be managed well also. Take for example the joint manufacturing venture between the Beijing Boiler Factory and the Babcock & Wilcox Corporation, U.S. that produces boilers for electric generating stations. From the Beijing department's perspective, this is unprofitable, the company's foreign exchange is unbalanced and so each year Beijing subsidizes it with over \$1 million. However this venture is profitable for China. China currently has an energy shortage, and has insufficient boilers for electricity generation. The joint venture has enabled us to manufacture large boilers and to resolve the energy problem which is good for the overall economic development of the nation. Another example is taking measures such as tax reduction, lowering of fees and allowing profits in order to support export industries. From the departmental perspective, the income generated by this portion of enterprises with these measures in place are reduced. But looking at the overall picture, as exports bring in more foreign exchange, we can use that increased amount of foreign exchange to bring in even more advanced technology and to raise the technical level of the society, which is to say that the reduction in departmental income can be reclaimed by raising macroeconomic efficiency.

In addition, we also suggest consulting with the departments to help enterprises resolve some real-life problems. For example, when an enterprise first starts up, helping resolve the problem of manufacturing capital shortages by allowing enterprises to issue notes internally and allowing employees to become shareholders.

As the investment climate continues to improve, Beijing is developing rapidly in making direct use of the expanding range of foreign funding and from foreign-funded enterprises.

## **II. Actively Engage in Feasibility Studies of Foreign-Funded Enterprises and Do Good Preparatory Work.**

We should actively participate in the whole process of forming a foreign-investment enterprise, from the initiation of the program, through the feasibility study to the final contract signing, so that from the beginning we have formed a relationship with the enterprise. We feel that key elements of making good preparations are using a tactical approach, scientific forecasting, completely mastering the developmental trends of the international market, taking advantage of profitable opportunities, selecting advanced technology and choosing joint cooperative programs that are economically reasonable. These elements also determine whether the foreign investment enterprise will open on time, and whether after starting up it will be economically efficient. While doing feasibility studies the emphasis should be on analysis of economic efficiency.

The analysis should not simply be limited to saying that it is alright or not. Rather, on a firm foundation of calculations, it should assist enterprises in developing

approaches to the problems of raising economic efficiency. For example, the Auckland Waterproofing Materials Company could not resolve their excess personnel problem. Our own research and analysis has led us to believe that this cooperative program is relatively good, from both an economic and technical perspective. We recommended that the excess personnel be retained by their original plant and that they keep their original status. Some rooms and equipment in the plant would not be part of the joint venture, but would be rented to the joint venture, so the joint venture would take in some rental income. The excess personnel could provide some services for the joint venture, draw a fee for their labor, and this income would support the cost of the excess personnel. Not only does this resolve one of the enterprises' big problems, it also opens up a new avenue which has been approved by the city government for dealing with the unemployment problem.

## **III. Absorbing Advanced Management Techniques From Foreign Countries, Expanding our Domestic Management Experience, Raising the Financial Management Level of Joint Ventures.**

The Ministry of Finance has established a Sino-foreign joint venture accounting system which is suitable for all the Sino-foreign joint ventures within China. The Great Wall Hotel in Beijing manages through Xilaideng [0823 0171 4098] management teams. Making the financial systems of all the teams compatible requires that they use the Xilaideng [0823 0171 4098] management team accounting methods. We are not able to simply say whether this is good or not. Rather, we have conducted extensive research into the account-keeping methods and calculation procedures involved in Xilaideng team accounting and have learned that this method has certain special characteristics. For example, business accounting is more detailed, the eight digit numbers are appropriate for use with calculators. We formally agree that they should use the Xilaideng accounting and calculation methods as it is in accord with the spirit under which the central government has expended great effort to bring in advanced technology from abroad, including from developed capitalist countries, to bring in ordinary economic administrative management experience and beneficial cultural elements and especially in adding to our experience and development through asking for a Ministry of Finance Accounting Management Service. At the same time that we are absorbing advanced management methods from abroad we should also be paying attention to bringing effective domestic management methods into the joint ventures in order to raise the management level of the joint ventures. An example is the award system that we have instituted in Chinese-owned enterprises for conservation of raw materials and fuel. Some of the foreign investors have requested implementation of this system. We feel that we should study good advanced management techniques that foreigners have to offer and we should also promote usage of our own good management methods. Therefore, we approve



of the Jeep Company and other joint ventures implementing the award system for conservation of raw materials and fuel that is used by state-run enterprises. There are also some joint ventures that have introduced the contract responsibility system that we have been using in China, which has had a stimulating effect on the operating mechanisms of the joint ventures. Experience shows that only by absorbing advanced foreign management methods in combination with promoting scientific domestic management methods will we gradually be able to erect a complete set of financial management methods for enterprises that retains Chinese characteristics.

In summary, since 1985 we have held annual exchange of experience meetings on financial issues of foreign-funded enterprises in order to promote advanced management experience. We have summarized several major aspects below:

1. Summary of the experience of the Automation Technology Development Company in making their advance preparations. The leaders of this company understand their technology as well as operations management, and thoroughly considered economic efficiency. The Deputy Manager of the Company also oversaw financial work and made use of the tool of financial calculations to do forecasting and make strategic decisions regarding the program and through analysis and comparison of many types of investment approaches they came up with an investment program that is representative of the technology, that has strong business impetus and that is economically feasible. By squarely facing the areas of management in which they were weak, correcting the weaknesses and turning them into strengths, cultivating development of operations, and by using the beneficial cycle of developing operations, economic efficiency improved every year. This company formally began operations in February of 1986. In the first year they recovered their capital stock, last year they realized 1.3 million yuan in profits, which was 1.5 times 1986, a per capita profit of 68,000 yuan.

2. Summary of the experience of the Yin Yan [6892 3601] Electric Flashlamp Company that used specialized cooperative measures to have their products made in China and saved foreign exchange expenses. At this time there is not much Chinese built technology. The main reasons for this are that we lazily import and do not think in terms of conserving foreign exchange. Secondly, we go in for huge projects and self-formed systems and we do not have the concept of specialized coordination. The Yin Yan Flashlamp company learned a lesson. Except for a small quantity of basic parts which they manufactured themselves, they manufactured the rest with their cooperative plant, retaining principles of centralized management, decentralized development, and joint production, thereby saving a large amount of foreign exchange, shortening the process of nationalized production, stimulating other enterprises to manufacture and rescuing some enterprises that had been foundering.

3. Summary of the experience of the Xun Da [6598 6671] Elevator Company and the Gao Heng Ji Meng Si Cuo Da [7559 5899 1015 5536 2448 2181 0430] Company in improving their foreign exchange management system, in opening up external sales channels and in realizing a balance in foreign exchange. The financial officers of the Xun Da [6598 6671] Company, guided by the beliefs in "raising quality, reforming management, earning foreign exchange," implemented reforms of the sales structure and foreign exchange management. They used a method whereby efficiency in managing foreign exchange was coupled with distributing responsibility, authority, and profit, and with their branch companies they implemented a fixed income, fixed expense method for foreign exchange, foreign exchange management system for proportionately dividing up overexpenditures, and they stimulated enthusiasm of each branch company to raise product quality, to expand exports and to limit their foreign exchange expenses. In the past seven years this company earned 24.58 million yuan, and the foreign exchange income for the seventh year of the joint venture was 23.6 times that of the second year, making it the first manufacturing enterprise in the city to achieve a basic balance of foreign exchange income and expense and to have a reserve of foreign exchange left over. The financial officers of the Gao Heng Ji Meng Si Cuo Dao [7559 5899 1015 5536 2448 2181 0430] Company played an active role in setting operating policy and encouraged the enterprise to start by raising product quality, broadening the sales channels, and then, on the foundation set by the Ministry of Foreign Economic Relations and Trade, opening up foreign reselling and Chinese sales channels, which made the company become the city's first joint venture to use basically no imported materials and to cleanly earn foreign exchange.

4. Summary of the experience of the International Service Center, etc., in emphasizing the financial departments. The International Service Center has always paid close attention to financial work, and has strengthened training for financial officers in foreign economics, trade and the law. Moreover they have placed financial officers on the Board of Directors to participate in operations policy-setting. The Board has clearly indicated that all contracts and regulations must have the signed approval of the financial department before they go into effect. From the beginning of construction to now, that enterprise has signed over 100 contracts in China and abroad for purchase of equipment, and financial officers participated at each negotiation and signing. They have showed obvious economic results in lowering the overall cost of construction and in reducing enterprise expenses.

The Beijing Jeep Company, the Jianguo Hotel and the Jinglun Hotel all take financial work very seriously. Not only have they expanded the arena of activity of accountants, making the financial department care about money as well as about the product. Moreover they have brought management accounting into the realm of enterprise financial management, and through strengthening budgeting management systems and following a feed

back system. This not only strengthened the financial department's preliminary controls, the mid-process inspection and follow-up analysis. It also allows the financial officers to play a helping role in adjusting enterprise operating policy, in changing enterprise operating management so that enterprise efficiency has been greatly improved.

Through summarizing and promoting the experience of foreign funded enterprises' financial management, today the negotiation success rate for using foreign funds has reached over 95 percent, and almost all the foreign-funded enterprises that have opened are economically efficient.

### Concerns Following Shanghai's Implementation of Contract System

40060336 Beijing GUOJI SHANGBAO in Chinese  
19 Jan 89 p 1

[Article by Chen Xueyan 7115 1331 3601 and Yao Ximin 1202 6932 2404: "Shanghai's Foreign Trade System—Sadness Mixed With Joy"]

[Text] Although Shanghai's foreign trade management contract system has had a rough time in its one year of existence, it still has not lost its great vitality and has created excellent economic benefits for foreign trade enterprises.

Recently, reporters learned that five import-export corporations, the Native Products, Medical Care, Metallic Products, Machinery, and Sports Import-Export Corporations, in their 1988 exports all surpassed the goals set for them at the beginning of the year, which had been greatly increased from 1987. The Shanghai Sports Import-Export Corporation's volume of exports in 1988 vaulted the company into second place nationally among enterprises of the same type.

The first year that the reformed foreign trade system went into effect was 1988. Many specialized enterprises and corporations completely implemented the contract management responsibility system in their property and overall corporate undertakings. Shanghai's foreign trade system was effected quickly, with an urgent time frame and heavy responsibility. In addition it has encountered such problems as sharp domestic price increases, a greatly increased demand for materials, and an insufficient supply of suitable goods. Along with the development of fraternal work relationships with the province and municipality, there has been a corresponding increase in foreign trade outlets, making the competition all the more intense. Due to the existence of a double-track pricing system, and despite preferential measures from the state, certain goods for export have still not yielded economic benefits as good as for the domestic market, which has a negative effect on exports.

Faced with so serious a situation, Shanghai's foreign trade enterprises have not flinched in the slightest. Complying with the dictum, "In all things, mankind's actions are controlled by ideology," they set about to increase their knowledge based on unified thinking. The Shanghai Machinery Import and Export Corporation organized a major symposium on the topic, "How corporations can survive and develop in competition." After the symposium, a sense that "when the corporation prospers we are honored, when the corporation declines, we are disgraced," had obviously become widespread among corporations' staff and workers. The Shanghai Metal Products Corporation motivated staff and workers to study the situation and exchange views on their responsibilities. The corporation also held conferences with more than 60 mid-level cadres, repeatedly going over their accounts, and formulated eight measures to cut losses. The Shanghai Knit Products Import and Export Corporation was one of the earliest economic trade units to implement the management responsibility system, and last year was the first to implement the experimental reform known as the "support track system." In order to adapt to the new guiding system of "management has overall responsibility, the party committee guarantees supervision, staff and workers are managed democratically," administering cadres at all levels are everywhere carrying out the system of "one sentry, two duties." On the 5th of each month, the corporation holds working conferences with the chief responsible persons from various fields, taking about 5 minutes time for them to report briefly to each other on their department's previous month's work, the staff and workers' thinking, problems which exist, their plans and related progress for the next month's work, etc. The corporation each time arranged for study of administrative work, while at the same time arranged for thinking about governance work.

Regarding the specifics of contracts, each foreign trade enterprise has its own way of doing things, but there are many similarities:

—Adjustment of the organizational structure. The Shanghai Natural Products Import and Export Corporation changed its original business section into a department, while its administrative offices for revenue, packaging, storage and transport were converted to departments as well. In addition, they set up more import departments and external trade departments. As a result, the business departments' functions were strengthened, management's viewpoint changed from the purely supervisory to the managerial model. This allowed the company to cut down on its losses, increase profits, and begin putting its funding to positive use. The Shanghai Medical Care Import and Export Corporation also converted its original three export sections into six export departments, which aids in strengthening enterprise supervision and management.

—All of the foreign trade enterprises determine export, income, and profit goals for their business departments, and these departments in turn monitor the

merchandising organization. The Shanghai Natural Products Corporation broke down the three broad goals into 19 categories of data, which, after a thorough analysis, was handed down to relevant units and then given further independent accounting analysis at the basic level. For example, after a warehouse subordinate to the corporation had carried out an independent accounting, the 1988 profits reached 800,000 yuan, nearly double that of 1987. The Shanghai Machinery Import-Export Corporation's president concluded and signed contractual agreements with the managers of various business departments. These contracts not only clarified each business department's economic goals in such areas as income, profits, stock, expenses, etc., at the same time they also clarified such needs as ideological work, attitude toward labor, etc. On a scale of 100, the various economic quotas are calculated at 70, with such factors as ideological work and attitude toward labor at 30. In addition, there are specific topics and contents which are evaluated, so that each business department will correspondingly break down the date for administrative groups and individuals. This assures that everyone is clear as to their responsibilities, rights, and benefits. This removes all impediments to the corporation's control and clarifies the sequential division of labor. However, when experience demonstrates that in some areas there is a considerable gap between the actual situation and the goals handed down, the relevant foreign trade enterprise must make appropriate adjustments.

—Linking fund allocations more closely to economic benefits. Based on an original survey, the Shanghai Sports Import-Export Corporation increased the net final income goals that each business department was directed to fulfill. Taking the section as the unit cited, and 20,000 yuan as the base, if the net income goal was not fulfilled, then 35 percent of the total in each category of bonuses was deducted. Under the impetus of this, each department increased its exports and its income. The Shanghai Machinery Import-Export Corporation also widened the gaps between its various departments' fund allocations, smashing the "iron rice bowl" phenomenon, and making it a case of the more worked, the more gained, the less worked, the less gained. Bonuses to personnel within the corporation varied by as much as 208 yuan. A regulation of the Shanghai Knit Products Import-Export Corporation says that if a business department fulfills its basic goals, it can receive a full year's basic bonus; if it also attains its goals for income and benefits, an additional 20 percent can be added to the basic bonus; if the income goals are surpassed, an additional bonus will be distributed to the department, on a basis of 4 or 8 yuan for each \$1,000 of exports. The exact amount is not yet finalized.

—Implementation of a complete personnel appointment system. The Shanghai Sports Import-Export Corporation implemented an appointment system for each section, from the president appointing the people in charge

of every business department, to those people appointing their staffs. Managers empower section heads (directors) to lay down the conditions in agreements for those appointed and for those making the appointments. The section heads (the directors) have the power to appoint or not appoint and to terminate employees. Staff and workers have the right to accept or reject an appointment. Staff who are not appointed or who have rejected an appointment and thereby are working without a contractual agreement, are regarded by regulation as workers awaiting appointment. During this waiting period they will receive wages only, with no bonuses. The Shanghai Metal Products Import-Export Corporation has empowered its directors to make adjustments in materials, how personnel and funds are used, and to grant bonuses. The contract management responsibility system has strengthened both the sense of mission and the enthusiasm of cadres and workers.

Naturally, there were many difficulties encountered in the implementation of the contract management responsibility system, which can be summed up as "a shortage of goods and funds." Last year, there was a massive increase in the prices of agricultural products and by-products, and in the prices for industrial materials. Other provinces and municipalities, in order to benefit themselves, added administrative barriers to the sale of certain goods, and some have levied a 50 percent tax on goods from their provinces. It is no exaggeration to say that foreign trade enterprises faced with virtual starvation had no other option than to spend large amounts of their foreign exchange to import materials from abroad. The money spent by some corporations to import goods which they needed has been as much as 80 percent of their export funds, and moreover there is often a huge loss resulting from the costs of imported materials required and the costs of exchanging these between plants. In the past, "lost materials" could be "eaten from the common pot"; now, under the contract management responsibility system, these "lost materials" have to be made up from the enterprise's own resources. This will doubtless make it difficult for some enterprises to fulfill their income goals, for in order to accomplish these goals, they must greatly increase their exports, using an excessive amount of foreign exchange to fill in the gaps. Besides, owing to pressures from their banking creditors, foreign exchange enterprises lack a cash flow, so from the time when their production plants have imported materials to just before their products are put on the market, the enterprises lack the ability to repay these loans. Production enterprises have endlessly poured out their grievances, as well as repeatedly called for debt renegotiation, but it has all been to no avail. One after another, spokespersons for enterprises in the foreign trade system have told reporters that, if the foreign trade contract management responsibility system is to be implemented smoothly, resolution of the two difficult problems of "supply of goods" and "funds" must be seen as a matter of the utmost urgency. In this way, every specialized corporation can tap its latent potential. At the same time, they also hope that the government will give the necessary support.

## ECONOMIC ZONES

### Shandong Open Economic Zone Uses Foreign Capital

SK2802054189 Jinan DAZHONG RIBAO in Chinese  
8 Feb 89 p 1

[Summary] The open economic zone of Shandong peninsula doubled and redoubled its volume of foreign capital use in 1988 thanks to conscientiously implementing the strategy for economic development in coastal areas.

Last year the open economic zone approved 252 items on using foreign capital. The total transaction volume of these items reached \$580 million, including \$298 million in foreign investment. Of these items, 132 were foreign-invested enterprises with a transaction volume of \$427 million, including \$201 million in foreign investment.

## LABOR

### Labor, Employment Challenges Facing Country

40060279 Xiamen ZHONGGUO JINGJI WENTI  
[CHINA'S ECONOMIC PROBLEMS] in Chinese  
No 6, 20 Nov 88 pp 26-32

[Report by Yang Xia 2799 7209 of the Economic Institute of the State Planning Commission: "Labor and Employment: Challenges and Options Facing China"—first paragraph is source-supplied introduction]

[Text] The author of this report said: The relative reduction of employment space, the rigid increase of employment cost, and the fundamental change of employment concepts are three major challenges facing China's labor and employment ... Our goal is to establish an initial form of new employment system, which is regulated mainly by the market, integrates rural and urban areas, and is open and flexible, and to form a general four-tier employment structure with Chinese characteristics by the year of 2000.

0.1. The issue of labor and employment is now a major subject for the macroeconomic study of all countries. In China, a large country which will have over 1.2 billion people and 770 million laborers by the end of this century, choosing an employment policy, system, structure, and mechanism that suits China's national conditions is a major aspect in the formulation of China's economic development strategy as well as a primary economic issue concerning the stability of society and economic development and the fulfillment of the four modernizations. However, since it is an extremely complex issue, this report will not and cannot possibly cover all labor and employment issues of China. Because it is also unnecessary to discuss issues already raised by many other articles, this report will make some general projections on labor and employment prospects in China and offer some humble opinions on certain issues for use by the departments concerned as reference in in-depth studies.

0.2. Major views of this report are:

The reform of China's labor and employment system focusing on reducing the degree of public ownership, weakening centralized management, and introducing the market mechanism, has been the most important economic reason for the change of labor and employment distribution in China since 1979. However, this is only the beginning of a prelude to labor and employment reform and changes in China.

It is hard to predict that in the future China's labor and employment problems will be resolved by the inertia of previous reforms and achievements. The relative reduction of space, the rigid increase of employment cost, and the fundamental change of employment concepts are three major challenges facing China's labor and employment.

However, the "economic gap" and the "market gap" have created opportunities and offered options for solving China's labor and employment problems. Our goal is to implement the employment principle of "adhering to the reform, opening up the market, combining domestic and foreign channels, and broadening space," to establish an initial form of new employment system, which is regulated mainly by the market, integrates urban and rural areas, and is flexible and open, and to form a general four-tier employment structure with Chinese characteristics by the year 2000.

### I. Lowering the Degree of Public Ownership, Weakening Centralized Management, and Introducing the Market Mechanism—Major Aspects of Changes in China's Labor and Employment Since 1979

1.1. For a long period, about 30 years, before 1978, China implemented in urban areas an employment policy, which was based mainly on low wage, high employment, sexual equality, unified recruitment and appointment, discrimination against individualized employment, and undue emphasis on the upgrading of ownership. In rural areas, China implemented an employment policy, which was based mainly on high collectivization and the prohibition of movements. The long-term effect of such policies formed an employment system and situation characterized by highly centralized management, separation of urban areas from rural areas, discrimination against competition, low efficiency, and "the same big pot," which violated the objective demand of the development level of China's productive forces, dampened workers' enthusiasm, and hindered the improvement of labor productivity.

1.2. Due to the effects of two factors—reform and development—after experiencing a quantitative change in labor and employment which lasted for 8 to 9 years, China has witnessed since 1979 a series of profound

changes in the system, ownership structure, and operational mechanism of employment, the distribution of urban and rural employment, and the employment distribution of industries.

1.3. Employment system. The breakthrough out of a traditional employment system was first demonstrated in the countryside of China. The reform of the rural economic system, which is based mainly on the household output-related contract responsibility system, has effectively promoted the substitution of employment methods focusing on individualization for unitary collective labor organizations. As of today, judged from the two aspects of employment options and management, China's rural areas have basically entered a new, independent, and open employment system. In urban areas, changes in the employment system have been far more complex and difficult than in rural areas. However, along with the implementation of the economic policy on individual, private, and collective cooperation economies, the transfer from suppression to encouragement, the popularization of the contract system, the easing and partial lifting of various restrictions on retirement, resignation, suspension of pay, independent job searching, and other methods of job transfers, urban areas have also witnessed a rapidly growing trend and tendency of labor flow, competition, and free employment,

which not only has begun to challenge the traditional concept of employment but also is disintegrating the old employment system.

1.4 Employment ownership structure. During the 30-year period between 1957 and 1978, almost all social labor congregated within the scope of state and collective ownerships due to the long-term effect of upgrading ownership. According to computations in "The Statistical Data of China's Labor and Wages" by the State Statistical Bureau, the ratio of state ownership to collective ownership to individual ownership in employment was roughly 18.7:81.3:0 in 1978. However, since 1979, the first wave of large-scale ownership reform in rural areas and the encouragement of individual and collective economic development in urban and rural areas have made a profound change in China's employment ownership structure. The basic pattern followed by the development of ownership in China's urban and rural employment during this period was collective employment switched rapidly to individual employment in rural areas, and individual and collective employment increased much faster than state employment. By 1986, the ratio among the three ownerships of social labor became roughly 18.2:15.3:66.5. (See the following table for details.)

Changes in the Employment Ownership Structure of Society

	1978		1986		Comparison Between 1986 and 1978	
	Employment number	Employment ratio	Employment number	Employment ratio	Employment number	Employment ratio
Total	39856	100.0	51282	100.0	11426	-
State ownership	7451	18.7	9333	18.2	1882	-0.5
Collective ownership	32390	81.3	7869	15.3	-24521	-66.0
Individual and other ownerships	15	0	34080	66.5	34065	+66.5

1.5. Employment operational mechanism. The most direct result of the change of employment ownership structure is a change in China's employment operational mechanism. If the highly socialized employment ownership structure we had before the reform was considered the foundation of the highly centralized employment operational mechanism which put urban and rural areas under unified control, then the individual employment method we use today after the reform should be considered rich in the color of market disposition, and the employment method of collective ownership should be considered having a certain degree of semi-market disposition mechanism. Based on the the ratios in the above table, we can draw the following conclusion: At the present stage, 80 percent of China's labor employment has adopted the operational mechanism of market or semi-market disposition. The development of a market mechanism is still in the initial stage due to various limitations caused by separated urban and rural household registration systems and divided state and collective management. But we must realize that the initial development of the market mechanism is still the most

profound change that has ever occurred in the field of labor and employment since reform started.

1.6. The distribution of employment of industries. Greater employment freedom generated by changes in the employment system plus the development of urban and rural economies are changing Chinese laborers' preference and thereby affecting the distribution of labor and employment in different industries. An in-depth study shows that the general trend of change in China's industrial employment structure in the past few years has two characteristics: 1) Following the general pattern of other countries, the employment ratio of the secondary and tertiary industries has increased. 2) Since China has many rural laborers, the employment ratio of the planting industry has been very high. In addition to these two decisive factors in the change of China's industrial employment structure, another salient feature is that large numbers of rural employees have switched from the planting industry to forestry, animal husbandry, sideline production, and fishery. The information of the State Statistical Bureau shows that in the past 8 years the

number of Chinese laborers engaged in forestry, animal husbandry, sideline production, and fishery increased 1.8-fold from 18.1 million in 1978 to 51.02 million in 1986. Such a large-scale employment change has not only affected the distribution of employment in rural areas but also played a role that cannot be ignored in the employment structure of the whole society. Therefore, in the overall analysis of China's social employment structure, we must not simply follow the general practice of other countries and adopt the method of three-tier analysis, which uses the primary, secondary, and tertiary industries as a standard. Instead, we should use the method of four-tier analysis, which is based on the planting industry in rural areas and includes four tiers—

planting; forestry, animal husbandry, sideline production, and fishery; the secondary industries; and the tertiary industries. Otherwise, we would not be able to make an accurate account and judgment of changes that have occurred in the employment structure in the past few years. According to this standard of classification, we can present the trend of evolution of China's social employment structure since 1979 as follows (see table below): Agriculture has dropped 18.2 percentage points. Forestry, animal husbandry, sideline production, and fishery have increased 5.4 percentage points. The secondary and tertiary industries have increased respectively 6.9 and 5.8 percentage points. In 1986, an initial form of four-tier employment pattern—51:10:22:17—was established.

**Changes in the Employment Structure of Society**

Unit: 10,000 people, %

Year Items	1978		1986		Comparison between 1986 and 1978	
	Employment number	Employment ratio	Employment number	Employment ratio	Employment number	Employment ratio
Total	39856	100.0	51282	100.0	11426	-
1. Planting	27616	69.3	26209	51.1	-1407	-18.2
2. Forestry, animal husbandry, sideline production, and fishery	1810	4.5	5102	9.9	3292	+5.4
The secondary industry	6074	15.2	11356	22.1	5282	+6.9
4. The tertiary industry	4356	11.0	8615	16.8	4259	+5.8

Note: Compiled according to "China's Labor and Wage Data" published by the State Statistical Bureau between 1949 and 1985, the "Almanac of Statistics of China" for 1987, and information provided by the Rural Economic Department of the State Statistical Bureau.

1.7. Without question, the profound changes that occurred in China's employment system, mechanism and structure in the past 8 to 9 years indicate that China's labor and employment have entered a new stage of reform and development. We may say that all achievements made during this period can be attributed mostly to the fact that we have always adhered to the main line of reform; that is to lower the degree of public ownership, weaken centralized management, and introduce the market mechanism. This is a basic review of changes occurred in China's labor and employment pattern since the 3d plenum of the 11th CPC Central Committee. This experience will have a far-reaching effect on China's labor and employment.

**II. The Space, Cost, and Concepts of Employment—  
Three Major Challenges Facing China's Labor and  
Employment**

2.1. However, the achievements we have scored in the reform do not mean that China's future labor and employment problems will be resolved in such inertia. An in-depth study shows that the past changes took place under certain specific economic conditions and social backgrounds. Now some of these backgrounds and conditions have changed or will soon change. Especially some favorable conditions have diminished in varying degrees while some unfavorable tendencies have begun to emerge. The relative reduction of employment space,

the rigid increase of employment cost, and the fundamental change of employment concept are three major challenges facing China's labor and employment.

2.2. The relative reduction of employment space and the absolute increase of employment pressure constitute a primary contradiction that will become increasingly prominent. The labor and employment reform in the past has created unprecedented employment opportunities for urban and rural areas of China. But these opportunities were created under the condition that rural reform be carried out at the expense of delaying urban reform. It happened when China was changing from a closed to an open society. Therefore, we may say, to a certain extent, that the large-scale employment that occurred in the past few years was achieved by taking full advantage of the employment space created during the initial period of reform. As the reform deepens and the economy develops, the original employment space will be gradually reduced.

In rural areas, the popularization of the household output-related contract responsibility system has formed a rural employment system based on individualization, which has brought about a higher labor productivity. However, the labor productivity is higher only when it is compared to the extremely low labor productivity under the previous "same big pot" system. Besides, it is achieved at the cost of lowering the level of agricultural

mechanization and abandoning economies of scale. These subjective and objective factors plus farmers' reluctance to leave their land have limited to a certain degree the scale and speed of labor transfer from agriculture, especially the planting industry, to other undertakings. Statistics show that comparing 1986 with 1978, the number of laborers engaged in planting in rural areas declined only by 3.11 million or 1.2 percent. This relatively stable situation shows that the rural ownership based on individual farming has created some space relatively available for employment and slowed the process of labor transfer from agriculture to non-agricultural undertakings. However, production potential released by individual farming is, after all, limited. The low-level growth of agricultural economy occurred repeatedly in the past few years has put the issue of operation of scale on a serious agenda of further agricultural development. The development of the operation of scale itself has put forward an objective economic demand that agricultural laborers, especially, farmers, be reduced absolutely by a large number, which was unexpected in the rural reform in previous years.

In urban areas, about 70 million people were placed between 1979 and 1987 (see "The Statistical Data of China's Labor and Wages"). The occurrence of such large-scale employment can be attributed to a certain degree to the use of the relative employment space created by delaying the reform of urban employment system. The "iron rice bowl" employment system of state ownership and the semi-market employment mechanism of collective ownership have covered up the employment contradiction of urban and rural areas and allowed an excess of 40 million people, about 30 percent of current urban workers, to be placed. This is the fundamental restricting factor in the slow improvement of urban labor productivity at the present stage. Deepening the reform of urban employment system and substantially improving urban workers' labor productivity have become an imperative demand for the economic development of urban areas. When such an imperative demand is met, the previous relative surplus of China's urban employment will become an absolute surplus. With the surplus urban labor, the original urban employment space will become even more crowded on contrast.

According to the prediction of the departments concerned, the relative reduction of urban and rural employment space alone requires that we replace 10 million people in rural areas and 40 million people in urban areas. However, China's future employment pressure comes from not only replacing existing laborers but also creating jobs for new laborers. In the next 12 years, 160 million more people will enter the job market in China. In other words, between now and the year of 2000, China's economic development and reform have to create employment opportunities for a total of 300 million people. If we can solve this problem, we would be the first to do so in the world. However, this problem is far more difficult than the problems of other countries.

2.3. The excessively rapid increase of the cost of employment and the relative shortage of financial resources of society is a latent problem which has not been widely noticed. Judged from the viewpoint of creating jobs, the cost of employment includes two things: One is the labor income paid by society to each employee, namely workers' employment price; the other is the capital of production invested by society in each employment opportunity it creates, which will be abbreviated as employment capital hereafter. Looking back on the basic changes in China's employment cost in the past few years, the increases of employment price and capital were much greater than the increase of social wealth in China.

With regard to employment costs, the average wage of Chinese urban workers increased roughly 1.2-fold between 1979 and 1986, averaging 10.1 percent per year. Among them, the average worker's wage of state-owned urban industries increased 10.3 percent per year and the average worker's wage of collectively-owned industries increased 10.1 percent per year. Both increases were much higher than the average annual increase of labor productivity, which was 4.6 percent, (calculated based on the net value of output created by every industrial worker) in the same period. The annual disparity between them was as high as 5.5 percentage points. Employment costs cannot be manifested as wages in rural areas, but it can be roughly reflected in per capita cost of living. A sample survey shows that between 1986 and 1978, peasants' per capita cost of living increased 2.1-fold, averaging 15.1 percent a year, and that agricultural labor productivity increased on the average of only 6.9 percent a year (calculated based on the net value of output created by every agricultural laborer). The annual disparity between the two was 8.2 percentage points.

With regard to employment capital, the relation between capital and employment in the past few years was that the increase of capital was much faster than that of employment. According to the statistics of "The Annual Report of Industrial Statistics" on China's industrial enterprises which practiced independent accounting, during the 6-year period between 1980 and 1986, the number of employees at these enterprises increased 11.07 million or 23.7 percent whereas the production capital of these enterprises (the net value of their fixed assets and their fixed amount of floating capital) used during the same period increased 391.6 billion yuan or 92.5 percent. Comparing the two increase rates, the latter was tantamount to 3.9 times the former.

Although the increase of employment cost in recent years cannot rule out the influence of rational factors such as the improvement of people's living standards as a way of paying debts and the improvement of organic composition resulting from technological progress, it also includes such non-economic factors as the loss of control over consumption and investment. If this is allowed to continue, we will face two thorny macroeconomic problems in the sphere of labor and employment. One is that the increasingly higher employment price will make



China lose its international advantage of low labor price and put it in a dilemma—failing to enter the international market because the production cost of its products is too high or resorting to heavy subsidies which its finances cannot afford. Another problem is that if urban and rural employment price continues to increase much faster than labor productivity and employment capital continues to increase much faster than national income, they will eventually worsen the excessive distribution of national income and cause the prices of social commodities to skyrocket. Inflation will then in turn push employment cost to rise even faster. Therefore, how to curb the rigid increase of China's employment cost is another thorny point of our future labor and employment problem.

2.4. An in-depth analysis shows that to deepen the reform of employment system in the next decade or so, we will encounter an unprecedentedly strong challenge by traditional employment concepts. This is because China's reform of employment system has come to a turning point. Until now the reform of rural employment system has focused on dissolving the previous ownership of capital goods, which was "large in size and collective in nature," and returning the ownership of capital goods to peasant households. This has satisfied peasants' desire to directly own capital goods and fulfilled their wish to engage in small-scale farming. This combines the ownership of capital goods and managerial right, therefore, it is easily acceptable to peasants. In urban areas, the concepts of mobility, competition, and free choice introduced by the employment methods of individual and collective ownership already carried out, have not formed a unified concept of social employment due to their very limited effect and scope. However, as the economy develops and the reform deepens, the separation of ownership and managerial right will become inevitable in future reform, and it will be the basic way to combine urban and rural production elements. In rural areas, the operation of scale generated by economic development will demand that a large number of peasants give up their right to manage capital goods and that the individual employment method, which directly combines the household unit with capital goods, evolve toward non-individualized employment methods. This change from individual to non-individual is the complete reverse of the previous change from collective to individual. It will violently conflict with peasants' traditional concepts. Just like the Rural Development Research Center of the State Council pointed out in the article "The Review and Reexamination of Changes in the Pricing Mechanism of Farm Products," "today, peasants are willing to pay even for the cost of cooperation." Similar problems have also occurred in urban areas. The improvement of the current contracted management responsibility system and the transformation of enterprise assets into stocks have forced enterprise contractors and managers to get rid of redundant personnel, which account for 30 percent. If these people enter the job market on their own, it would put pressures on current employees, meaning that almost 100 percent of

China's urban employees would be pushed into the market. Undoubtedly, this would make a fundamental impact on those who are used to the employment concepts of the "iron rice bowl" and the "same big pot." Therefore, the future reform of the employment system will inevitably be obstructed and resisted by traditional employment concepts.

2.5. The above-mentioned problems concerning the space, cost, and concepts of employment are by no means a summary of all the contradictions that China's labor and employment will encounter in the future. This report only wants to point out, from the macroeconomic point of view, some problems that are different from those in the previous reform of the employment system and hope that they will attract some attention for further study.

### III. Employment Principle, System, and Structure— China's Labor and Employment Measures and Options

3.1. Like all countries, seeking a higher labor productivity and employment rate is a basic starting point for China to consider labor and employment issues in the next decade. To achieve the "double high" labor employment goal, we must choose an employment principle, system, and structure that suit China's national conditions. To do so we need to have a basic understanding of the economic environment surrounding China's labor and employment issues. As mentioned before, the relative reduction of employment space, the rigid increase of employment cost, and the fundamental change of employment concepts have reflected from one aspect the degree of difficulty of solving China's labor and employment problems. However, on the other hand, the next decade is an important stage for China's structural reform and economic development. During this period, China will put an end to the confrontation between the old and new systems, basically establish the dominant position of the new system, and design an initial economic layout that is conducive to the development of next century. During the same period, social concepts will change and be replaced rapidly. All this has created opportunities and options for solving China's labor and employment problems.

Economic gap. Before 1978, China's economy was long controlled by the "leftist" ideological principle of taking grain as the key link and focusing on industry. Because of this and continuous economic blockades by foreign countries, China's social labor concentrated in planting and industry and was confined to a domestic, market-oriented economy. Since the reform, economic development has yet to bring about a fundamental change in the backward situation of forestry, animal husbandry, sideline production, fishery, and the tertiary industries, and the export-oriented economy accounts for only a small percentage. This uneven economic structure serves as a great enlightenment to us. It indicates that a gap in economic development exists in three fields—forestry, animal husbandry, sideline production, and fishery; the

tertiary industries; and the export-oriented economy—which has great employment potential waiting to be tapped. This point has been proved by the transfer of social labor in recent years. Therefore, to solve the employment problem for as many as 300 million laborers, we must make full use of this gap.

Market gap. Due to the reform, rural laborers, who account for about 70 percent of social labor, and some urban laborers have entered, in varying degrees, the scope of market regulation in their employment selection. However, because urban and rural household registration systems are managed separately, especially because the overwhelming majority of urban workers are still under the strict control of units and departments, laborers cannot move freely between different villages and towns, between urban and rural areas, between different districts, enterprises, and departments. On the one hand, this limited freedom of movement and employment shows that currently China's market mechanism is still in its fledgling stage and cannot solve the two problems posed by low production efficiency and high employment cost. On the other hand, it predicts a great potential of starting the market mechanism, raising labor efficiency, and reducing employment cost.

3.2. Based on the analysis of above problems and opportunities, we think that we could choose a basic layout for China's labor and employment development in the next decade: Focus on raising labor productivity; implement the general employment principle of "adhering to reform, opening up markets, combining domestic and foreign channels, and broadening space"; and basically establish a new, flexible, and open employment system, which is regulated mainly by market and integrates rural and urban areas, and form a rough four-tier employment structure with Chinese characteristics by the year 2000.

The basic meaning of "adhering to reform and opening up markets" is to continue to lower the degree of public ownership in urban areas and quicken the step in introducing market mechanism to employment selection.

The so-called "combining domestic and foreign channels and broadening space means encouraging social laborers to switch to forestry, animal husbandry, sideline production, fishery, and the tertiary industries and broadening employment space in China by increasing direct and indirect labor exports.

All social workers, except for government employees and teachers, who account for a very small part of social labor, will enter the labor market indirectly managed by the state as free laborers.

There are too many laborers engaged in the planting industry in China. China's forestry, animal husbandry, sideline production, and fishery are very backward. Due to these reasons plus the limitation of non-agricultural employment space, a considerable number of social laborers will continue to choose to engage in agricultural

undertakings other than planting. Therefore, in the in-depth analysis of China's employment structure, we should not simply adopt the classification of the primary, secondary, and tertiary industries. Instead, we should form a four-tier employment structure that is different from that of other countries and includes forestry, animal husbandry, sideline production, and fishery.

3.3. In order to solve future labor and employment problems, reduce employment pressure, and increase employment efficiency, we must seize the opportunities provided by the above-mentioned two gaps and choose to adopt the following measures:

Reform the labor and employment system and promote the introduction of market mechanism in employment. The reform of employment system carried out since the 3d plenum of the 11th CPC Central Committee has introduced the market mechanism but failed to fundamentally reverse the situation in which the market mechanism plays a very small part in employment and employment freedom is very limited. In addition to the factor of an underdeveloped economy, there are three restricting factors concerning management system and external environment. The first one is the strict household registration system; the second one is the system under which labor ownership systems of ownership by the whole people, collective, enterprise and department ownership; and the third one is the lack of a sound organization, a complete set of rules and regulations, and a labor market based on a social security system. For this, we must speed up the reform of employment system in the following areas: 1) Accelerate the transfer of three systems—enterprises' worker contract system, institutions' hiring system, and the government's employment system—from the stage of theoretical study to the stage of practical application, and gradually abolish, through these three systems, the labor system based on state and collective ownerships. 2) Use the resident's identity card for the purpose of identification and supervision in employment to replace household registration and reduce its restrictions on laborers' freedom in employment. 3) Establish a labor market network system, including organizations providing supply and demand information on human resources and offering personnel consulting services; extend the influence of competitive factors of market such as advertising for vacancies, responding to advertisement, giving and taking examinations, campaigning for office, resigning, and firing; and perfect a series of legal and social security systems that would facilitate labor flow.

To formulate an overall economic development strategy, we must give full consideration to the need to transfer laborers to forestry, animal husbandry, sideline production, and fishery, the tertiary industries, and the export-oriented economy. The departments concerned should vigorously study two questions: 1) What kind of policies shall we formulate and what kind of measures shall we take to channel funds to forestry, animal husbandry,

sideline production, fishery, and the tertiary industries so as to accelerate their development? 2) How do we encourage direct labor export consisting mainly of construction and develop indirect labor export consisting of various service industries at home such as food processing, clothing, and industrial arts which are oriented toward the tourist economy.

We should increase employment efficiency and improve the quality of laborers. Facing this tremendous overall employment pressure, we are sure that we will not be able to reach full employment in the next decade. Because of this, we should also study and gradually implement a temporary employment system which includes part-time employment, temporary employment, and employment of both men and women. The significance of maintaining a certain amount of temporary employment is, on the one hand, it can increase employment competition and directly improve employment efficiency; and, on the other hand, it can create necessary conditions for carrying out social training in a planned manner and improve the employment quality of laborers, who would then in turn help increase employment efficiency.

## AGRICULTURE

### **Increasing Rural Mechanization Investment** *40060333B Beijing JINGJI CANKAO in Chinese* *8 Feb 89 p 4*

[Article by Zhang Qinwen 1728 3084 2429, Shang Zhibin 1424 1807 2430, and Xu Jiguang 6079 4949 0342, Shanxi Provincial Rural Development Research Center: "Increase Rural Mechanization Investment and Ensure Agricultural Reserve Strength"]

#### **[Text]Two Major Difficult Questions on the Present State of Rural Mechanization Investment**

1. Rural mechanization has increased; why has the mechanized farming area decreased?

The total power of Shanxi Province's rural mechanization in 1984 (7,748,000 kilowatts) had increased 67.5 percent since 1978 (4,631,000 kilowatts), while the mechanized farming area (27,979,700 mu) had decreased 3.5 percent since 1978 (29,054,800 mu).

From the standpoint of psychological introspection into policymaking in the macrocosmic sense, the above situation was brought about by three faults. First, in the initial period of rural reform, the lagging of rural mechanization investment was ignored. The favorable weather conditions prior to 1985 objectively strengthened the power of "guarantees," but it was precisely the favorable weather and popular unity and coordination of that time which concealed the backwardness of rural mechanization investment. Therefore, we ignored rural mechanization investment and, proceeding from short-term objectives, implemented policymaking which cut down

on rural mechanization investment. Second, during the period of intense popular interest in rural mechanization which emerged in 1981, the peasants' mechanization investment favored transport and processing, while showing indifference to farmland mechanization, which yielded smaller investment returns. However, we could not provide prompt guidance with regard to this, and it finally resulted in the emergence of the present seriously irrational state of the mechanization structure. Third, the pace of crop production toward a commodity economy is far slower than that of such manufacturing industries as transport, processing, and construction, and this is like a signal to the peasants not to invest in farmland mechanization. It was the law of value which governed the peasants' choices regarding investment in rural mechanization, but we could not use this law to guide the peasants toward making a choice regarding mechanization investment which would benefit the development of crop cultivation.

2. The mechanized farming area has risen again somewhat; why has there been a relative decrease in the deep plowing area?

The sharp drop in grain production after 1985 startled the government, and through administrative intervention, the mechanized farming area has risen again. In the 1970's, Shanxi's yearly mechanized farming area was nearly 30 million mu, of which more than half was plowed to a depth of more than 20 centimeters. In recent years, however, although the mechanized farming area has risen again to over 27 million mu, the deep plowing area is still under 7 million mu, while the depth of other plowing has been only about 10 centimeters, and its quality has not been much different than that of tilling with oxen. Year after year of shallow plowing has formed a hard plow sole which both obstructs the penetration of the crop's root system and reduces the soil's ability to retain water; this has become a major technical factor limiting the increase of agricultural output. The only economic significance of this kind of mechanized farming is that it has used costly mechanization investment as a substitute for the rural labor force, of which there is still a surplus. One reason that this problem has appeared is that although Shanxi Province's small tractors have increased extremely rapidly, there has been a constant decrease in large tractors, particularly caterpillar tractors used in deep plowing; moreover, a considerable portion of them are classified as "superannuated service" tractors, and there exists the danger that they will all become broken down with the next 2 or 3 years. The second reason is that field implements have increased little and break down often; the ratio of complete sets of field implements dropped from 1:1.18 in 1979 to 1:0.57 in 1987.

Therefore, stated exactly, the decrease in rural mechanization investment is manifested primarily as a decrease in mechanized farming area, and the decrease in mechanized farming area is in turn manifested primarily as a decrease in deep plowing area. This is the main latent danger affecting agricultural reserve strength.

### Some Measures Which Should Be Adopted From the Macroscopic Standpoint

1. In general, find the strong point for encouraging the peasants to increase mechanization investment. Proceeding from China's national conditions, we must make the increase of land productivity and the improvement of soil fertility binding conditions for the peasants' pursuit of profit maximization. After relying on the profit mechanism to start the process, it is strengthening of the binding force of targets which will be the lubricant which ensures the constant increase in value of the peasants' profits. All of this must be premised upon agricultural products becoming true commodities based on exchange of equal value. This should become the strong point of our objective adoption of countermeasures.

2. Establish the development strategy of "relying on peasants to carry out 'small-scale rural mechanization', which the state assists in 'large-scale mechanization.'" In recent years, small-scale rural mechanization, particularly small four-wheel tractors, has enjoyed a favorable investment climate, high economic returns, and a high rate of development, and has had a relatively strong attraction for peasants. Moreover, from the standpoint of investment capacity, peasants can continue to become the main body for investment in the development of small-scale rural mechanization. The state, premised on appropriate control, must provide technical and managerial services and continue to make comprehensive use of small-scale rural mechanization. Large-scale rural mechanization yields high returns from increased production, and its development should be accelerated, but its operational fees are low and returns on capital slow, and under the present conditions of small-scale peasant household land management and the separation of direct and indirect economic returns from mechanized farming, large-scale rural mechanization offers very little attraction to peasant household investment. Although relying on cooperative economic entities can improve investment conditions, as far as the average village is concerned, lump-sum investment is still very difficult. Therefore, the state should use a sizable portion of its agricultural investment to support the development of large- and medium-scale rural mechanization, and establish and augment a special revolving fund for remodeling the rural mechanization structure. Consideration may be given to providing discount loans to collectives and peasant households which purchase large-scale implements used in field work.

3. Establish operational organizations mutually adapted to large-scale rural mechanization, and engage in operation and service. Currently, a relatively feasible form of this is the restoration of rural mechanization service stations (or teams) at the county, township, and village levels. Rural mechanization stations (or teams) at the village level primarily directly serve peasant households. These must provide overall planning with regard to funds, implement unified formulation of service quality

standards and fee collection standards, and enforce the implementation of service projects for protecting soil fertility (such as deep plowing and land levelling). Rural mechanization stations at the township level primarily manage the leasing of large- and medium-sized tractors and implements. In addition, they must also bear responsibility for such tasks as technical training, safety education and inspections, and petroleum product distribution. Rural mechanization stations at the county level primarily must handle such jobs as extension of, and training in, new rural mechanization technology, and operational guidance.

4. The agricultural machinery manufacturing industry must strengthen macrocontrol. In recent years, the agricultural machinery manufacturing industry has relied entirely upon market regulation, and production has to a certain degree become divorced from demand. First, there is confusion among the different models of small tractors, their quality is poor, and supply exceeds demand. Second, there is a marked shortage of certain machinery used in new development projects and agricultural implements urgently needed in agricultural production, but factories are not willing to produce them. In view of this, we recommend reinstating the policy of rural mechanization price subsidies.

#### Vegetable Supplies Improve

40060411b Beijing JINGJI RIBAO in Chinese  
17 Mar 89 p 2

[Summary] According to statistics from 44 cities, the area sown to winter vegetables is 838,000 mu, an 18 percent increase over 1988; and estimated output for the market is 664 million kilograms, a 30 percent increase over 1988. Beijing plans to supply 102,800,000 kilograms of vegetables during March; at present the price of cabbage has dropped from 0.14 yuan to 0.08 yuan per 500 grams and the price of celery has dropped from 0.30 yuan to 0.18 yuan. Shanghai plans to supply 60 million kilograms of vegetables to markets in March, a 25 percent increase over 1988. Xi'an plans to supply 34 million kilograms of vegetables in March and April, a 10 percent increase over 1988.

#### Shortage of Hybrid Rice Seeds

40060397f Beijing JINGJI CANKAO in Chinese  
17 Mar 89 p 2

[Summary] At present the amount of seeds in 13 southern provinces and regions is only enough to plant 190 million mu of hybrid rice, but the national planned area for hybrid rice is 210 million mu, an increase of 20 million mu over 1988.

#### Anhui Aquatic Products Output

40060397a Hefei ANHUI RIBAO in Chinese  
12 Feb 89 p 1

[Summary] In 1988 the gross output of aquatic products in Anhui Province was 266,000 tons, a 10.5 percent increase over 1987.

### **Commodity Bases To Reduce Hog-Raising Losses in Heilongjiang**

40060333A Harbin HEILONGJIANG RIBAO  
in Chinese 13 Jan 89 p 2

[Article by Liu Lingming 0491 0109 0682: "Setting Up Commodity Bases is a New Approach to Reducing Operational Losses in Hog-Raising"]

[Text] The state is attempting to lay down the burden of deficit subsidies which it has borne over 30 years by decontrolling pork prices. However, things go contrary to one's wishes, and Harbin City's pork subsidies appear to have fallen to the bottom of a valley—the more prices are "decontrolled," the more subsidies increase. According to incomplete statistics, since 1958, Harbin's financial authorities have paid over 700 million yuan in pork subsidies. However, since these "hidden subsidies" produce many abuses, by no means all of this huge amount of subsidies has been reflected in the meat eaten by consumers; instead, a large part of it has run off in the links of production or distribution.

In 1985, the state attempted, through decontrolling pork prices, to take the approach of "forsaking darkness" (i.e., hidden subsidies) for light (i.e., overt subsidies: the financial authorities issue the subsidy amount directly to the consumers). However, "hidden subsidies" were not abandoned, and "overt subsidies" increased greatly. Looking at the second "decontrolling" of Harbin's pork prices in the first half of last year, total losses amounted to 19.1 million yuan, a 10.98 million yuan increase over the 8.12 million yuan in losses for the same period of the previous year; the average per unit loss of 1.7 yuan per 500 grams of pork increased 1.24 yuan from 0.46 yuan for the same period the previous year.

Why is it that the more Harbin's pork prices are "decontrolled," the more financial subsidies increase? The root of the problem is that the old production and marketing system has not changed. Since 1985, when the pork market changed from being an exclusive monopoly of the meat packing plants, district and county food stations, township supply and marketing cooperatives, individual small retailers and the like have crowded into this market one after another; the meat packing plants' volume of hog operations has been reduced by one-half, and production lines with a capacity for 4000 live hogs have landed in the predicament of not having enough to eat year after year. Expense increases, redoubling of costs, and aggravation of inverted price disparity have followed one after another. Faced with this situation, the sensible choice must be to reform the old production and marketing system and establish a new operational mechanism. However, we have adopted the policy of "maintenance," and thus, the financial authorities have no choice other than to pay out of their own pockets to make up this deficit which gets bigger the more it is made up.

Analyzed from the standpoint of the psychology of the policymakers, this rigid adherence to "covert subsidies" may be related to a fear of the reemergence of the "meat shortage" deadlock. Since China's hog-raising industry is still based primarily on private-sector raising, this backward production method is considerably affected by the abundance or scarcity of grain, the price of feed, and the price ratio to other agricultural byproducts. Fluctuation in the hog supply is marked and hard to control, and this is a major factor contributing to the policymakers' psychological block. Setting up stable hog production bases is a new way of removing the policymakers' psychological block and breaking away from the situation of rapid increase of pork deficit subsidies.

The establishment of hog production bases is by no means a complete abandonment of private breeding as a source of hogs; rather, hog breeding bases are used to make up deficiencies due to shrinking of the hog supply. According to a survey, Harbin's normal annual sales volume of pork is about 45 million kilograms (nearly 500,000 hogs). Establishing a hog-breeding base which delivers 150,000 hogs to the slaughterhouse on a given year could ensure stability of the pork market.

In establishing hog production bases, we should adopt a policy which combines state, collective, and individual establishment; whoever has the enthusiasm and ability should be allowed to establish bases. The government would primarily implement macrocontrol through economic methods; i.e., everyone willing to engage in this undertaking would conclude contracts with the government, and the financial authorities would provide them with low-interest or interest-free loans. The funds made available by cancelling pork "hidden subsidies" (about 20 million yuan annually) could be used as a source of capital for constructing bases. Thus, nearly 30 million yuan could be raised annually and used to establish hog production bases. The newly-established hog production bases should be unified economic entities which combine breeding, slaughtering, and marketing. They would both slaughter their own hogs and purchase live hogs from peasants, as well as reducing distribution links and cutting costs by taking saddleback pigs directly to the city.

### **Hunan 1989 Crop Goals**

40060397b Changsha HUNAN RIBAO in Chinese  
25 Jan 89 p 1

[Summary] In 1989 Hunan Province expects grain output to be 26.5 billion kilograms; cotton output to exceed 100,000 tons, and peasant net income to increase 50 yuan. Hunan investment in water conservancy projects will increase 13 million yuan over 1988. In 1989, 78 million mu will be sown to grain, of this area 65 million mu will be sown to rice; and 1.6 million mu will be sown to cotton. The area sown to hybrid rice will be between 32 million to 34 million mu.

**Inner Mongolia Peasant Income**

40060397e Beijing JINGJI RIBAO in Chinese  
15 Mar 89 p 1

[Summary] In 1988 peasant net income in Inner Mongolia was 499.79 yuan, an increase of 111 yuan over 1987.

**Jiangxi Grain Storage**

40060383e Nanchang JIANGXI RIBAO in Chinese  
6 Feb 89 p 1

[Summary] By the end of December, Jiangxi Province had put 435,000 tons of grain in storage, accounting for 108.75 percent of the annual task. From April to December, 246,000 tons of wheat and 556,000 tons of corn were transferred to Jiangxi from other provinces.

**Jilin Sunflower Seed Area**

40060411a Beijing JINGJI CANKAO in Chinese  
17 Mar 89 p 2

[Summary] In 1989 Jilin Province plans to sow 2.8 million mu to sunflower seeds and procure 300 million kilograms. The procurement price for each kilogram will increase from 0.84 yuan to 0.89 yuan. The negotiated price for each kilogram will be 1.11 yuan.

**Xinjiang Cotton, Salt Output**

40060397c Beijing JINGJI CANKAO in Chinese  
14 Mar 89 p 2

[Summary] In 1988 the average per unit yield of cotton in Xinjiang was 52 kilograms and gross output was 278,000 tons. In 1988 salt output was 2 million tons and 1,010,000 tons were shipped to other provinces and regions.

**Peasant Income in Yunnan**

40060411c Kunming YUNNAN RIBAO in Chinese  
24 Feb 89 p 1

[Summary] According to a survey of 2,400 rural households in Yunnan Province, peasant net income in 1988 was 427.72 yuan, an increase of 63.15 yuan over 1987. On average, peasant income earned from primary industry was 311.26 yuan, an 18.6 percent increase; net income earned from secondary industry was 54.71 yuan, a 17.1 percent increase; and income from tertiary industry was 17.27 yuan, a 6.9 percent increase.

**Yunnan Rural Savings**

40060397d Beijing JINGJI CANKAO in Chinese  
14 Mar 89 p 2

[Summary] At the end of 1988, rural savings in Yunnan Province were more than 2.87 billion yuan, a 22.58 percent increase over 1987. Rural per capita savings increased from 76.83 yuan in 1987 to 92.88 yuan.

### **Cultural, Social Development of Initial Stage of Socialism**

40050241 Changchun SHEHUI KEXUE ZHANXIAN  
[SOCIAL SCIENCE FRONT] in Chinese  
Vol 12, No 4, 1988 pp 142-143

[Article by Shao Hanming 6730 3063 2494: "A Summary of Discussion on the Cultural and Social Development of the Initial Stage of Socialism"]

[Text] Cultural fever has lasted 5 to 6 years. Its sustained charm can be attributed not only to the fact that it suits historical and immediate needs and is of great theoretical and practical significance but also to the fact that it concerns the progress of reform and construction as well as the future and fate of China. A pressing issue at present is how to combine cultural changes with social changes and establish a new type of culture that has Chinese characteristics and style and suits the initial stage of social development. For this, the publishing house of the SHEHUI KEXUE ZHANXIAN magazine and a dozen other units jointly sponsored an academic seminar, called "Cultural and Social Development in the Initial Stage of Socialism," in late June in the northern river city of Jilin. The main characteristic of this seminar is that instead of following the past style of a simple cultural discussion, it took the approach of multi-discipline and multi-angle discussion. Attending the seminar were experts and scholars of philosophy, culture, and sociology. Also attending were teachers and researchers of political science, economics, history, law, and management science. Speaking their minds freely, they engaged in heated discussions in a harmonious atmosphere. They had broad vision and brilliant views. The following is a summary of major topics discussed at the seminar.

#### **1. The Conflict Between the Laws of Culture and Commodity**

Most comrades think that the laws of culture and commodity are two completely different systems of laws which follow their own style and way of operation. An important aspect of the loss of control over the course of reform is the serious conflict between the laws of culture and commodity. The essence of this conflict is forcing the law of culture to submit to the law of commodity and negating the independent value of culture and the independence of the law of culture. The external expression of this conflict is that high culture, which represents the orientation of social development, is ignored, but common, popular or even vulgar culture is thriving. There are only cultural businesses, not cultural undertakings. These comrades pointed out that if we reduce the law of society to the law of economy, which is then reduced to the law of commodity and used to directly replace the law of cultural development, and if we use economic standards to measure the development of cultural undertakings, we can only create a "cultural desert" and "barbarians" of a civilized society. Therefore, they

emphasized that while implementing the law of commodity in the economic sphere, we should maintain the independence of the law of culture, fully understand the independent value of culture, and coordinate cultural changes with economic changes. Only by doing so can we avoid emphasizing one thing at the expense of another and genuinely develop the proper role of the law of culture.

Some comrades disagreed with this view. They think that the conflict between the laws of culture and commodity is inevitable and rational in history. In order to develop the commodity economy and social productive forces, it is inevitable for cultural undertakings to go through some contradictions and pay a certain price. Besides, as time goes by and as the economic strength increases substantially, the contradiction between the laws of culture and commodity will be resolved automatically. Other comrades think that the law of commodity is the fundamental law of the initial stage of socialism, the development of cultural undertakings should automatically follow this law, and the so-called independent law of culture does not exist; therefore, the problem of conflict between the laws of culture and commodity does not exist.

#### **2. The Examination of the Status and Function of Cultural Workers**

The issue of the status and function of cultural workers was a popular topic at this seminar. The so-called cultural workers are commonly referred to as intellectuals, namely the social stratum of literati in ancient China. Many comrades said: along with the loss of independence of the law of culture and the devaluation of culture, the actual status of today's cultural workers is likely to go from bad to worse and their function and role are so distorted by the narrow principle of economic returns that they cannot be exercised properly. This phenomenon can be attributed to political, economic, and cultural factors, but cultural workers also need to examine themselves. Some comrades pointed out from the historical point of view that Chinese cultural workers have never been an independent stratum. China lacks a group of cultural workers that would criticize society and a cultural stratum that has a stronger sense of entity. Of course, whether the status of cultural workers can be improved depends on whether the economic, political, and cultural changes of whole society can be carried out smoothly and whether other strata of society attach great importance to the value of knowledge and culture. However, another extremely important factor is whether cultural workers can increase their awareness of social criticism and entity. Instead of discussing issues sitting down, cultural workers should face the reality, use their independent characteristics and courage to exercise their special role which cannot be imitated by other strata so as to win the respect and attention of whole society.

Some comrades think that the development of social history always exists in the conflict of the two laws. The developmental course of social history is onesided and



the people are never content with the reality and one-sidedness. What the cultural workers face is the one-sidedness of society, but what they are after is the entirety of society. The contradiction between one-sidedness and entirety is the objective basis for the existence of cultural workers. The mission of cultural workers is to expose the contradiction between the two and constantly remind the people of the one-sidedness so as to attain the entirety. This is also the function of cultural workers—criticizing the reality. Other comrades divide the role of cultural workers into two parts: One is to conduct quantitative analysis and offer concrete administrative plans for use by politicians as a reference; the other is to engage in ideological discussions, design ideological styles, and lay out the orientation of social development. Most comrades attending the seminar felt that there was no way out for cultural workers and even China in the near future. The crux of the problem was that in order to ensure that policies are scientific and feasible, the policy-making process need to include the link of discussion by cultural workers.

### **3. The Reconstruction of Ideals and the Recognition of Reality**

Does social development depend on the inspiration and guidance of lofty ideals or the recognition of reality and the solution of practical problems. They are two obviously different, if not exactly opposite, trends of thoughts. Comrades in favor of the former set forth the tasks of world reconstruction after emphatically studying the evolution of the models of traditional ideals. They said: The three upsurges on the earth of China in the past 10 years—the ideological liberation movement, the opening up and the reform, and the modernization—have destroyed three myths of traditional ideals—Mao Zedong was God, China was the Garden of Eden, and utopian communism. Following the destruction of the traditional ideals, pragmatism and humanitarianism sprang up in their place. Pragmatism is an “ideal” without ideals and the starting point of humanitarianism is historical idealism. To avoid the limitations of pragmatism and bourgeois humanitarianism, it is necessary to reestablish the ideal of Marxist humanitarianism. While emphasizing the meaning, value, individuality, and dignity of human beings, this ideal emphasizes the rationality, creativity, and practicality of human beings and considers human development as the target of social development. This is also the ideal of communism as Marx understood it. It is also necessary to pay attention to the different levels and variety of ideals and to distinguish lofty ideals from popular and class ideals. People of this view also emphasized the need to consider the reconstruction of ideals as an important mission of reform and carry out in tandem the reforms of practical issues and ideals so as to establish as soon as possible a spiritual home for the era of reform.

Comrades in favor of the recognition of reality did not simply negate the necessity and importance of reconstruction of an ideal world. Instead, they opposed

remaining at the level of designing and constructing an ideal world. They maintained that main energy should be focused on doing real work and solving real problems. Under the major premise of recognizing reality, these comrades differed from each other. Some held that the biggest social problem of China was poverty and the only way to change the face of poverty was to speed up the reform of economic structure and develop productive forces. This is also what we called save the nation with economics. Others held that the economy of initial stage was acceptable, but the politics of initial stage was not. They said: the crux of all social problems in the reform lies in the issue of political structure, the core of the problem of political structure is the issue of democracy, the purpose of political structural reform is to realize political democracy, and the symbol of political democracy is the openness of political policy decisions. This is also what we called saving the nation with politics or democracy. Some believed that human modernization, or the improvement of human quality, was the key to modernization and that in order to do so, we must vigorously develop educational undertakings and exploit human intellectual resources. This is also what we called saving the nation with education or enlightenment. Speaking from the sociological point of view, some maintained that we should change the irrationality of social structure and the inadequate division of strata; others emphasized the need to overcome the confusion of roles to speed up reform and social development. Different people had different opinions, fully reflecting intellectuals' concerns over the future of reform and the fate of the nation.

### **4. The Renewed Understanding of Traditional Culture and Modernization**

On the discussion of traditional culture, this seminar did not simply divide culture into the dross and the essential and appraise Chinese and Western cultures by pointing out their advantages and disadvantages like it used to in the past. Instead, in view of the actual conditions of modernization, it tried to get an objective grip of the characteristics of traditional culture, surpass traditions, and cultivate a new socialist culture that suits the national conditions of China in the initial stage of development.

With regard to the characteristics of traditional culture, some comrades summed them up into four major characteristics: humanism, idealism, realism, and intuitionism with the first three as expressions of the content of Chinese traditional culture and the last as the expression of methodology. Understanding these four characteristics can help us understand the essence of spirit of traditional culture in the rational form of knowledge as philosophy. Other comrades thought that Chinese culture was characterized by entirety and ethics and Western culture by individuality and individualism.

With regard to surpassing tradition, some comrades said that the dross and the essential of traditional culture were often mixed up and that its strong points and

advantages were also its weaknesses and disadvantages. This complexity demands that we mention the need to surpass tradition in addition to criticizing and inheriting tradition. Criticizing and inheriting tradition can complement and support the efforts to surpass tradition because the former provides basic steps to achieve the latter and the latter provides a goal and direction for the former. To criticize, inherit, and surpass tradition, first we should clarify the three relations between history and reality, between particularity and universality, and between nation and the world. Some comrades said that surpassing meant discarding and that surpassing tradition meant integrating Chinese culture with cultures of the world.

With regard to modernization, some comrades disagreed with past definition of modernization, saying that modernization should not be limited to the few narrow fields of economy, science and technology, and national defense. They said that modernization should be understood at the cultural level. In other words, modernization means modernization of culture. The core of modernization is to establish modernized political and cultural systems.

With regard to the construction of new culture, participants at the seminar pointed out that cultural changes are closely linked to social changes and that the change of Chinese society, which we are now experiencing, is actually a process of surpassing traditional culture and building a modern, new culture. Referring to the stubbornness of traditional culture, some comrades said that it would be best if China did not have any tradition. But this is unrealistic because the past of China is too "heavy" and some of it must be carried on. Therefore, some comrades suggested that we build a new national culture that keeps pace with the progress of time and still contains the special quality and rational topics of traditional culture. Proceeding from the developmental strategy of modernized culture, some comrades set forth several principles for the construction of a new culture: placing reform and construction in transition, ideals in reality, unity in diversity, and international characters in national characters.

#### **Professor Outlines Research on Modernization**

40050308 Beijing LIAOWANG [OUTLOOK] in Chinese No 3, Jan 89 pp 22-23

[Article by Du Yuejin 2629 6460 6651: "Laying the Cornerstone for Modernization—Interview With Professor Luo Rongqu 5012 2837 3255, Director of the Research Center on World Progress in Modernization at Beijing University"]

[Text] "The road is slowly being built into the distance; I will seek quality from beginning to end"—this inscription on a scroll in his library precisely portrays the spirit he has cultivated in recent years.

Several years ago, when he was nearing 60 years of age, he put down the important work that he was writing, *The History and Civilization of the United States of America*, and stepped into an academic field that few had trodden in the past: research on the theory of modernization. Today, several years later, he has become a well-known scholar in China who has developed a school of his own in this theoretical field, and he has become the focus of attention of his colleagues abroad. The first result of his research—"On the View of History as a Unity of Many Lines"—won a prize for an excellent thesis at the theoretical symposium held a few days ago to commemorate the 10th anniversary of the 3d plenum of the 11th CPC Central Committee.

#### **"Reopening a Business to the Beating of Drums and Gongs"**

Mr Luo Rongqu is an historian of rigorous scholarship and wide field of vision. In his career of more than 30 years in the science of history, he has done original research, which received widespread attention at home and abroad, on whether Chinese were the first to discover America. However, a fortuitous turning point made him make a new choice.

In the summer of 1980, Luo Rongqu, with the status of a visiting scholar, went to University of Michigan to pursue advanced studies and to give lectures. During his year and a half of study abroad, various theses concerning modernization, which had been swiftly developed by postwar academic circles in the West, drew his attention. He firmly believed that this would be a forward-position discipline that the academic circles in contemporary China urgently needed to take up.

Not long after his return to China, he wrote an article introducing the new trends in Western academic research. In recent years he has participated in, initiated, and organized three national discussions on the theory of modernization, and he plans to hold an international symposium on this topic. He was the one who proposed the establishment of the Research Center on Progress in World Modernization at Beijing University, and he is in charge of the state's key research project from 1986 to 1990—comparative research on the progress in modernization made by various countries. He has continued to publish several important theses on this research. He also wrote the book *New Theories of Modernization*, and he compiled the books *Selected Theses by Foreign Scholars on Modernization* and *Collected Theses on Comparative Modernization*.

Under the impetus of Mr Luo Rongqu and his colleagues, in recent years research on modernization has quietly grown in academic circles on the mainland. It is said that in the Chinese Academy of Social Sciences, Beijing University, People's University, Nanjing University, East China Normal University, as well as some local social sciences research organizations, there are now a number of scholars who are willing to do this

research. From the different angles of the study of history, the study of developing economies, the study of developing societies, and the theory of political developments, they will carve up this domain.

Why is Mr Luo Rongqu, who for a long time has dedicated himself to teaching and research in modern history, so determined to "reopen a business to the beating of drums and gongs"?

"Our country has been engaged in reform movements for more than 100 years, but it doesn't have its own theory of modernization. This is a topic given to us by the reality of today's China." Luo Rongqu answered. As he sees it, China started its reforms under circumstances in which there were inadequately serious theoretical preparations. While obtaining universally acknowledged successes, it had the bitter experience of "groping for stones to cross the river." "Treating the symptom but not the disease" does not get at the root of the problem. It was certainly not fortuitous that "a new illness attacked before the old illness was gone." Therefore, from comparative research on the course of modernization in various countries in the world, the optimum choice for the key to modernizing China has become an important project of theoretical construction.

In addition, as an historian he profoundly recognizes that the great historical changes that China has experienced since the modern era began had their forerunners in the replacement of concepts, namely, the ideological enlightenment movements. These concepts were replaced under the pounding of Western trends of thought about modernization. The earliest trend of thought that promoted change in modern China was that of nationalism and the evolution of society. This was the seed produced among the oppressed nations of the East for the earliest consciousness of modern nationhood. It was followed by the trend of thought of the bourgeois revolution. This was the fundamental turn in the course of events in China from reform movements to revolutionary movements. Afterward there was the new trend of thought of socialism. It guided China during the whole process from the New Democratic Revolution to the Socialist Revolution. Now the new strategy for development, which has as its central part the achievement of socialist modernization, is a continuation and development of the modernization movements in China over the past 100 years, and is also the new starting point for this historical movement. The combination of socialism and the concept of modern development has become the idea of socialist modernization. This is a major breakthrough in the traditional theory of socialist revolution. But to solve the problem of the development strategy for socialist modernization we need to conduct a long, arduous probe. First of all, we must establish the new thoughts and new concepts for modern developments, that is, with the consciousness of "self-strengthening" and the consciousness of "revolution," which were formed in the past state in which there was a lack of economic development, as fast as possible raise the consciousness of the

modern development and the consciousness of the modernization that the modern world needs, so as to spur people on to rise up with force and spirit.

Mr Luo Rongqu said: As people devoted to the science of history, we have the obligation to close this "geological fault" between history and the future.

#### Seeking the Essence of Modernization

What, in the final analysis, does modernization mean?

Taking a sweeping look at academic circles in China and abroad, it may be said that different people have different views. They either consider modernization to be "Westernization" or "Europeanization," or they equate modernization to "industrialization," "metropolization," or "the transformation to the welfare state." There are those who measure it by the level of development of the economy and of science and technology, and there are also those who make the "change to rationality" the gauge. Some scholars lay particular emphasis on doing research from the angle of sociology, and other scholars are inclined to explore it from the levels and surfaces in politics.

In Luo Rongqu's view, it is, of course, necessary to study modernization from different aspects, but if one just stops at this step he will be unable to sum up and grasp modernization in its totality and essence. As an historian he advocates that modernization be regarded as a process of great change in world history that has an extremely rich connotation. There are two interpretations of this process. Broadly speaking, it means the major global trend since the Industrial Revolution in which the productive forces caused an accelerated development of the world economy and changes in society to adapt to this development. Specifically, it is the modern scientific and technological revolution and the great changes in the modern industrial revolution, which closely followed on, by turning agricultural society toward modern society. It is the process in which the industrial civilization permeates the economic, cultural, and ideological fields and causes profound changes. Modernization in the narrow sense means that the developing countries opt for high efficiency, and through planned economic and technological transformation and the study of the world's advanced experiences, bring about widespread social reforms. It is the process of swiftly catching up with the developed countries and of adapting to the environment of the modern world. Luo Rongqu thinks that, only by starting from this macro angle of view can we add to the great accomplishments of our predecessors in academic research and establish a macro, comprehensive scientific theory for studying modern social developments.

Here he clearly makes the "modern" in the word "modernization" a specific historical category, namely, making the Industrial Revolution the demarcation line as a historical landmark. His basis is that the Industrial

Revolution symbolized the beginning of a new leap in the history of the development of mankind's productive forces. Since that time the development of human society, no matter whether in speed, mechanism, direction, depth, or influence, or whether viewed from its circumstances and the conditions it needs, is different from any other era in history. Without the slightest doubt, this is truly a process of global social revolution. Especially in the past few decades, following the collapse of colonialism and the rise of the Third World, this process has been greatly accelerated. Vast areas of the world that people had overlooked in the past, in many patterns and on a large scale, have entered the evolutionary process, which Western countries began as early as two centuries before, toward modernized industrial societies.

Not only is this the situation, the thoughts of Luo Rongqu, when working out the framework of his theory of modernization, often centered even more on the subject of how the developing countries, especially China, would move toward a modernized society.

#### Exploring the Theory of China's Modernization

A phenomenon that affords food for thought is that, up to now, the subject of research on the theory of modernization has been the question of how the developing countries will make the transition from the traditional society to the modern society. But this theory first began in the developed countries of the West. Perhaps, precisely for this reason, for a considerable length of time academic circles in socialist countries regarded it as a "bourgeois theory" and paid no attention to it.

In this regard, Luo Rongqu's view is that, in testing a new theory, we cannot consider and decide on it based on measures that were outmoded long ago. We also should not be overpunctilious about whether the theory has matured or not. What we should first see is whether it addresses the new topics that are appearing in large numbers in these times. If the answer is in the affirmative, we should explore and study them. Another aspect of a related question is that in doing research on a new theory the researcher's own understanding must keep up with the times, and he must strive to become better educated, doing his research while standing on "the shoulders of a giant." He should not shut the door behind him and close his eyes and think, remaining at the level of waiting for an idea that comes with a flash of inspiration.

Proceeding from this, he expounded on his plan for establishing a theory of China's socialist modernization.

For a long time China's "socialist modernization" or "four modernizations" have, in principle, been only one political slogan. Through nearly 10 years of practice and trying to find things out, breaking through all sorts of old concepts, the theory of the initial stage of socialism has been formed. On this basis there has been a reinterpretation of socialist modernization, which should be seen

as a new concept of development and understood to be a long-term strategic task in the course of the development of socialism, and it is a reform that suits the overall direction of the new trends in the changes in the world.

In accordance with this new theoretical framework for modernization, the two different social systems of capitalism and socialism are the two modes of modern development and the two patterns for a modern industrial society. The first mode is a spontaneous course of history and the latter mode is a self-conscious choice and design. From the research aspect of the modernization, the two patterns can be incorporated into a common course of "modernization" and become one unified object of research. Thus people can be made to understand that the two forms of society and their opposite ways of development are identical in modern productive forces. This kind of research not only will help dispel from the theory the boastings and fantasies that for a long time have been attached to socialism, it also will help to sweep away the ignorant and ill-formed opinions of the sealed off-type of socialism. In formulating the strategy for future development, accurate timing coordinates for the present stage in the development of socialism will be redetermined; and there will be a correct understanding and appraisal of the historical position of modern capitalism, and the experiences and trends in its development. In the course of a common modernization, socialism and modern capitalism will develop at the same time. Also, the two systems will not continue to develop in an isolated, autonomous manner, but will be developing under the new circumstances of being interdependent and mutually beneficial. For this reason we must formulate a new strategy for international development that is one of realism and peaceful coexistence.

Combining the research of these past several years, Luo Rongqu designed the following framework for research on China's modernization:

—Macro research on modernization. For example, modernization as a special process in the development of world history in the near future that has basic characteristics and laws; the historical origin of modernization and its diffusion throughout the world; the new characteristics of modern productive forces and the worldwide structural changes that they cause; the ways that different types of countries modernize and the general problems that they face on the way to modernization; the influence of the modern capitalist mode of production on the Third World countries during the course of their modernization; and the overall trend in developing from countries and regions to the whole globe.

—Micro research on modernization. This research includes modernization as a method, means, measure, and policy for a development strategy; all the conditions and the mutual relationships of modernization; the political analysis of modernization; the new scientific and technological revolution and modernization;

the changes during the course of modernization in the social structure, mode of production, value standards, and quality of people; the relationship between historical tradition and modernization; the problem of the morbid state and the alienation of man caused by industrial society; the resistance to, failures of, and discontinuities in modernization; and so forth.

- Comparative research on modernization. This research includes a comparison of China and foreign countries; a comparison of the early period and the late period; a comparison of capitalist countries and socialist countries; a comparison of different countries, regions, and industries; and so forth.
- Research on the theory of modernization and the theory of its methods. This includes research on the

theory of the various kinds of modernization and development; the setting of various targets; the designing of patterns; the relationship with other disciplines; and so forth.

- Modernization and the future of mankind. This research includes the imbalance in the development of modernization and its effect; the social effects of pollution caused by development; the effect of modernization movements in the Third World on the future; and so forth.

The framework has been drawn. Luo Rongqu earnestly hopes that persons with noble aspirations will make joint efforts in undertaking the mission of this era.

**Regulations for People-to-People Relations With Mainland**

40050300 Taipei TZULI WANPAO in Chinese  
12 Jan 89 p 3

[Article by Lu Dongxi 0712 2639 3588: "Initial Draft Resolution of a Special Law Concerning Taiwan and the Mainland," "The Document Consists of 46 Articles, Among Them One Concerning the Controversy Over Whether or Not the Marriages of People From the Mainland Prior to Coming to Taiwan Are Valid"]

[Text] Based on the Ministry of Justice's draft (Temporary Regulations for Relations Between the People of Taiwan and the Mainland), the drafting committee worked late into last night and completed a preliminary draft. The document consists of 46 articles that contain provisions for civil law, criminal cases, and administrative laws.

According to what we have learned, although the draft law was gone over last night item by item, Minister of Justice Xiao Tianzan [5618 1131 6363] and some of the members of the drafting committee still have some objections with what is contained in portions of the document. Therefore, the regulation has not yet been classified as law.

The Ministry of Justice explained that in the near future committees from other ministries will be invited to review and give their opinions on the contents of the draft resolution. As soon as discussions with the other committees are over, scholars and people from all circles will be invited to a symposium so they can provide their ideas to the Ministry of Justice's committee for reference. After final discussions by the committee, the proposal will then be sent to the Mainland Work Committee of the Executive Yuan for consideration.

Below is the outline of the articles of the draft resolution for the special law concerning Taiwan-Mainland people-to-people relations.

- The goals and principles for formulating these regulations are based on national security and social stability.
- These regulations are defined for both Taiwan and the Mainland, as well as for people of Taiwan and those of the Mainland.
- People who go to the Mainland without returning for 2 years will be regarded as Mainlanders.
- Except for violators of constitutional principles, public order, and normal customs, civil law rights will affect people from both sides equally.
- Legal residents or groups from the Mainland that have permission to conduct activities in Taiwan will be subject to the laws, methods and directives of the Republic of China's Executive Yuan.
- Legal residents or groups from the Mainland that do not have permission will be subject to related responsibilities.
- Legal residents or groups from the Mainland that have permission from the responsible authorities must also have legal residents or groups from Taiwan as stockholders.
- Permission will not be given to foreign companies that have more than 50 percent of their stock controlled by the Chinese Communists, and this type of company that has already attained approval will have it rescinded.
- The marriages of persons who remarried after coming to Taiwan from the Mainland prior to 2 November 1976 (the day restrictions were lifted on visiting relatives) are considered valid. (This regulation is still being disputed.)
- People from the Mainland can legally inherit from their relatives in Taiwan.
- People from the Mainland have the right to only 50 percent of the inheritance of relatives in Taiwan.
- Retired officers and soldiers in Taiwan that have no relatives will have their inheritance handled by the Executive Yuan's Veterans Assistance Commission.
- People from the Mainland can acquire Taiwan real estate subject to the Executive Yuan's regulation.
- When a civil dispute arises between someone from Taiwan and the Mainland it will be dealt with by the law of the Republic of China.
- Approval for people from Taiwan to adopt children from the Mainland will not be given if the following circumstances exist: 1) They already have children or adopted children. 2) They are adopting two children at one time. 3) They haven't gone through the correct intermediaries for each side.
- Veterans who visit relatives in the Mainland will still receive a pension.
- Mainland trademarks can be registered in Taiwan.
- the Executive Yuan sets up special organizations to handle Taiwan-Mainland matters.
- Mainlanders can receive Taiwan Military and civilian personnel pension.

- People from the Mainland who commit crimes in ships or on airlines will be dealt with according to the laws of the Republic of China; if the criminal has already been punished in the Mainland, then they may not be prosecuted or a portion of the offense may be dropped.
- If a Communist Party member had already clearly stated his political status or made a political recantation before his entry, he will be exempted from prosecution.
- People who committed bigamy prior to the relaxation of relative visitation will not be accused of these former offenses.
- Direct trade is prohibited and regulations are enacted by the Executive Yuan.
- Violations of the above-mentioned (direct trade) provision will be subject to a limited sentence of 3 years or less.
- People from the Mainland that come to Taiwan illegally will subject to expulsion.
- If a mainlander refuses to leave once he comes in, his guarantor in Taiwan at the time of his entry will be responsible for compensation.
- Violations of article N will be penalized by normal rules and regulations.
- Renminbi cannot be brought into Taiwan.
- With approval, relics and works of art can be produced in and taken out of Taiwan.
- People who violate the Republic of China Constitution will have their rights suspended.
- Academic records from the Mainland must be submitted to Taiwan organizations for review.
- All literature from the Mainland is to be notarized by arbitration organizations.
- Only mainland civil court arbitrations that do not violate the basic principles of the Constitution, public order, and have been judged and recognized by the Taiwan courts can be considered effective.
- Civil judgments from the Mainland follow the same rules as above.
- Prohibit people-to-people correspondence.
- Violations of the above order will be punished according to regulations.
- Any aircraft that enters Taiwan without permission will be forced to leave after being warned by our air defense units.
- Ships that arrive at Taiwan without permission may be forced to leave or may be detained.
- People from the Mainland who receive permission to come and live in Taiwan cannot become registered voters for 5 years.
- Violators of this rule will be punished.
- People from the Mainland living overseas will also abide by this rule.
- These articles will become effective on the day they are published.



**'Mainstream Proposal' Leads to Ruling by Politicians**

40050295a Hong Kong MING PAO in Chinese  
26 Jan 89 p 30

[Article by Hsu Shih-hsiung 1776 2508 7160, Member of Basic Law Advisory Committee and Professor at Hong Kong University: "Mainstream Proposal" Will Lead to "Politicians Governing Hong Kong"]

[Text] Some people feel that the political system "mainstream proposal" which was passed by the plenary session of the Drafting Committee convened in Guangzhou opens the door to "businessmen governing Hong Kong" and allows them to monopolize power and exclude all other groups. Based on my analysis, the "mainstream proposal" does not give Hong Kong's business circles the opportunity to monopolize governmental authority but opens a door of convenience for "politicians governing Hong Kong," which worries Hong Kong's businessmen.

**Industry and Commerce Do Not Yet Have Dominance**

The "mainstream proposal" stipulates that 27 percent of the representatives in Hong Kong's first legislature in 1997 be elected in district elections, to increase them to 38 percent in 1999, and by 2003 to sharply increase this to 50 percent. In other words, in the six years after 1997, 50 percent of the members of the legislature of the Special District will be elected in district general elections. From the perspective of the development of Hong Kong's current political situation, the overwhelming majority of seats in district general elections probably will not be seized by businessmen, but by politicians. Therefore, in district elections, politicians will occupy most of the general election seats and businessmen may only occupy a few seats or even none.

As concerns functional grouping, the "mainstream proposal" stipulates that they should have 73 percent of the seats in the first legislature. The "mainstream proposal" makes the following allocation of these 73 percent functionally grouped seats: industry, commerce and finance will have 29 percent, and the other two groups—professionals and labor, social services, and religions—will make up 22 percent. In other words, the professionals and labor, social services, and religions will have 15 percent more seats than industry, commerce and finance. Therefore in functional grouping elections, industry, commerce and finance not only will not have superiority, but it will be more difficult for them to have a chance at monopolization.

Yet in the committee to elect the first executive officer, industry, commerce and finance representatives will also make up only 25 percent. Even if the 25 percent of former government figures and People's Congress representatives elected by the elections committee are considered to be people from industry, commerce, and finance, then they will make up only 50 percent and the other two classes of people (professionals making up 25 percent and people from labor, grassroots, and religions making up 25 percent), it is only equal shares and there is no

dominance to speak of. So how can anyone say that the "mainstream proposal" is a proposal for "businessmen governing Hong Kong"?

**Industry and Commerce Hopes "Hong Kong Officials Will Govern Hong Kong"**

Again, it is my understanding that Hong Kong's industrial, commercial and financial figures actually do not want the future executive officer to be from among figures in industrial, commercial and financial circles because this may have an impact on the environment of freedom and the balance of interests within industrial, commercial and financial circles. They hope that the future executive officer will be appointed from among the unbiased Hong Kong officials to implement "Hong Kong officials governing Hong Kong." It is difficult to know for the time being whether their wishes can be fulfilled. However, one point can be affirmed, and that is that assuming the future executive officer is appointed from among high officials, he also cannot favor only industrial, commercial and financial circles because the future legislature will be full of politicians and no matter where the executive officer comes from, he will be subject to many constraints of the politicians. If unfortunately the first executive officer is a weak and timid person, it is very possible that he will only be able to yield to the demands of the politicians and this type of "Hong Kong official governing Hong Kong" may very well become in essence "politicians governing Hong Kong." If the executive officer is not appointed from among Hong Kong officials but from among the politicians, then the establishment of a system in which "politicians govern Hong Kong" is even easier.

We can see from systems of government abroad which are run by politicians, that the future political system of Hong Kong is very different from the system with which we are currently familiar. This is because government by politicians is bound to bring with it such unhealthy practices as jockeying for position, scrambling for power and profit, everyone trying to cheat each other, confrontation and conflict, blackmail, and violence and disharmony and once this atmosphere takes shape in Hong Kong, supervision by public opinion and electoral means also will be unable to stop it. Thus, it seems that the most dangerous place in the "mainstream proposal" is not that the position of the special privilege class of industrial and commercial circles is strengthened, but that it leads to a situation of "politicians governing Hong Kong" and makes Hong Kong's originally fairly simple politics more complex. Recently, Sun Ming-yang [1327 2494 2254], the chief of the New Territory General Office of Government Affairs, said: "The representative system of government introduces different opinions and government should coordinate among the different opinions, but sometimes there is no way to coordinate and it is necessary to choose and this may cause dissatisfaction among some of the people," (see HSIN-PAO, 17 Jan), and politicians are best at using this dissatisfaction to establish a political position and "benign" image.

The relationship of this "mainstream proposal" which was designed on the basis of the representative system of government to the prosperity and stability of Hong

Kong is important and is, in accordance with simply accepting or rejecting it in total or revising it, worth everyone's careful consideration.