

JPRS-CAR-89-027  
29 MARCH 1989



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

# **China**

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

19980812 078

**DTIC QUALITY INSPECTED 1**

# China

JPRS-CAR-89-027

## CONTENTS

29 MARCH 1989

### INTERNATIONAL

#### GENERAL

- U.S., EC, Japan Seen as Equal World Powers Until Next Century  
[SHIJIE JINGJI DAOWAO 9 Jan] ..... 1
- USSR's European Disarmament 'Challenge to West'  
[Hong Kong LIAOWANG OVERSEAS EDITION No 2] ..... 2
- Opportunities in Growing Economy of Asia-Pacific Region [SHIJIE JINGJI DAOWAO 30 Jan] ..... 3
- Economics 'Surpassing' Political, Military Factors in Global Relations  
[SHIJIE JINGJI DAOWAO 9 Jan] ..... 4
- Perspective on World Situation, Relations With Neighbors in 1989 [LIAOWANG No 2] ..... 5
- Shanghai's Foreign Affairs Experts on Shifting World Power [SHIJIE JINGJI DAOWAO 16 Jan] ..... 6

#### NORTHEAST ASIA

- Incongruities Noted Between Japan's Preeminent Position, Psychology  
[SHIJIE JINGJI DAOWAO 23 Jan] ..... 8

#### EAST EUROPE

- Political Pluralism in Hungary [SHIJIE JINGJI DAOWAO 9 Jan] ..... 9

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- Problems, Solutions of Current Reform [XIN GUANCHANG No 1] ..... 11
- Interaction of Contract System With Other Policies [RENMIN RIBAO 27 Jan] ..... 14
- Profit Mechanism Under Public Ownership [JINGJI CANKAO 19 Jan] ..... 17
- Zheng Hongqing Urges Fundamental Solutions [ZHONGGUO JINGJI TIZHI GAIGE No 1] ..... 18
- Current Status, Alternatives of Enterprise Reform [SHIJIE JINGJI DAOWAO 9 Jan] ..... 21
- Improving Economic Environment, Rectifying Economic Order  
[JINGJIXUE ZHOUBAO 29 Jan] ..... 24
- Arguments for Enterprise Collective Shares [JINGJI RIBAO 3 Feb] ..... 28

#### PROVINCIAL

- Beijing Official on Profiteering in Local Companies [BEIJING RIBAO 24 Jan] ..... 33
- Enterprises Assume Responsibility for Losses [BEIJING RIBAO 25 Jan] ..... 34
- Dignity of Contracts Protected ..... 34
- Commentary on Assuming Losses ..... 35
- Beijing's Tax Revenues Exceed 1988 Target [BEIJING RIBAO 14 Jan] ..... 35
- Communique on 1988 Hebei Economic Development [HEBEI RIBAO 2 Feb] ..... 36

#### FINANCE, BANKING

- Report on Serious Tax Evasion Problems [Hong Kong LIAOWANG 30 Jan] ..... 44

#### CONSTRUCTION

- Project Suffers From Shortage of Funds, Raw Materials [JINGJI RIBAO 30 Jan] ..... 46

## FOREIGN TRADE, INVESTMENT

MOFERT Assistant Minister on Export Strategy [GUOJI SHANGBAO 26 Jan] .....	47
Record Foreign Currency Earnings From Export Labor in 1988 [GUOJI SHANGBAO 24 Jan] .....	47
Hainan's 1988 Foreign Currency Earnings Double [GUOJI SHANGBAO 31 Jan] .....	48
Xiamen Seminar Assesses Progress of Export Processing Zones [GUOJI SHANGBAO 31 Jan] .....	49
Bank Places Priority on Supporting Foreign Trade [GUOJI SHANGBAO 2 Feb] .....	50

## ECONOMIC ZONES

Shenzhen's Social Insurance Problems [SHENZHEN TEQU BAO 10 Jan] .....	50
---	----

## INDUSTRY

Upgraded Technology Improves Textile Production [RENMIN RIBAO 21 Jan] .....	52
Light, Textile Industries Examined [RENMIN RIBAO 21 Jan] .....	53

## TRANSPORTATION

Fuzhou's Mawei Commercial Port [RENMIN RIBAO 2 Feb] .....	55
---	----

## AGRICULTURE

Shaanxi Fertilizer Plants Halt Production [NONGMIN RIBAO 1 Feb] .....	55
Cause of 'Cocoon War' Analyzed [JINGJI RIBAO 1 Feb] .....	56
Institute Outlines Policies To Promote Stable Agricultural Growth [JINGJI CANKAO 23 Jan] .....	57
Survey Shows Unfair Treatment of Peasants [JINGJI RIBAO 25 Jan] .....	59
Yunnan Focuses on Developing Fine-Quality Seeds [YUNNAN RIBAO 18 Jan] .....	60
Improvements in Processing of Aquatic Products [JINGJI CANKAO 29 Jan] .....	61

## SOCIAL

Article Examines Education Crisis [Hong Kong CHING PAO No 138] .....	63
Foreign Affairs Bureau Director on Studying Abroad [BAN YUE TAN No 2] .....	64
Current Status, Future Direction of Culture Discussed [Hong Kong LIAOWANG No 2] .....	66

## TAIWAN

Report on Investment in Fujian, Guangdong [Hong Kong LIAOWANG No 4] .....	70
Successes in Practicing 'Flexible Diplomacy' [Hong Kong CHENG MING No 136] .....	72
Editorial on Improving Labor-Capital Relationship [LIEN-HO PAO 4 Feb] .....	73

## GENERAL

### U.S., EC, Japan Seen as Equal World Powers Until Next Century

40050227a Shanghai SHIJIE JINGJI DAOBAO  
in Chinese 9 Jan 89 p 4

[Article by Zhang Boli 1728 0130 6849, CPC Central Party School Research Institute: "Century Pattern: Tripartite Confrontation Between United States, EC, and Japan"]

[Text] *Due to the consolidation, perfection, and increased independence of each of the three loci, namely, the United States, the EC, and Japan, it has been determined that none of the three loci will disappear through emergence with the other loci, while uneven development rates determine whether each will disappear through its own deterioration. This is a "century pattern" which will continue from the 1960's and 1970's to the 2060's and 2070's.*

At the end of the 1960's and the beginning of the 1970's, a pattern of tripartite among the United States, the EC, and Japan began to emerge in the West. Judging from the present situation, the tripartite may continue much longer than a single locus pattern and be a "century pattern" lasting more than a hundred years. The two main reasons for this are as follows:

The first reason is that the consolidation, perfection, and increased independence of each of the loci has determined that none of them will disappear through being merged with the others.

The United State's position with respect to economic and political strength as a whole has declined, and not only is it impossible for it to regain the position of strength which it had occupied in the early postwar period, it will continue to slowly decline. However, the United States still has the world's greatest political, economic, military, and technical strength and capability for defending its position of strength. Its foundation as a center of power is firm. Moreover, the United States is also promoting the formation of regional blocs.

The development of Western Europe's economy has lagged behind Japan and the United States during the 1980's, but it is by no means likely to decline continuously to the end. The European Community is the world's largest economic and trade bloc. Its economic strength far surpasses that of Japan and is not far inferior to the United States either. Even more important is the fact that its consolidation and perfection as a locus in its own right is being carried out both intensively and extensively. With respect to the unified extensive development of Western Europe, through its growth in the 1970's and 1980's, the EC grew from six nations to twelve nations, and unification in such areas as economics, politics, and science and technology is constantly developing in depth; examples of this include the development of a European unit of currency, joint agricultural

policy reform, the promotion of "Eureka," and the restoration of a "Western European alliance." In particular, the unified Western European market comprising a population of 325 million which will be completed in 1992 will greatly strengthen Western Europe's position and its independence as locus. These circumstances indicate that Western Europe will continue to exist as an entity in the next century.

Japan's position of strength is showing an upward trend. Its Gross National Product (GNP) has now reached 50 percent of the United State's GNP and 60 percent of the EC's. Japan is the world's leading creditor nation; its volume of foreign exchange reserves is the largest among the three Western powers, and Japan's military spending is roughly equivalent to the total military spending of the UK, France, and West Germany. Japan is now actively planning the establishment of a Western Pacific economic sphere.

The second reason is that uneven rates of development have determined that none of the three loci will disappear through their own deterioration.

The aforementioned consolidation, perfection, regionalization, forming of blocs, and strengthening of individual independence by each of the three loci of the United States, the EC, and Japan has allowed clear demarcation between these three loci, and this has determined that none of the three loci will lose its independent existence through being merged with the other loci. However, this alone can by no means ensure that they will not disappear of their own accord, i.e., that due to the slowdown of their own development they will decline and cease to be loci. In this situation, the rate of development becomes crucial.

With respect to the rate of economic development, there will not be a considerable disparity among the three loci like that of the 1950's and 1960's for quite a long time to come. In general, the ranking of the three loci with respect to rate of development will continue for the next 20 or 30 years in its present order: namely, Japan, the United States, and Western Europe. The disparity between the rates of development of the three loci will not exceed 2 percent; for example, if Japan's rate of development is 4 percent, the United State's will be 3-4 percent, while Western Europe's will be 2-3 percent. Naturally, this does not rule out shifting of the order of precedence in some years.

Assuming that there is no major disparity between rates, change in the ratio of economic strength among the three loci will be slow. For example, Japan's Economic Planning Agency has forecast that by the year 2000 Japan's GNP will be 60 percent of the United State's GNP. The United States "Long-term Unified Strategy Committee," on the other hand, has predicted that by 2010 Japan's GNP will be 50 percent of the United State's. In

any case, it can probably be affirmed that prior to the 2030's, Japan's economic strength will not surpass that of the United States and Western Europe.

What about the rate of development after that? It is still too early to make specific predictions. Even supposing that Japan's rate of development will greatly exceed that of the United States and Western Europe and that, consequently, Japan will surpass the United States and Japan in the second half of the twentieth Century, this still would not mean that the tripartite pattern would then die a natural death. There would still be a tripartite pattern, but it would no longer be the previous pattern, with the United States as its main locus.

Therefore, if the capitalist world's tripartite pattern is not a "transcentury pattern" which will run through the entire twentieth century, it is at least a 100-year-long "century pattern" which will continue from the 1960's and 1970's to the 2060's and 2070's.

#### **USSR's European Disarmament 'Challenge to West'**

40050237 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 2, 9 Jan 89 p 30

[Article by Xia Zhimian 1115 3112 3094: "Gorbachev's Challenge to the West"]

[Text] In the international community, disarmament is an art, and when to disarm, how much to reduce, and when to make announcements all call for careful study. Otherwise, it is difficult to maximize the most public opinion effect with the least price in putting the other side in a defensive position.

This is the case with U.S.-Soviet disarmament, with its numerous and complicated negotiations, and it is known in media circles as "disarmament poker." This is because, while both sides raise high the banner of disarmament, they both want in their heart of hearts to weaken their opponent and maintain their own dominance.

Since Gorbachev took office as the Soviet Union's supreme leader in 1985, Moscow has made repeated concessions in arms negotiations, leading finally to the signing of the Soviet-U.S. Intermediate-Range Ballistic Missile Treaty, initiating the destruction of intermediate-range missiles and taking the first step toward real disarmament. Gorbachev's score in every nation's public opinion polls rose sharply. Comparing the two nations, in disarmament negotiations in recent years, the Soviet Union has been on the offensive and has taken the initiative more often, while the United States has been on the defensive and relatively passive.

On 7 December 1988 Gorbachev announced to the UN General Assembly that within two years the Soviet Union would cut back troops by 500,000 men, including the withdrawal of six tank divisions from Eastern

Europe. Made at a time when a new U.S. President was replacing the old one and the United States had to consult with its allies, Gorbachev's announcement, if viewed from the angle of "disarmament poker," was no less than a masterpiece of one-upmanship. It has been called in the West "the biggest diplomatic challenge since World War II."

In the United States, the debate between dovish advocates and hardliners on Soviet policy will undoubtedly grow more heated; the pressure to cut military spending which will confront Bush after he takes office will increase; the Democrat-controlled Congress will become harder to deal with; and the "Star Wars" plan, which the Soviet Union has done its utmost to wipe out in disarmament negotiations, will be hard to continue.

From the standpoint of relations between the two shores of the Atlantic, Gorbachev's announcement was the equivalent of a "political earthquake." The United States has consistently adhered to the thesis that Soviet strategic thinking is aggressive, and on this basis, it has demanded that its allies increase military spending and share the defense burden. Now, this thesis has obviously further lost credibility. The debate between the two sides of the Atlantic regarding defense spending-sharing will become sharper. There is likely to be an upsurge of demands in the United States for withdrawal of Soviet troops from Western Europe. But this can only lead to an increased suspicion in Western Europe: Would the United States be likely to further disengage in the U.S.-European defense after the United States destroys its intermediate-range ballistic missiles in Europe?

At the same time that the West welcomed Gorbachev's disarmament announcement, it issued a warning: even if the Soviet military is reduced in accordance with Gorbachev's guarantee, its actual strength will still surpass that of NATO. Joy is mixed with anxiety. The ideological confusion within NATO may increase further. Now that the Soviet Union intends to disarm, why must NATO spend large sums of money to increase and augment conventional arms? The inertia of Western Europe's small- and medium-sized nations with respect to this possible spending will become even more evident. Now that the Soviet Union intends to disarm, why must NATO spend money to replace outmoded short-range ballistic missiles? Under this premise, NATO's plan to modernize short-range ballistic missiles will be harder to materialize. If this is really true, by the end of the 1990's, the "denuclearization" of Europe which was originally sought by the Soviet Union and rejected by Western Europe may be achieved.

In Western Europe, as apprehension about the intent of the Soviet strategy subsides, the popularity of the Soviet Union is likely to increase further. In 1988, the heads of state of each of the Western European nations visited the Soviet Union one after another, vying with one another to provide huge loans, and it is feared that this can only be regarded as a prelude. Under these circumstances, the

advance of the Western European defense alliance is liable to slow down. Up to now, the French-West German joint command and forces have been mere symbolic steps.

Since the U.S.-Soviet Intermediate-Range Ballistic Missile Treaty was concluded and destruction of the missiles actually started, a hope has been aroused in the hearts of the world's people: that U.S.-Soviet disarmament negotiations will finally break away from the "poker game" model and begin to sincerely and wholeheartedly cut back. However, a hope is only a hope. The disarmament strategy adopted by the United States and Western European politicians cannot be built on the basis of hope alone. Moreover, they still have misgivings in their hearts that even if the current leader of the Soviet Union genuinely disarms, who can guarantee that disarmament can really be carried through to the end, and that its policy will not be reversed?

It is clear that Western politicians, after welcoming and praising the aggressive Soviet leader Gorbachev and his series of magnanimous disarmament offensives, have already sensed that this is not only an opportunity, but also a challenge, and that it may be more the latter than the former.

#### **Opportunities in Growing Economy of Asia-Pacific Region**

40050287 Shanghai SHIJIE JINGJI DAobao  
in Chinese 30 Jan 89 p 3

[Article by Tokyo correspondent Zhao Wendou 6392 2429 2435: "China Should Explore More Positive Cooperation Based on Equality and Mutual Benefit; 'Economic Crescent' has Emerged East of PRC Coastal Area"]

[Text] Two events, the steep fall in stock prices on Black Monday in October 1987 and the European Economic Community [EEC] decision in 1988 to begin setting up a united market in 1992, sent two important messages to the world: First, the world economy is becoming more integrated at an increasingly rapid rate; second, the movement of the global economy toward regionalization is becoming more and more evident. In addition to unification of the EEC in 1992, there is also the U.S.-Canada Free Trade Agreement which came into force this year. As these two major developments progress, the issue of the so-called "Pacific rim economic group" has become a central topic most likely to stimulate debate. China is a Pacific Ocean nation, one section of the long chain comprising the East Asia portion of the Pacific rim. When discussions of the Pacific Ocean economy or the East Asia economy turn to the "group," they invariably involve China's status, attitude, and the policies it should adopt. A major trend above all brings new opportunities; the key lies in the strategy and action plan, and depends on the efforts exerted by the Chinese people.

In the latter half of the 1980s there has emerged in the vast Pacific Ocean periphery, from the U.S. coast to the China Sea, three significant and unprecedented trends in economic development: 1. The economic growth rate of this region has been the highest in the world for several years running, which has transformed the region into the most vigorous in terms of the global economy. 2. Mutual trade within this region far surpasses that with other regions, which shows the mutual economic ties among the major nations and regions far surpass similar ties with other regions. 3. After the second year of declining U.S. currency and rising Japanese yen, a new economic cycle has emerged in the East Asia region, namely the direct investment of Japanese capital in East Asia's developing industrial nations and regions, and in the ASEAN nations. Goods produced as a result of Japanese investment and equipment flow back to Japanese markets. In view of this, these three major trends in the Asia-Pacific region presage the beginning of a certain phase in this economic cycle. It can be said the three major trends represent the essential economic environment and basic context for whatever "group" begins to materialize in the future.

An "economic crescent" with its own circulation of sorts has emerged to the east of China's coastal area, and it merits further study. Specifically, geographically speaking, an entity shaped exactly like a crescent moon, with economic circulation based on the Japanese yen, has appeared off the China coast, and includes Japan, Asia's "four small dragons" and ASEAN. Opposite this crescent-shaped economic belt is the entire coastal open zone of China from Dalian in the north to Hainan Province in the south. As a result of China's opening to the outside and its coastal development strategy, some Japanese capital is beginning to find its way north in China, entering the continent primarily through Shenzhen and Guangdong. There also have been some increases in investment in other coastal areas. China's exports to Japan last year amounted to as much as \$10 billion, and the trend is toward large-scale trade with Japan. Regardless of whether or not we align ourselves with a particular group, it is in China's basic interest above all to attract more of this investment and expand exports to Japan and the crescent zone.

The U.S. has shown more and more interest in recent years in participating in Asia-Pacific economic development, and has proposed signing with Japan a U.S.-Japanese free trade agreement. The U.S. undoubtedly will pay more attention to Asia as time goes by. Japan's economic strength is increasing, and it is continuing to expand its capital exports and product imports on the international industrial level. But we are still far from setting up any kind of group for expanding either mutual trade or capital and commodity market circulation. Establishing some kind of economic group is by no means an expression of economic cooperation alone, it is first and foremost a political matter. The essential difference between the Asia-Pacific region and the EEC is that in this region there are very great differences in

terms of politics, social systems, nationalities, history, culture, customs, and stage of economic development. Whatever group is to be established, the first issues to be encountered will be sensitive political ones. It is obviously not realistic at present to surmount these political issues, and establish some kind of body which transcends ideology and political problems. What is realistic is to seek integration on many fronts and more positive cooperation based on equality and mutual benefit, which allow the objective law of economic development to function.

**Economics 'Surpassing' Political, Military Factors in Global Relations**

40050227b Shanghai SHIJIE JINGJI DAobao  
in Chinese 9 Jan 89 p 5

[Article by Liu Wanwen 0491 8001 2429: "The Scales of Global Relations Lean Toward Economics: The Position of Dominance of Politics and the Military Is Declining, and the Role of Economics and Science and Technology Is Gradually Surpassing That of Politics and the Military"]

[Text] A conspicuous feature of the basic trend of current global political and economic development is that the dominant position of politics and the military is declining, and their roles are gradually being surpassed by those of economics and science and technology. The reasons for this are as follows:

1. Detente is the basis and premise of politics. Today's global political practice has amply demonstrated that in relations between nations, relying solely on political confrontation and the arms race is no longer an effective means of resolving international conflicts. This is true not only between large nations, but also between large and small nations. Modern nuclear war can no longer be a method of achieving any political, economic, or ideological objectives; it can only result in the destruction of both sides in the conflict or of human civilization as a whole. Therefore, both the United States and the Soviet Union must temporarily abandon the use of the military or nuclear warfare in resolving international conflicts, and instead lay stress on vying for "comprehensive national strength." In conflicts between large and small nations, the method of using war to resolve problems is no longer as effective as it was in the past. This was proven in the U.S. war of aggression in Vietnam and the Soviet war of aggression in Afghanistan.

2. Global economic issues are an internal factor. The 1970's were a turning point in Western postwar economic development. The economy, hit particularly by the most serious postwar crisis which erupted in the capitalist world in 1974-75 and the global economic recession of the early 1980's, was for a long time in a difficult situation, plagued by stagnation and low growth rates, aggravated inflation and fiscal deficit, stock market turmoil, rising unemployment rates, and economic structural crisis. Therefore, seeking development of their

own economies has become an urgent task for advanced capitalist nations. With regard to socialist nations, there is not one which does not suffer from backward economic development and undeveloped productive strength, and they are confronted everywhere with the formidable task of adjusting their economic structure, reforming the economic system, and stepping up economic development. Numerous developing nations, which have been continuously under the control of the old international economic order since World War II and heavily dependent upon old international economic relations, are being crushed under heavy international debt burdens. They urgently need to change their unequal international economic relations and develop independent national economies.

3. "Economic diplomacy" has become an important element in each nation's foreign policy. Since each of the world's nations has its own problems in today's economic development, in foreign relations they often proceed from the angle of considering their own domestic economic issues, raising economic interests to the top priority in diplomacy. The Soviet Union, the United States, and other Western nations are all making ample use of the international division of labor, strengthening foreign economic ties, and developing scientific and technical cooperation in actively seeking external conditions for resolving their own economic problems.

Economic diplomacy has occupied an even more decisive position in the foreign policy and foreign relations of the vanquished nations of Japan and West Germany. Since they had the special status of vanquished nations, they could not use politics and the military as their main means of foreign infiltration, and had to use economic infiltration and economic diplomacy as their basic method of diplomatic activity. Today, Japan relies on its strength as a major economic power in attempting to launch a full-scale economic diplomacy offensive, and is actively implementing economic infiltration in every region of the world.

4. Economic friction has become a conspicuous manifestation of international conflict today, appearing especially in economic relations between advanced capitalist nations. Since the 1950's with the increased development of the Western European and Japanese economies, economic friction between capitalist nations has increased day by day; particularly since the 1960's, the United States, Japan, and Western Europe have waged a fierce struggle in such areas of the economy as trade, currency, and finance.

In the area of trade, due to the relative shrinking of the world market, trade competition and conflicts between the United States, Japan, and Western Europe have grown in intensity, and various kinds of trade wars have flared up one after another. In the areas of currency and finance, too, conflicts between the Western nations have

intensified day by day, and even though summit conferences among seven Western nations have been held annually since 1975, this has by no means really resolved their fundamental problems.

### **Perspective on World Situation, Relations With Neighbors in 1989**

40050255 Beijing LIAOWANG [OUTLOOK] in Chinese  
No 2, 9 Jan 89 p 3

[Article by Li Nan 2621 2809]

[Text] Time passes and one year follows the next. The new year requires planning. We cannot help but ponder the domestic and foreign situations facing the country.

What is the global outlook for this year? Although there are countless starting points for analysis, we shall start close to home and work outward. Our analysis will begin with the near neighbors. A proverb says that distant relatives are not as good as near neighbors. While distant relatives naturally are important, at times relations with neighbors close by are more direct and intimate.

In early December last year, a foreign minister of China officially visited the Soviet Union for the first time in 31 years. In mid-month, India's prime minister came to China for the first time in 34 years. These two events are inherently different from normal visits of high level government officials. They suggest that China's relations with its two major neighbors to the north and south are improving.

In the near future, a Soviet foreign minister will pay a return visit to Beijing to continue talks on border relations and major international issues, with particular reference to Kampuchea. If all goes well, a meeting of the highest level officials of both countries may take place in the first half of the year. This naturally may attract great worldwide attention as a normalization of relations between the two countries as well as for overall international affairs.

The Sino-Soviet border is long, reckoned at more than 7,300 km from east to west. There have been three rounds of border talks to date. A unanimous opinion is beginning to be reached regarding most of the eastern section of the border. Talks regarding the western border have begun. The Soviet Union announced that it will withdraw the majority of its troops from Mongolia. It also indicated that it would reduce its troops stationed along the Sino-Soviet border to a number consistent with normalized relations. Toward this end, the two countries have agreed to set up a group of experts to seek ways of reducing border military forces.

On 28 November last year, China and Mongolia signed a treaty on the border system and the handling of border issues. This is the first such treaty between China and a neighbor.

It can be expected that in this new year, there will be reduced tensions and hostilities as well as peace and stability on China's northern border. Good-neighborliness and friendly relations may be restored and develop from here.

The visit of Indian Prime Minister R. Gandhi has brought into sight the possibility of ending the long years of cold and estranged relations between China and its largest neighbor to the southwest.

China upholds good-neighborliness and friendly relations, but problems with a few neighboring states crop up on occasion for various reasons. Several years ago, an international critic pointed out that China's borders are not at all peaceful. The northern and southern borders both have clearly-defined or potential tensions. There also are border disputes. This is disadvantageous to peaceful construction. The situation is now changing.

Of course, all is not well. The "hot spot" of Cambodia still exists between China and Vietnam. Conflicts continue to occur on their common border, and Vietnam still covets China's Nansha Islands. As for Sino-Soviet and Sino-Indian border issues, although the improvement and normalization of relations with these countries will be helpful in resolving border issues, it must also be seen that in regard to the Sino-Soviet border, the western portion clearly is more complicated than the eastern, while along the Sino-Indian border, the disputed area is more than a tiny strip of land. Ultimate resolution of these border issues still requires the continuous mutual efforts of all parties concerned.

Looking outward from the neighbors close by, although it is not bright in all directions, the shadows of tense conflict are receding and diminishing. With regard to detente and regional tensions, new developments are: The U.S. and the Palestine Liberation Organization (PLO) have begun an official dialogue; in southwest Africa, a trilateral agreement was reached on Namibian independence, and Cuba has withdrawn troops from Angola; the Soviet Union and the Afghan Resistance Forces have begun direct talks; and the Iran-Iraqi cease-fire is stabilizing. These signs infer the possibility of progress on extinguishing regional "hot spots."

Can the Cambodian issue be smoothly resolved this year? Gorbachev believes that this is the year for a solution. It appears that all concerned are striving together and making concessions. Vietnam may be unable to continue to resist the global tide of solving regional conflicts.

New styles of detente and dialogue are clearly visible in East-West relations. Normally a hardliner with regard to Soviet power, U.S. President Reagan met with Soviet leaders five times, more than all previous presidents. During Reagan's term, the two countries signed an intermediate-range nuclear forces agreement (INF),



began strategic nuclear arms reduction talks, and continued to be involved in reducing regional conflicts. At the end of last year the Soviet Union announced that it would unilaterally disarm 500,000 troops and withdraw troops stationed in eastern Europe. This year there may be some unexpected improvements in East-West relations.

The world has been experiencing a rather long state of tense international relations, with arms expansion in preparation for war. The U.S. and Soviet superpowers take the lead in the arms race. Nuclear weapons are piled up like mountains, a waste of great national power. In the end, arms expansion and militarism are unwise decisions, far from the path of peaceful development. Although we still cannot say that detente will replace tension, or that confrontation will turn into dialogue, yet, things develop in the opposite direction when they become extreme. This turn in the course of global events is not an unreasonable exception.

It goes without saying that this emerging turn of events is good for the world. This is equally true for the United States, the Soviet Union, and other great nations. One proof is that improved relations between the Soviet Union and western Europe are useful in the economic development of the USSR.

Nevertheless, in the final analysis, the world is one body united by contradiction. International affairs cannot develop on a single line. All the factors behind tension and turmoil have not yet disappeared. It is easy to see this. It should not be forgotten.

Many people throughout the world have observed that global economic contradictions this year are still grim. Conflicts have relaxed in some areas, but economic struggles may grow. Some big states will fight with their strong economic might, creating a difficult, pointed situation.

Where there is sunshine, there is always shadow. On the day that Gorbachev arrived in New York, an American space shuttle launched a spy satellite that can reconnoiter the vast majority of Soviet territory. A Soviet spokesman said that it was an unfortunate coincidence. And then, a Soviet space shuttle burned on lift-off. Some weapons were destroyed or reduced in number, but other new types are under development and will be produced soon. The two great military alliances of NATO and the Warsaw Pact continue to be at odds. It is also possible that new upheavals will break out in certain areas.

The global development situation gives reason for joy as well as points for profound thought. We must understand the present and ponder the future. We hope that this year will surpass and be better than the last.

At the end of last year, the CPC Politbureau specially convened a meeting to discuss the international situation and work with the outside world, pointing out it is

possible a new age advantageous to peaceful development will emerge. China may strive for a long-term stable international environment, in order to concentrate its efforts on reform and the four modernizations.

How do we seize this elusive opportune time? This is a task for everyone in the changing international environment.

### **Shanghai's Foreign Affairs Experts on Shifting World Power**

40050228 Shanghai SHIJIE JINGJI DAobao  
in Chinese 16 Jan 89 p 7

[Text] In the latter half of the 1980's, the international scene has witnessed the greatest change and transformation since the end of World War II. In this mercurial period, is China's international status rising or falling? What is China's role at present? How should our foreign policy change, and should the adjustments be major or minor? Hu Houfa [5170 0683 3127], one of our reporters, raised three questions in a report from Vienna titled "China's Position in a Changing World." At the end of last month this newspaper and members of Shanghai's Institute of International Relations joined in calling a small conference; the experts' viewpoints are expressed as follows.

### **Chen Peiyao [7115 0160 1031] (Shanghai International Institute)**

In the 1980's, due to a sharp decline in the arms race (especially the nuclear arms race), many countries including the United States and the Soviet Union have cut down military spending or curtailed increases, facilitated certain disarmament pacts, and reduced foreign military obligations and troop deployments. These countries recognize that security and a strong position in the international arena can only be guaranteed by the development of a more comprehensive national strength. Therefore, attention has shifted to internal problems, especially economic problems. One nation after another has turned its attention to internal reform and adjustment, concentrating on the development of advanced technology in order to meet international competition. The conviction is that only by developing a high degree of scientific and technological ability can a nation have competitive superiority and elevate its position in the international community.

Regarding our own country, the shift of emphasis in international competition presents both opportunity and challenge. The easing of international tensions and having improved relations are beneficial to our country's reform and development. At the same time, although China is a major political and military power, it is deficient in economics and scientific technology. In an international competition which focuses on these two factors, our deficiencies become even more obvious and pressing. Hence the situation is critical.

In regard to the popular formula of the 1970's that China formed a "great triangle" with the United States and the Soviet Union, this situation has changed. In the 1970's, the balance of power between the United States and the USSR made it desirable from a strategic standpoint for both to seek an alliance with China and thereby gaining the upper hand. Thus China's position and role in international relations was relatively strong. The "great triangle" did not fundamentally alter the polarized situation between the United States and the Soviet Union; nor was there ever really a three-sided opposition among the United States, Soviet Union, and China, in which "the action of each country would have a strategic importance for the other two." (Based on a report by the U.S. Rand Corporation: "Management of a Triangular Strategic Relation"). Thus, an exaggerated estimation of our country's role and function in global affairs is counterproductive. Since the mid-1980's, the role of the United States and the Soviet Union in the world have steadily diminished. Moreover, since the beginning of detente in 1988, China's role has correspondingly declined.

**Chen Qimao [7115 0796 2021] (Shanghai International Institute)**

At present the international situation is undergoing drastic change: the entire world is turning from confrontation to dialogue, from hostility to detente. There is the possibility for a long period of good relations. The strategic contests and local conflicts are cooling down, international competition has shifted to the areas of economy, science, and technology. The bipolar confrontation of the two super powers has been replaced by a four-sided competition among the United States, Japan, Western Europe, and the USSR. Simultaneous with the development of a unified world economy is the obvious emergence of economic blocs. The Asian region becomes more important every day, and the position of Japan more prominent. The polarization of the Third World and the gap between north and south continues to increase. These important developments provide our foreign policy with greater room to maneuver and greater opportunity to present many new options. For example, due to improved U.S.-Soviet relations, China's role in the former triangular relationship has weakened and diminished (but not disappeared). In pursuing strategic dominance and localized conflicts, the United States and the Soviet Union may, by their practice of "foreign policy by proxy," disregard or damage the interests of other countries. We must be especially vigilant regarding this. We must also be aware of the four-sided competition forming in Asia among the United States, Japan, China, and the Soviet Union; the United States and the Soviet Union always regard the other as their greatest rival and threat to their own security. As there are also sharp contradictions between the United States and Japan, and Japan and the USSR; if we act properly, we can be certain of creating international conditions advantageous to our own modernization in addition to bringing an international environment of peace, stability, and prosperity in Asia and

Pacific. Likewise, in developing countries toward becoming economic blocs, there is the possibility that we could preclude ourselves from the regional share of the international market, thereby damaging the development of our outward-oriented economy. We must insist on non-alliance politically, planning ahead with countermeasures economically, and actively participating in the international division of labor and international competition, so as to not become trapped in a disadvantageous situation.

**Sha Linyu [3097 5259 2810] (Fudan University World Economics Institute)**

During the 1960's China was recognized as a major political power, due to its unique intrinsic characteristics and international position. But this did not exempt China from the fundamental law that economics decides politics; a great political nation must be backed up by a correspondingly strong economy in order to survive.

**Chen Qimao (Shanghai International Institute)**

As the many present viewpoints of international relations are all formed during the era of acute U.S.-Soviet confrontation, we need to reexamine, renew, and develop our conceptions based on the new situation. Many foreign policies were also formulated during this period; some of these policies have become unsuitable to current developments, others carried vestiges of China's days as a closed society. These policies are counterproductive to developing strong economic and political relations, scientific and technological cooperation, cultural exchange and people-to-people communication with other countries. Furthermore, there is little interaction between our government personnel and the academic and economic fields. Some foreign affairs departments have almost become a closed system to new ideas. This is obviously unhelpful for stimulating new ideas and dynamic action in diplomatic work. Unless obsolete viewpoints and traditional frameworks are broken down, there will be no way of achieving greater adeptness in our foreign relations, and winning greater accomplishments in the new international environment.

**Xu Xinli [6079 1800 4409] (Shanghai University of Finance and Economics)**

Foreign policy must break out of its past reliance on politics and friendship as guiding principles, and adopt flexible, practical policies based on our own political and economic benefit and the advancement of the four modernizations. We cannot sacrifice our economic benefit to pay for the price of friendship. This is neither tolerated by our national interest nor long lasting. Diplomatic personnel must first understand economics, and pay attention to "economic diplomacy," "technology diplomacy," and "natural resources diplomacy." "Card-playing" diplomacy is no longer appropriate. China also has no need to play a role in the "great triangle." The criterion for foreign relations is to create an advantageous condition that is beneficial to our country's economic

development. In foreign policy, we should strengthen the study of laws and regulations of other countries. We should strengthen contacts with the policy makers and extragovernmental circles of the great nations, exerting influence on them so that they would formulate policies beneficial to our development. Our diplomats must have better information on every country's market condition, technological news, and investment developments of other countries in the host country so that we can take the advantage of favorable opportunities and make timely policy decisions to expand exports or to introduce advanced technology.

**Chen Hungshou [7115 7703 1108] (Shanghai Academy of Social Sciences)**

Whether the revision of China's foreign policy can be smoothly carried out depends on a renewed understanding of the concept. We must completely eradicate the concept of historic idealism in which ideology overrides concrete benefits. We welcome anything which contributes to our modernization process, and oppose anything which obstructs it.

**Wang Houkang [3769 0624 1660] (Shanghai International Institute)**

In our contacts with every country, and especially the other Asian countries, we should strengthen and adjust elements that would focus on our economy. We should further de-emphasize ideology. Politically, we should not form alliances with major nations, but economically, we should not reject certain alliances with other countries on a basis of equality and mutual benefit. We should take steps to dispel the historical misgivings of the Southeast Asian nations toward our country, and strive for a real breakthrough in our relations with these countries in this region.

**Wang Guoming [3769 0948 2494] (Fudan University)**

Present conditions demand that we pay further attention to "economic, scientific, and technological competition and cooperation." If we continue to neglect this area in subsequent discussions on international relations, politics and diplomacy will become impracticable.

In the actual practice of forming government policy, we must take full advantage of opportunities to maintain a dialogue and to discuss the circumstances of survival. We must use a variety of forums (such as the United Nations) to expand and develop the economic, scientific, and technological relations, even joining economic cooperation organizations so as to strengthen economic relations with certain regions. While we increase our energy in developing economic, scientific, and technological relations; in politics we cannot but "keep a low profile."

**Zhu Weilie [2612 1218 3525] (Shanghai Foreign Language Institute)**

In the process of opening up to foreign activities in all directions, we must, throughout, insist on giving emphasis to improving the quality of our personnel engaged in foreign relations. In developing the economic cooperation with other countries, our country's greatest asset is our labor resources. However, if we do not make a firm commitment to invest in our education, our people abroad will not have the quality standard in politics and technology and in understanding of the general conditions of a target country. They might not even meet the fundamental requirement of being "idealistic, virtuous, cultured, and disciplined." The inevitable result would be a defeat in international competition and loss for the country. In fact, all our personnel engaged in foreign relations in all fields including officials, people in economic and trade, scholars and students overseas should all see the importance and the urgency to raise their cultural level and qualification, and further improve their image. I hope that, as part of the adjustment in our foreign policy, we will be even more strict in carrying out the examination and evaluation system of an organization that assigns personnel abroad, so that various unhealthy tendencies and practices can be eliminated and corrected and that our diplomatic policy of independence and autonomy can be served with self-initiative and consciousness.

## NORTHEAST ASIA

### **Incongruities Noted Between Japan's Preeminent Position, Psychology**

*40050250 Shanghai SHIJIE JINGJI DAobao  
in Chinese 23 Jan 89 p 5*

[Article by Chen An 2525 1344: "Deepest Impression From Return Visit to Japan After a Three-Year Absence: Japanese People Still Have a Strong 'Middle-Class Consciousness' and Sense of Crisis"]

[Text] Even though Japan has become the world's leading creditor nation and economic power, the Japanese people still have a strong "middle-class consciousness" and sense of crisis, and are ceaselessly pushing ahead toward new objective. This is the deepest impression received by this reporter on his return visit to Japan after a three-year absence.

After the Japanese economy came out of a slump at the end of 1986, it has maintained a growth trend, spurred by housing investment, private consumption, and growth of capital investment. The actual rate of economic growth was 5 percent in 1987 and 4.9 percent in 1988, while the 1989 rate is estimated at 4.6 percent. The foreign demand-oriented economic structure is being adjusted and the contribution made by foreign demand to economic growth is declining, while domestic demand is powering economic growth. The appreciation of the yen has by no means dealt a fatal blow to the Japanese

economy as had been anticipated, since Japanese enterprises promptly adopted such operational strategies as developing technology-intensive products and implementing internal rationalization, as well as rapidly expanding overseas production, thereby allowing Japan to very quickly overcome the difficulties brought by the appreciation of the yen. The drop in oil prices and the appreciation of the yen allowed Japan's domestic commodity prices to maintain stability, thereby increasing the people's real income, as well as helping to expand consumption; spurred by the revolution in micro-electronics and information, the Japanese economy is now entering a new period of growth, and people are hoping for a recurrence of the postwar "Izanagi Boom," which lasted for 57 months.

The Japanese economy is now moving toward internationalization. A new division of labor setup is currently being formed between Japan, the Asian Newly Industrialized Economies (NIES), and the ASEAN nations, and Japan's role in the economic development of the Asian-Pacific region is expanding. Japan's per capita GNP has surpassed that of the United States, and the Japanese economy's actual rate of growth occupies the pre-eminent position among developed nations.

Nevertheless, a "middle-class consciousness" still widely exists among the Japanese people. This "middle-class consciousness" indicates on the one hand that as the Japanese economy develops, the Japanese people themselves feel that their living standard has reached a level of affluence, while on the other hand it indicates that Japan's quality of housing and public facilities still lag behind the United States and the developed nations of Europe, and that in the minds of the people a difference still exists between being a major economic power and having a real feeling of prosperity.

"Being mindful of possible danger in time of peace" is another reflection of the Japanese national character. There is a concern in various circles in Japan that large-scale direct foreign investment is liable to lead to the so-called phenomenon of "hollowing," including aging of domestic facilities, decreased productivity, and export difficulties, thereby causing Japan to follow the same old disastrous road that the United States travelled previously. Japanese financial circles are on their guard against the harmful consequences that may be brought by immoderate increase of consumption and excessive improvement of social welfare, for fear of catching "the UK disease." Japanese enterprises are improving their operational systems in order to be able to respond at any time to a further appreciation of the yen or another rise in the price of oil and other primary products. Perhaps as a result of having experienced two oil crises and a large-scale appreciation of the yen, as well as due to the distinctive nature of an island people, Japan is making every preparation for taking preventive measures against

hidden dangers in Japan's social and economic development. The Japanese Government is also actively implementing financial, tax, and political reforms in order to create conditions favorable to Japan's social and economic development.

## EAST EUROPE

**Political Pluralism in Hungary**  
40050235 Shanghai *SHIJIE JINGJI DAobao*  
in Chinese 9 Jan 89 p 10

[Editorial by Wang Yizhou 3769 6654 5297: "A Commentary on Hungary's Theory of Reform. Pluralistic Politics—A Sign of Successful Reforms."]

### [Text] Issues Concerning Reforms of the Political System

As is the case in China, the reform of Hungary's political structure has only recently showed up on its official agenda. Yet as early as 1956, following the Soviet Union's 20th Party Congress, Hungarian thinkers and theoreticians had already begun denouncing Stalinism; they subsequently analyzed and criticized the old political structure and opened up the way for any work regarding future reforms. Generally speaking, except for Yugoslavian political scientists, Hungarians were among the earliest and the most thoroughgoing theoreticians to endorse radical reforms, to destroy the old while establishing the new. Today, in the field of political science, their quick pace of reforms, their radical ideology, and the thoroughness of their debate on issues have reached the point where Stalinism is now placed in the same category as fascism and dictatorship. People no longer cite quotations from the book of Stalin's thought when justifying their viewpoints. The situation is such that no one actually regards Stalinism as something positive. Political scientists nowadays discuss such issues as pluralistic politics, multiple political parties, separation of powers, checks and balances, as well as the relationship between personality inclinations and political reforms. They also discuss the weakening of state power and the development of "citizen societies," as well as political structure in a market economic environment. People in Hungary can openly debate any issue concerning political relationships between Hungary and the East and Hungary and the West. They can, for example, debate the advantages and disadvantages of Council of Mutual Economic Assistance (CMEA) to the development of Hungary. They may also discuss Russia's military withdrawal from Hungary and from other areas in Eastern Europe as well as the contest between Gorbachev and his political opponents. Other permitted issues of debate are the achievements and inadequacies of China's reforms, the nature of present Romanian political power, the special function that the Federal Republic of Germany performs in the development of East and West relations, and the impact of the American presidential election on Hungary. Although there are always differences between the officials' and the scholars' viewpoints, the scholars are seldom bothered by the political administration.

Professor M. Bihari, one of Hungary's most famous political scientists, is a specialist in the analysis of political structure as well as of the major principles and features of the political system of socialist nations. He believes that there are 10 special qualities which characterize these political structures: 1) The society is a highly unified, centralized distribution system. 2) The whole political system is built around one political party. While the state is at the center of a capitalist society, the party forms the core of a socialist country. 3) The party creates and exercises all power. State organizations act as implementing organizations, while all other social and political organizations affiliated closely to them. 4) The methods and procedures of policy-making are highly centralized. 5) The process of centralizing into a powerful organization begins when the original multi-party system is eliminated and when youth and labor organizations are attached to the party. Political centralization and economic centralization are inseparable. Together they strengthen the centralization of management. 6) One of the results of this centralization is the infinite expansion of administrative organizations. 7) The expansion of management organizations brings along with it the formulation of a great number of special political laws as well as the rules and regulations on economic, culture and organizations. As a result, society finds itself bound up by too many controls. 8) Organizational overcentralization creates an overlapping of power between the party and government and between the state and social organizations. On the one hand, leaders hold too many concurrent jobs, while on the other hand, certain powerful organizations monopolize too much power. 9) Within this kind of political system there develops a vertical power structure and a dependency on hierarchy which are built upon the interdependence among individuals. 10) The process of power redistribution follows the same pattern. Dr Bihari points out that the socialist political system, in a manner just like that of the capitalist political system, not only creates changes in power relationships, but also creates fundamental changes in system of ownership relationships. However, in the socialist system these changes were carried out under Stalinism's guidance and completed under the dictatorship. These changes had brought about an overall disregard of democratization. Therefore, to reform we must begin to reevaluate and reassess the existing power relationships as well as the relationships of the ownership system.

Another influential political scientist, Professor Peter Schmidt, has analyzed the present political development of Hungary. He believes that even though the last 20 years have seen partial changes in the political system, there has been no change in overall political structure. For example, the function of the party and the way with which the state and the government control the society still remain unchanged. The process of political democratization is still very slow and unsatisfactory. Furthermore, this partial change has created new tensions and

conflicts. The voting system is one example. Theoretically, a balanced vote can be carried out to a certain extent. Within certain limits, voters can choose the candidates they desire. However, if the voters' choice does not agree with the expectations of the party leaders, someone will come forward and interfere. This person will emphasize the importance of party leadership and will employ some unbelievable measures (including administrative measures) to change the voters' choice. In recent years, in another example, the party has repeatedly expressed its desire to elevate the political status of the national people's conference. (there's no parliament in China.) Yet, whenever there is a substantive debate or change in the meeting, conflicts will result among certain party leaders and critics. Consequently, the party still maintains its old methods and old policies and ignores the people's criticism. Professor Schmidt points out that once some reforms are implemented, there will be, in the political life, a higher demand for even more thorough reforms. Partial reforms and limited in number would only generate tensions. So, where will the next reforms be heading? The professor believes that the central issue is whether or not to change or to weaken the excessive functions of the Communist Party. Without touching on this fundamental problem, all the partial changes will have no real meaning. This is not to say that we should immediately implement a multi-party system. It does mean that we should begin with a pluralized political system and gradually stride forward toward the goal of a multi-party system. The multi-party system is the ultimate guarantee of a democratic, pluralistic political system. At the present stage, conditions in Hungary are not yet ripe for a democratic, pluralistic political system, because the government and the party have only their interests and benefits in mind. Not until the general interests and benefits in the government and the party begin to disintegrate, will the objective conditions exist for the political structure to evolve to a certain degree from which the multi-party system will then come into its own. But, Hungary should also consider the current international situation. There is still confrontation in the East-West relationship, and trying to achieve a multi-party system under such circumstances would not be a good thing.

A few comments: 1) The keys to achieving reform of the political structure in a socialist country are the communist parties' determination and courage and their ability to carry out a thorough self-evaluation and change. Theoretically, the basic indicator of a reform's success lies in the emergence of a certain balanced structure and political pluralism. 2) Compared with people in other socialist countries, the Hungarians have touched upon the central point concerning reform of a political structure. They have completely negated the Stalinistic political system, and they have made great efforts to pursue a new political system that meets the requirements of modern progress. Although this new pursuit has a long way to go, it has great significance and a bright future.

## NATIONAL AFFAIRS, POLICY

### Problems, Solutions of Current Reform

40050273 Beijing XIN GUANCHA [NEW OBSERVER]  
in Chinese No 1, 10 Jan 89 pp 2-3

[Article by Li Honglin 2621 3163 2651: "Where lies the Problem? What is the Solution"?]

[Text] The year 1988 has passed.

There is no need to hide the fact that the reform has problems, and that they are rather serious problems.

There was a strong determination in the first half of the year to surmount without fail the commodity price impasse, with the idea also that a short stab of pain is better than prolonged suffering. However, once the storm of panic purchasing broke out, it brought price reform to a standstill. The second half of the year became a time of all-round curtailed efforts, even the key tasks became nothing more than "improving the economic environment" and "rectifying economic order."

Improving the economic environment and rectifying the economic order are indeed necessary functions. This is like a need to straighten out a marching column of a military formation that had gotten out of step and out of lines. To cope with a situation like this, there are two alternatives: One is to straighten them out while marching, and the other would be to stop them for a readjustment. Since the decision has already been made for one of these alternatives, let us go on with it in earnest, and after a period of practice and testing, let us see what the result will be.

However, one important question has to be clarified: What was the cause of the problem? Because one day in future, the marching column will want to resume its forward march. Even if the straightening-out process has been successfully accomplished, once price reform is started up again, some dislocations are bound to arise; what to do then? Ordering another halt for adjustments?

"The problem stems from losing control over commodity prices." Hence, price reform was stopped, and price controls reimposed on certain important commodities, while many commodity price inspection teams were sent out, many commodity price inspectors appointed, and many commodity price supervisory telephones installed.

Actually, price reform is tantamount to decontrol of commodity prices. For many years, artificial price controls offended against the law of value in a serious way and brought stagnation for the entire economic life. That is why we want to reform the system. "Decontrol" means that there shall be no further control of commodity prices, which, we might also say, is "losing control." If we reduce the problem to "losing control of commodity prices," it amounts to saying that the reform itself is the

cause of the problem. If we cannot figure any way out of the problem, then we would have to stop the reform and go back again to the former old road.

"The problem stems from overheated economy." Hence, various means were employed to "cool off." On 8 December, the PEOPLE'S DAILY reported in the first column of its front page the news: "All sectors in all localities have strengthened macro-regulation and control, and the tempo of industrial growth, which had been inordinately fast, has been reduced." It was probably the first time that a decline in the upward trend of the production index was proclaimed as being prime good news.

But it is really very questionable whether one can take the upward or downward trend in the production index, sweepingly, as criterion for an assessment for what is good or bad, because it may conceal a serious imbalance in the industrial structure, and the "cooling off" may even aggravate this imbalance. For instance, the PEOPLE'S DAILY reveals in the same item that there was more of the present "cooling off" in the light industry and not as much in the heavy industry. What is particularly worrisome is that the decline of production was most pronounced in the area of greatest need, namely in the sources of energy. What consequences will this have for economic life? "Overheated economy" and commodity price inflation are of course problems, but then there are after all still commodities in the market to buy. If controls are intensified and there is widespread "cooling off," it would result in empty shelves, and that would be yet another sort of problem.

"The problem stems from currency inflation." Hence, money supply was tightened by raising interest rates and also by a strict control of the amount of currency put into circulation. It is now not only very difficult to get a loan application approved, but some enterprises are even short of the minimal working capital, thus unable to pay salaries and wages.

Currency is a means of circulation; there cannot be any commodity economy without currency. If money supply is tightened at the first sign of currency inflation, irrespective of the merits of particular cases, and everything is controlled with utmost rigidity, that will bring the economy to a standstill. The money supply is now indeed tightened to that extent. Even for payments to peasants for their quota supplies of grain to the state, there is no cash, and they have to accept IOUs instead! Grain prices have already been very low in the first place, and now grain cannot even be sold for cash; how can that not have an adverse effect on the enthusiasm of the peasants for grain growing?

"The problem stems from an inflation of the purchasing power of the social groups." Hence, there was an outpouring of circulars and orders to every corner of the

country to "cut down administrative expenditure," "to strictly control the purchasing power of social groups," or some other similar demands.

Funds that had originally been allocated already were half way again reduced by a certain percentage. Let us, for the time being, leave out of the discussion that to what extent this percentage could have contributed to the tightening of the money supply situation in the market. The measure as such gives people a sense of unpredictability of state policies. Besides, the certain percentages of administrative expenses is no match against the huge purchasing power of these social groups, because each unit has its own "little treasury." What is the "little treasury"? It is the opposing factor of the system of centralized state power.

"The problem stems from 'excess consumption'." This refers to individual purchasing power, apart from the "purchasing power of social groups." Hence, there was an immediate response in the form of many articles written to reprimand the Chinese people for a lack of a sense of propriety, to go on a buying spree before the time for high consumption had yet arrived, and buying consumer goods that should not be bought, thus causing shortages in the market. In some articles the writers made comparisons with foreign countries, saying that people at the same level of production as China still have black-and-white TV sets, while the Chinese already have color TV sets, that is obviously "excess consumption" or "high consumption."

But the critics do not clearly define what "excess consumption" is. If Chinese citizens buy refrigerators, color TV sets, and washing machines, they spend their own earnings. They buy against cash, and nothing is bought on credit. How can you call that "excess consumption"? In the Western developed countries, purchases with payments in installments are common practice, is that necessarily an "excess consumption"? Assuming that a certain commodity is in short supply, the right thing to do according to the law of commodity economy would be to go after the producer and find out what link impedes production or supply of the commodity in question, and one should not reproach the Chinese people for having an "excess" consumption mentality.

"The problem stems from 'official profiteers'." The result was a general cleaning of the companies, and several party and government cadres were successively "retired" from these companies, while many units and personalities being implicated also quickly got themselves "off the hook." At the same time, people were encouraged to expose and inform of economic crimes committed by cadres at all levels. Some cities installed special telephones for the transmission of such information.

"Official profiteers" should indeed be properly punished. Efforts in this direction also seem to have had some good results, and investigations have revealed

several instances of illegal profit gains. But without a change in the system, these investigations and punishments will be completely ineffectual.

Besides, so far only some minor "official profiteers" have been exposed. Are there also bigger ones? It is difficult to say, because there is no evidence and no way to determine whether there are. Only, if those that have been presently exposed are all there are of China's "official profiteers," their potential was really very limited. The number of "official profiteers" could not have possibly inflicted any substantial damage on the national economy.

It is possibly that there are more than the various explanations and countermeasures listed above, but all seems like different diagnoses and prescriptions by different types of doctors for the same patient. In summary, what are the problems that China has been encountering? Is it possible to find a solution that will cure all the problems?

It is indeed. It is the conflict of the old system with the new system, that is seeping through all the other problems.

Reform means replacing the old system with a new system. At the start of a reform, there will, therefore, exist antagonistic contradictions between the old system and the new system. As the reform deepens, the contradictions between old and new systems will gradually sharpen. The various problems that arose last year can be said to be the concentrated eruption of these contradictions. The eruption at this juncture has simplified the various concepts, and simplification has brought to light two diametrically opposed concepts.

One concept is: The cause of all these problems is the reform. Once the reform is on, the methods of the old order of things, which had been effective in the past, have become inoperative, and it is only because everybody now embraces the "money first" mentality, that all the various problems have arisen. A resounding example is the "great cultural revolution" when during all its commotion there had never been any price increases! A solution to the problems would, therefore, be a return to the old order of things which had been so "effective."

Another concept is: these problems are the results of the reform process; not the reform itself but the unthoroughness in carrying out the reform. These problems are exactly the roots of those "effective" past practices. The purpose of reform precisely will be eradicating such root problem. Thus, the solution of these problems is not to give up on reform half way through, but rather to insist on carrying it out to the end.

China has had a uniformed price system for the past 30 years. During that time there was actually no market, so where could price increases come from? "Commodity prices," however, did indeed exist. They were true

"prices" set for certain "items," but not prices for commodity. Those "prices" were determined by state organs (in more concrete terms, by certain officials); they had not been formed in the natural course of commodity exchanges in the market. Prices that are naturally formed in the market, although often deviating from the value of the commodity, are, generally speaking, changing up or down according to the actual value. This market mechanism is the lever for the regulation of commodity production, and in its innermost workings implements the functions of the law of value.

The old system was not at all a commodity economy; it rejected commodity economy. It is now referred to as "product economy." Its main characteristic is that everything is controlled by the state: The means of production belong to the state, all economic operations are planned and directed by the state, and are also managed by state-established organs and state-appointed official functionaries. Under this kind of a system, there are shops, buying and selling transactions, and the use of currency, but many shops are merely organs for the distribution of commodities according to the plans of the state. Customers entering the shops are actually using certificates to receive consumption commodities rationed by the state. Currency in this type of system is in fact only like coupons issued by the state to individuals, differentiated according to rank, against which goods are received. It is bereft of its basic functions (measure of value, means of circulation). Usefulness of this kind of currency is limited. Without it and together with the additional ration tickets, it is not possible to buy daily necessities, and without allocation by the organ in charge it is not possible to buy means of production.

This type of economic system causes enterprises and workers to lose interest in production. There is no vitality in the national economy, everything depends on administrative power to plan, to arrange, to check. Under the compulsive administrative force, the "commodity price" can indeed be stabilized, but the economy will fall into stagnation, and shortage of consumer goods will become the norm. A few years ago, the following joke was circulating in a certain socialist country, which sharply satirizes this kind of economy characterized by shortages:

A father walks with his son on the street and tells him: "Now nobody lines up. In the olden days, we had to line up even to buy eggs," whereupon the son asks: "What are eggs?"

This joke exaggerates a bit, but is not completely unfounded. The more an economy is controlled, the more lifeless it will become; the more commodities are placed under control, the less commodities will be available. This is indeed the incurable malady of this system.

It is precisely at a time when we cannot find a way out of this dead end system that we started the reform. Since the reform began, the economy has been increasingly

gaining in vitality, commodities have increasingly become available, markets are prospering, and the people's standard of living has improved very much over what it had been before.

However, once the disturbance had hit the market, there was at once an eruption of contradictions between the old and the new system, and this brought the opposite tendencies of reform and conservatism clearly into view. (It is said that we Chinese ourselves don't like to distinguish between the "reform party" and the "conservative party," but it is inevitable that there are these different tendencies.) There is now this question before the people: whether to resolutely go on with the reform, or to stop it half way because of this one-time disturbance.

Now the pace of reform has already slowed down, and some reforms have actually been stopped already. But a complete retreat to the old system seems also an impossibility. We must not underestimate the tendency to go backward, because for many people this would be a familiar road to go, but the mentality of the iron rice bowl and eating from the same big pot is completely incompatible with the reform.

Soberly considered, we have to say that the situation is somewhat unfavorable for the reform, because it will not only prolong the labor pains, but the situation as such may give rise to further problems. Whenever a new problem arises, reform will always be blamed, thus reinforcing conservative sentiments in society and benefiting the conservative trend. The talk about having had "no price increases during the 'cultural revolution,'" is a dangerous signal.

It is really the old system that planted the seed for the current price increases. First, once the pressure is removed from those artificially depressed prices, they were bound to snap back. Second, the "official profiteers" who sabotage the economic order are none other than the progeny of the old order. They held all actual economic power in their hands, they took advantage of the coexistence of planned prices and market prices, manipulating from all ends, engaging in speculation and profiteering, and causing commodity prices to rise steeply.

If we firmly continue the price reform, so that finally market prices will become our only prices, it will mean that the commodity economy has successfully been established. During this process, prices may go up further, but that will bring them closer to the true value of the commodities in question. The movement would be a normal price movement which would benefit the development of production and would bring economic prosperity.

This is the nature of the price problem, and other problems are very much the same. The transition from old system to new system is a fundamental shift in social life, and certain dislocations and pains in the transition



are to some extent unavoidable. The important thing is that all these problems can certainly be resolved in the process of further reforms, and can only be resolved if we firmly persist in reforming to the very end.

The conclusion is therefore: The cause of our current problems is the old system, and the only way to resolve our problems is to persist in continuing with the reform.

### **Interaction of Contract System With Other Policies**

*40060294 Beijing RENMIN RIBAO in Chinese  
27 Jan 89 p 2*

[Article by Gao Di 7559 3695, vice principal, School of the CPC Central Committee: "The Contracted Management System Has Great Vitality"]

[Text] Adoption of a contracted responsibility system while practicing separate ownership and management rights under socialist conditions is a great breakthrough for the theory and practice of socialism.

### **Contracted Management System and Price Reform**

The price system used at present in China is very irrational. Prices of many commodities are set by the state. This does not accurately reflect either the value of commodities or supply and demand relations. The major contradiction in China at this stage is one between the daily increasing material culture demands of the people and backward social production. Besides possible lower prices on a small number of commodities for which supply exceeds demand, reforming the price system under these conditions means higher prices for a greater number of commodities. With high social purchasing power but a small potential supply of commodities, further price rises are inevitable, thereby creating a vicious wage and price spiral cycle.

Industrial enterprises are the main source of national fiscal revenues.

Enlivening enterprises is the material basis for carrying out reform of the price system. We have made many trial tests of how to enliven enterprises. Practice proves that implementing a contracted management responsibility system (contract system for short) has great vitality.

Under socialism, the contract system is a good format for separating ownership from operations. For many years now, enterprises owned by the whole people have been directly managed by the state. Enterprises are responsible for fulfilling plans laid down by the state. They have neither self autonomy nor enthusiasm. This is a fundamental reason why full use has not been made of the great potential of enterprises owned by the whole people. Under a contract system, ownership of an enterprise resides with the whole people as well as the state, but

management rights belong to the enterprise. An enterprise merely has responsibility for fulfilling the stipulations of its contract. It has the right to autonomous management, becoming a relatively independent socialist commodity producer.

The pattern of enterprises' turning over finances to the state is through. Enterprises must fulfill their contracts. If they cannot, they must use their own funds to do so. Once fulfilled, any excess portion is retained by the enterprise to be used for development, collective welfare, and worker bonuses. Such a mechanism of relating responsibility, authority, and profits can fully motivate the enthusiasm of enterprise managers and producers.

"Won't the demise of the base figure contract system reduce fiscal income?" We hold that, provided base figures are rational and progressive increase rates are appropriate, the state can only receive more income, not less. Once contracted, it is essential that an enterprise must strive hard at managing production in order to retain more so that workers may receive more. Once producers and management are enthusiastic, they can realize a unity of profits for the state, the enterprise, and workers.

"The demise of the base figure contract system will destroy prices!" We contend that it is impossible for prices to be totally immobile. Yet, when severe inflation arises due to gross social supply being greatly less than gross social demand, and there is a lot of money but few commodities, it is equally impossible to readjust prices on a large scale. A large-scale price readjustment naturally aggravates inflation. Price reform may only gradually proceed after there are improved returns for enterprises and increased effective social supply. It cannot be rushed. The majority of enterprises can be exposed to future price rises kept at less than 10 percent. The contract system can provide the necessary material conditions for price reform without affecting its active and gradual progress. In order to avoid frequent changes to contracts, we should give consideration to the price rise factor when determining contract base figures.

"Without bringing price relations into better balance, enterprises cannot compete on an equal footing, and there is either joy or hardship." Before price relations are perfectly balanced, the issue of joy or hardship can be regulated by contract base figures. Contract base figures are high in high profit enterprises. They are low in low profit enterprises. Enterprises that have losses permitted by policy may be assigned responsibility for a loss target, such that lower losses are equivalent to additional surpluses, and retained by the enterprise for use. Rational readjustment of contract base figures by and large allows different enterprises to compete from the same starting point. Regulation of base figures is a relatively rational and fully feasible economic regulatory measure under present circumstances. This is another advantage of the contract system.

### Contracted Management and Shareholding Systems

At the present time, more and more theorists are advocating implementation of a shareholding system. Others feel that China is taking the path of private ownership.

We believe that it is not that a shareholding system cannot be done, but that at present we can only have trial operation of one. A system which can be generally promoted is the contract system.

Some propose replacing the contract system with a shareholding one. One reason is that they feel a contract system has not solved the unclarity over the issue of production rights of an enterprise under the system of ownership by the whole people. We feel that the issue is clear. Ownership is by the whole people of the state, and the state represents the people in entrusting the government to manage it. Others say, "The people own it, but the people have nothing. Production rights have not been personified." How do we personify them? By distributing them among the workers at an enterprise? However, an enterprise's assets were not entirely created by the workers there. They are the accumulation of the people nationwide, including the great peasants. In the 30 years since the country was founded, the people have saved up bit by bit through frugal living, mostly in the fixed assets of enterprises owned by the whole people, originally worth 1 trillion, now valued at 700 billion. These assets also are the main material base of the Chinese socialist system. Without such a base, the essentially publicly owned socialist system could not exist. The proportion of the private economy in the national economy really is too small. It should be greatly developed. We must exert full efforts to encourage and support the development of a private economy even though it is actually impossible for private investment to exceed the fixed assets of enterprises owned by the whole people. We might consider selling a portion of the assets of enterprises owned by the whole people to individuals, but it is impossible to sell them out clean. Who has enough money to buy such great assets?

The ownership of the means of production is important. It determines production relationships and the nature of the social system. Ownership of the means of production is even more crucial for the management system of an enterprise in terms of the distribution of those means and their returns as well as authority to use them. When discussing abuses of the old system, a main one was ill-defined ownership rights, like saying management rights were ill-defined. The owners of enterprises were unconcerned about assets and profits. If one wanted money from an enterprise, no one was responsible. A main item in implementing a contract system is "two guarantees and one link." Namely, one contracts to remit profits and to multiply fixed assets, which are linked up with gross wages and the enterprise's economic

returns. "Two guarantees" guarantee the unity of responsibility, authority, and profits. Rather than no one being responsible for an enterprise, someone is responsible.

"Short-term behavior has appeared since implementation of the contract system." We believe that the short-term behavior was not created by the contract system, but instead, by the system's imperfection. If we truly implement "two guarantees and one link," such behavior can be avoided. With regard to the retained funds of contracted management enterprises, in general it is stipulated that they be used in the proportion of 6:2:2 for developing production, collective welfare, and bonus wages. Bonuses in excess of state-stipulated figures are levied bonus taxes. Short-term behavior is related to contract terms such that the problem can be solved if contract terms are appropriately long. When done in this way, short-term behavior cannot occur. It must be noted that remittance of profits is a dead sum under contract retained by the enterprise, equivalent to an enterprise using its own funds to expand and reproduce the profits generated. Since benefits return to enterprises which use their own funds to expand production, they will naturally seek the best returns, thereby enhancing their self-binding force. A case in point is Capital Steel's use of funds accumulated over 10 years to increase fixed assets by 2.6 billion yuan.

"Contractors are responsible for profits but not for losses." This is mainly due to imperfect enterprise management mechanisms. Enterprises which cannot fulfill their responsibility to remit contracted profits to the state must use their own funds to do so. Since the contract system's implementation, many enterprises have been able to fulfill their contract base figures, meaning year by year increases in their own funds. If they happen to be unable to meet their obligations in any year, they can use their own funds. Contracts may also stipulate that if contracted responsibilities cannot be met, parties to the contract have the right to replace and recall contracting entities. If a deficit enterprise cannot turn the deficit within a limited time period, the enterprises should become insolvent and investigate where responsibility lies among the main contracting entities.

"The contract system is disadvantageous to readjusting the industrial structure." This too can be solved. First, through readjustment of contract base figures. According to industrial policy, contract base figures can be appropriately lowered for key industries, trades, and enterprises that have to be developed. Contract base figures of limited development enterprises can be appropriately raised. As for enterprises with losses permitted by management, they should turn the deficit within a limited time period. Otherwise, they should become insolvent according to law, contract under another enterprise, or do a mixture of both.

A new phenomenon has appeared with the development of the contract system—enterprises contracting under other enterprises, or contracted enterprise mergers. This

is advantageous to better allocation of resources. It brings into full play the potential of existing enterprises of various kinds. It will not create social upheavals due to enterprise readjustment.

A shareholding system is a kind of trend in the development of socialized production. But not all enterprises use it. Moreover, implementing one does not mean that all problems naturally will be solved. Furthermore, China has Chinese characteristics. In implementing a shareholding system, we cannot entirely follow the pattern of capitalist states.

A shareholding system really requires separate ownership and management rights. Shareholding and contract systems are not mutually exclusive. They can both exist.

#### **The Contracted Responsibility System and Separation of Government and Enterprises**

Regarding reform of the economic system, the contract system is a matter of separating ownership from operations. However, concerning state-run enterprises, separation of the two authorities implies separation of government and enterprises. This is part of the reform of the political system.

For a long time now, government and enterprises have been indivisible. Enterprises owned by the whole people are state run. Enterprises are merely government subsidiaries rather than independently run economic entities. Under the contract system, both parties to a contract are equal in terms of both economic and legal responsibility. Both parties must abide by the duties and responsibilities stipulated in the contract. Once a contract is signed, it is notarized by the judicial departments. The contract then has the force of law and both sides must abide by it.

The problem right now is that the government interferes too much in enterprises. Contracts only make demands on the signatories. It is really unfair that there are no restrictions on the issuance of contracts. After a contract is signed, the concerned government authorities intervene too much, encroaching upon the self-autonomous management of enterprises. In some places, departments in charge of enterprises contract with the government, and then the same departments issue the contracts to be used, more intimately linking together the interests and relationships of the government and the enterprise, meaning overkill in management of the enterprise. Some contracts are overly detailed. By including value of output, commodities, volumes, costs, etc., they are little different from the old state plans. Others overcharge, making contracts but not guaranteeing them. The above are not in keeping with the principles of the contract system and should be remedied.

China's government is dual-bodied, with both enterprises owned by the whole people and those managed by society. Contracts have already determined that the government acts on rights and obligations of enterprises

owned by the whole people. Yet the government must perform according to law when interfering with an enterprise as a political power organ. In sum, the government's role in macroscopic management must be strengthened while its role in microscopic management is weakened. The gradual dissolution of government work departments that manage enterprises might be considered. They could be replaced by industry associations to provide information and services to enterprises. In the event that a shareholding system is implemented without separating government and enterprises, then the government would be the largest shareholder of enterprises owned by the whole people. It would be impossible to get rid of inappropriate interference in enterprises.

"After separating government and enterprises, it is possible enterprises will not adhere to government's management." Such a situation should not exist. In terms of macroeconomic management, the government mainly adopts economic measures. Administrative measures are used only when necessary.

The key issue is to improve the quality of cadres. If cadre quality is poor, even the best mechanisms will not be able to be used to their best advantage. In order to make outstanding enterprises stick out, we should inject competition, make contracts by bidding, and select and hire managers. Personnel departments should participate in investigating the qualifications of candidates. Before making contract decisions, a certain number of those who meet the criteria should individually meet with the workers or their representatives and report on plans for factory administration. Thereafter, the most satisfactory person selected by a meeting of workers or their representatives will be contracted as factory director. Such a method embodies the principle of democratic centralism. It also turns the management system of contracting for an individual into one where the factory director represents all the workers. This will motivate the enthusiasm of both enterprise managers and producers. It will also make the factory director responsibility system have a secure mass base, giving the managers of enterprises their due authority.

In order to fully motivate the enthusiasm of both enterprise managers and producers, we should also actively but gradually promote collateral contracts for all workers on the basis of contracts at every level within enterprises. Collateral funds make one responsible for profits and losses. They have the nature of shareholdings. As the economic returns of enterprises improve, and worker incomes rise, we might also gradually increase the amount of collateral. This is to further motivate the enthusiasm of workers. The basic starting point of all reforms is to motivate the enthusiasm of the masses to the utmost.

The contracted management responsibility system in industrial enterprises has been generally promoted nationwide for less than 2 years. Although the system is still imperfect and has not been linked up with reforms

to form a complete system, its direction is still correct. The contract system has already brought us great economic and social returns. It certainly will give us more returns once it is a complete system that has gone deeper, is perfected, and develops.

**Profit Mechanism Under Public Ownership**  
40060293 Beijing JINGJI CANKAO in Chinese  
19 Jan 89 p 4

[Article by Song Tingming 1345 1694 2494: "Establishing the Interest Mechanism Under Public Ownership"]

[Text] Within the framework of a commodity economy which rests upon the foundation of public ownership, the interest mechanism under public ownership is established by operating on the principle of exchange of commodities of equal value. Exchange of equal value is a fundamental principle of the commodity economy, and is the basis for the establishment of the interest mechanism under public ownership. Only by using exchange of equal value as the basis for establishment of the various types of interest relationships which exist under public ownership, can the requirements of commodity economy development be met; only in this manner can the relationships between the various profit-making entities within the system of public ownership be rectified.

The interest mechanism under public ownership is an organic whole which includes mutually linked and mutually restrictive aspects. Our goal is to establish an entire set of interest mechanisms under public ownership which will meet the requirements of commodity economy development. From the present perspective, it should include the following four main mechanisms:

**The first mechanism is the profit incentive mechanism.** The precondition for establishment of the profit incentive mechanism is the clear recognition of the fact that the various profit-making entities in an economy based on public ownership have their own independent economic interests. The relationship between common interests and independent interests must be dealt with properly. The main tools for the establishment of the profit incentive mechanism are the implementation of enterprise autonomy and adherence to the principle of "to each according to his work." Various reforms in recent years, whether it be the contracting of agricultural output quotas to individual households, the expansion of autonomy for urban enterprises, or the reform of the labor and wage system, have all been encouraging steps toward the establishment of the profit incentive mechanism under public ownership. The profit incentive mechanism is the most effective method of bringing into play the initiative of various profit-making entities and individual workers. It is also a fundamental way to raise the economic returns of the economy which is based on public ownership.

**The second mechanism is the profit regulatory mechanism.** If the purpose of the profit incentive mechanism is to solve the problem of the independent and disparate nature of the interests of the various profit-making entities under public ownership, then the profit regulatory mechanism carries out necessary regulation of this disparate nature of profits. It primarily addresses the problem of the common nature of the interests of various profit-making entities; it addresses the relationship between the various profit-making entities and the state, which represents the common interests of the whole society. If we were to recognize only the independent and disparate nature of interest, which we might also call the rigid nature of interest, and ignored the common nature of interest, this could also lead to social and economic chaos, and a new problem of unfair distribution of profits. Therefore, we must establish an appropriate profit regulatory mechanism by which we can carry out needed macroeconomic regulation, whether this regulation be primary or secondary. In general, the regulatory measures of the profit regulatory mechanism include economic measures, legal measures and administrative measures, but we should rely primarily on economic measures. Such economic levers as prices, taxes, fiscal policy, credit and exchange rates are the primary economic measures by which to carry out regulation of domestic and foreign economic interests.

**The third mechanism is the profit balancing mechanism.** The primary purpose of the profit balancing mechanism is to solve problems in the interest relationships between the various independent profit-making entities. The primary measure for achieving a balance of profits between the various profit-making entities is the implementation of exchange of equal value. Exchange of equal value is the only acceptable way, under the conditions of the commodity economy, of balancing the interests of the various profit-making entities. In social and economic life, short-term, temporary, uncompensated assistance and support is indispensable at all times, no matter whether it is between districts, government departments, enterprises, commodity producers, or individuals; or whether it is between the nation, cooperatives and individuals. A long-term linking of interests, though, must be established on the basis of exchange of equal value. Only through exchange of equal value can a mutual balancing of interests be achieved. In recent years, there has been rapid development of lateral economic ties between districts, government departments, and enterprises in connection with raw materials, energy, funds and technology. This, in fact, is a kind of exchange of equal value. It has enabled the alleviation of contradictions between areas which produced raw materials and areas which processed them. These contradictions arose in the past under the product economy's supply allocation system, and their solution was an achievement of a new balance of interests.

**The fourth mechanism is the profit restraint mechanism.** There are both mutually linked interests and mutually restrictive interests between the various profit-making

entities. For example, when the producer of a product appears on the market as a seller, that person always hopes to sell the product at a high price. When a buyer appears on the market, that person always hopes to buy something good at a cheap price. In this manner, a mechanism of mutually counterbalanced interests is formed between the seller and buyer. If the seller asks for an excessively high price, there might not be anyone interested in buying. If the buyer bargains for an excessively low price, there will be no one willing to sell.

Any profit-making entity may be laterally or vertically restrained by outside forces. Sometimes this profit restraint may be objective, economic restraint. Sometimes it is the compulsory restraint of law or administrative policy. Because of the existence of this kind of profit restraint mechanism, no profit-making entity could possibly have its own way in seeking solely its own interest.

In summary, if we establish and perfect, step by step, the profit mechanism under public ownership, we will be able to bring the various interest relationships into better balance, join public ownership and the commodity economy together as an organic whole, establish the new order of the commodity economy, and thus bring about a great improvement in the economic returns of public ownership.

**Zheng Hongqing Urges Fundamental Solutions**  
40060343 Beijing ZHONGGUO JINGJI TIZHI GAIGE  
[CHINA ECONOMIC SYSTEM REFORM] in Chinese  
No 1, 23 Jan 89 pp 16-19

[Article by Zheng Hongqing 6774 3163 1987: "Getting Out of the Predicament—Treating the Symptoms and the Disease at the Same Time"]

[Text] Ten years of reform have put an end to prolonged stagnation and ossification, infused new vitality into economic life, and caused the entire nation to undergo tremendous change of far-reaching significance. Nevertheless, shadows darken the path to progress, and a series of difficulties lies before us.

First, is agricultural production, especially the fluctuation in grain production over the past 4 years. In 1988 per capita grain supply was more than 50 jin below the 1984 level, and supply of "food basket" produce was tight, which problems have become the number one cause of inflation. Second, the central government is running red ink year after year, the increase in revenues of all levels of government has been lower than the inflation rate, and the peak repayment period for our domestic and external debt, which will occur during the 1990s, is approaching. Third, the rate of increase in savings has markedly declined, the gap between credit revenues and outlays is growing, and there are great fund shortages in both urban and rural areas, even as the money supply exceeds planned levels by two-three times. Economic difficulties are manifested in a general way as inflation, which is very difficult effectively to control. In

addition, the chaos and unfairness in distribution which have resulted from a lack of regulations governing market activity have caused the real standard of living of 20-30 percent of all urban residents to decline for 2 straight years. If continued, this state of affairs will be very disadvantageous to China's development and reform.

Confronted with these grim conditions, the 3d plenum of the 12th CPC Central Committee decided to shift the focus of economic work during the following 2 years to improving the economic environment and restoring order to the economy. To this end, the State Council recently adopted a series of decisive measures, which move was necessary in order to check inflation and has produced some preliminary results. But it should also be noted that this round of inflation was by no means caused by fortuitous factors or by some policy blunder but rather by mechanistic factors. If the mechanism is not transformed, administrative measures can only achieve temporary results, and we will be unable to escape the cycle of "inflate then retrench, retrench then holler, holler then relax, relax then reflate." Since the conclusion of the "Cultural Revolution," this cycle has appeared three times, each time lasting 3-4 years. The "foreign Great Leap Forward" initiated in 1977 caused the economy to become overheated and led to budget deficits in 1979 and 1980, forcing readjustment in 1981. After the retrenchment was relaxed in 1982, "excessive growth" occurred in 1984, and the inflation rate for retail prices hit a peak of 8.8 percent in 1985, forcing us to apply the brakes again. But immediately thereafter, a major slippage occurred in the economy during the first quarter of 1986, which led to another relaxation, closely followed by a new round of inflation. The recent tightening of credit supply applied by banks has been unbearable for localities, enterprises, and villages, all of which are asking for emergency help. It would appear that these entities cannot survive without another relaxation. This indicates that the cycle is growing shorter and shorter.

Further examination shows that an important change has occurred in the intrinsic causes of the cycles, which superficially appear similar. The first cycle (1977-1980) was due primarily to the single factor of expansion in investment, as we tried to develop 10-plus Daqings and 10-plus Angangs and imported large amounts of heavy equipment; consumption remained in check. During the second cycle (1981-1984), both investment and consumption expanded, and the rise in urban-rural resident incomes began consistently to outstrip the real growth of production. Although both investment and consumption have expanded in the third cycle (since 1985), the tendency of consumption to outstrip production is emerging as the main contributory factor. The seriousness of the problem lies in the fact that, while we can "ax" investment, we are helpless with respect to consumption. Will the next cycle be characterized by insufficient investment and be caused by the single factor of expansion in consumption? And if the process continues,

will we then have an inflationary situation in which both investment and consumption shrink? That possibility does exist.

Consider this thought-provoking historical phenomenon: Almost without exception, all socialist countries that undergo rapid reform face mounting inflation, while those that undergo slower reform seem to have a better time of it. What is the reason for this? Ultimately, it lies in the fact that the reforms socialist countries implement are one-sided and unthorough. Lag in political reform becomes a fundamental obstacle to economic reform, an issue I shall not analyze here. Concerning just the matter of economic reform itself, that reform thus far has been just a "half a loaf." Reform that has been effected has been relatively shallow and simple, and we have not come close to touching the deeper elements of the system and or to resolving the fundamental problems plaguing the system; both planning and markets are incomplete; the incentive for individuals, enterprises, localities, and departments to seek their own interests has greatly increased; yet there is an absence of strong constraints on such behavior engendered through effective market competition and a complete system of legal norms. This type of reform produces a greater stimulus to demand than to improving economic results and increasing supply, the surplus product created by society that can be used to meet increased consumption is limited, and the mushrooming of residents' cash incomes pulls the gap ever wider. Moreover, the excessive number of links in circulation and the chaos in markets cause trading costs to skyrocket, thus pushing prices upward. These are the basic reasons while inflation is inevitable and hard to control.

From the above analysis, we may conclude that the basic way to resolve the inflation problem is to effect thorough reform of the entire system, which will be a long and difficult task, certainly not something that can be completed in 2-3 years. We cannot use patchwork measures to deal with the problem, for that would only cause contradictions to mount and make the problem even more severe. Henceforth, we should seek to institutionalize and regularize reform and set about establishing a basic system and set of norms that can meet the need involved in stimulating economic growth and the need for economic and social stability. Even in the current effort to improve the economic environment, we both must and can carry out a number of programs that will promote a change in the economic mechanism and that deal with both the symptoms and the disease.

—We must resolve to use taxation and credit policy to weed out bad enterprises that show poor economic results.

All countries that have been successful in controlling inflation have supplemented control efforts with dramatic structural readjustment, paying the price of more bankruptcies and higher unemployment in exchange for a new economic balance, at the same

raising their productive, technological, and enterprise mixes to a new, higher level. The key reason China's inflation has been so hard effectively to check lies in the fact that retrenchment policy has not been continued when the existence of backward enterprises is threatened. If retrenchment fails to promote structural readjustment, it loses half of its positive effect, does not work, and thus is not worth the effort. To promote buildup and flexible recombination of key factors and to achieve substantial progress in our effort to accelerate structural readjustment, we can attempt the following.

We should restrain the excessively rapid growth of township enterprises. In the past several years, township enterprises have experienced extremely rapid growth of 30-40 percent a year, and some of the firms showing such growth engage in redundant production, produce poor quality goods, are serious polluters, and show poor social benefits. For some time to come, the extensive growth of township enterprises should greatly be reduced, and we should focus our effort on structural readjustment, improving the quality of enterprises, raising them to a higher level, and moving their products upscale. To this end, we should abolish preferential taxes for such firms; strictly order rural credit cooperatives to deposit a certain amount of their credit funds in agricultural or people's banks, which should handle those funds as special accounts, so as to ensure supply of credit needed to fund procurement of agricultural and sideline produce; reduce loan targets for township enterprises; and stop giving loans to enterprises showing poor returns, so as to force them to terminate production, close down, and return some peasants to cultivation or animal husbandry (peasants have some land, which serves as security for them, so this move will not create social problems), which will help reduce somewhat the marginal costs of rural labor over the short term. Over the next 2-3 years, it would be preferable to lower township enterprise growth rates to about 10 percent, about even with the industrial growth rate.

Enterprise loan repayment should be listed as an after-tax rather than a pretax charge. When enterprises list their loan repayments as pretax charges, the state ends up footing much of the bill, thus causing a great erosion of revenues—10 billion yuan this year and rising by 30 percent a year. This invariably whets enterprise appetite for borrowing and has become one of the weakest restraints on enterprise behavior. We should stipulate that, for all new loans, interest payments be listed as pretax charges (interest is included in costs), and principal repayments be listed as after-tax charges, so as to prevent enterprises showing low profit margins and that cannot repay their loans from engaging in blind expansion.

As interest rates on savings deposits rise, we should increase interest rates on loans, maintaining a certain differential between the two. The loans enterprises now receive bear negative interest rates, which means that firms profit whenever they obtain loans. We must turn

negative interest rates positive and raise the share of interest payments in total costs to about five percent from the current level of less than three percent.

—We must actively seek to transform some personal income into capital.

A top priority in our effort to stabilize markets this year is to devise a variety of ways to increase—by raising interest rates, improving service, and the like—urban and rural savings by 10 billion yuan or more. But over the long run, trying to provide more commodities and to increase bank savings deposits will not be enough to soak up the excess currency in circulation, nor are such efforts advantageous. We desperately need to open up another important channel with which to siphon off resident cash incomes, namely, individual investment, and to create the economic and social mechanisms with which to encourage individuals to save. Although sales of the assets of small enterprises, of stock in large firms, of houses, or of the right to use land have been proposed, such efforts have not made any substantial progress due to the lack of specific guidelines or support measures and to the failure to designate specific departments or organizations to take charge of the implementation of the programs. I suggest that relevant departments immediately begin assessing assets, reassigning enterprise employees, auctioning off the right to use property, and the like; drawing up a set of relevant regulations and guidelines; and implementing preferential policies that will attract sufficient domestic and foreign buyers.

To the above “sales,” we should also add the “sale of insurance,” including unemployment insurance, retirement insurance, life insurance, property insurance, and the like. Of these various types of insurance, unemployment and retirement insurance must be compulsory and be paid according to law by each wage earner and each employer. These two types of insurance are required if we are to weed out bad enterprises, initiate bankruptcy, and create an unemployment mechanism, and we might consider linking them with the sale of some state property. In auctioning off the earnings of small enterprises, we must deduct a certain share of those earnings to establish unemployment and retirement insurance funds, and we can also directly transfer state-owned equity to unemployment and retirement insurance foundations.

—We must step up preparations for the effort to transform claims held by independent legal persons against the state into equity.

Our budgetary difficulties have yet to bottom out, and things will be even tougher when China's debt repayment peak hits in the 1990s, so we must start planning for this peak as early as possible. The sale of treasury bills and other government bonds over several straight years has placed a considerable volume of claims in the hands of enterprises, financial institutions, and other entities, so we might consider adapting the approach used by Latin

American countries to swap their debt for equity with creditor nations and select a number of large and medium state enterprises and convert their assets into shares of stock which can directly be exchanged for mature government bonds held by other enterprises, banks, foundations, and the like, which move will create an interlocking system of stockholding. And shares in some enterprises might even be held by foreigners. This would greatly reduce the state's debt service burden and would be an important turning point in our effort to promote joint stock systems.

—We must begin to move from the financial contract responsibility system toward a system of separate taxes.

The financial contract responsibility system for local governments was the product of specific conditions, has to a certain extent played a positive role, but also has exhibited obvious shortcomings—it is a powerful mechanism for expansion. Driven by their own interests, local governments have gone all out to accelerate expansion, especially of expensive and profitable processing industry, which tendency is not conducive to structural optimization, invariably exacerbates dismemberment and closing off of markets, and runs completely counter to the state's objective of effecting macroscopic control. Moreover, the phased increase in the contract base figures parceled out to provinces and municipalities is much lower than the rate of inflation, so there is in fact negative growth in the amount of revenues remitted to the central government, which has led to an absolute decline in the central government's purchasing power and continuously reduced the central government's share in total revenues. I suggest that we begin moving toward separate tax systems in a step-by-step fashion. We can start by making a rough division of tax types; stipulate that local governments may not grant any reductions or exemptions for central taxes or for the central government's portion of shared taxes; transfer the authority over minor taxes whose sources as widely dispersed to the basic levels—urban streets or townships in rural areas—so as to facilitate collection and administration and to reduce leakage; and set up separate systems for the central government and for the localities. In view of the fact that the functional authority of central and local governments has not been demarcated and of the existing distribution of authority, we can for some time to come combine the systems of separate taxes and of financial responsibility, assign collection responsibility according to tax type, compare revenues with the actual expenditures made by localities, and effect contract responsibility only for the difference. Once functional authority is separated, we can proceed to a more completely separated system of taxation.

There is another problem to which we must be attentive, and that is that we must protect the achievements of the new system engendered by reform. We should not be overly critical of, much less repudiate, reforms whose direction is correct but which may have progressed too fast and created chaos. Some mandatory administrative

measures that may be necessary for this stage are by no means consistent with the medium- and long-term objectives of reform. Thus while firmly enforcing these measures, we must be avoid letting one type of interference beget even more forms of meddling. Such occurrence might force us to withdraw many reforms, cause major complications in the shift from the new to the old systems, and make the process much more costly for us.

### **Current Status, Alternatives of Enterprise Reform**

40060276 Shanghai SHIJIE JINGJI DAobao  
[WORLD ECONOMIC HERALD] in Chinese  
9 Jan 89 p 7

[Article by the State Council Development Center's "Enterprise Reform" Working Group: "Enterprise Reform; Current Status and Alternatives"]

[Text]

#### **From Where Should Further Reform Proceed?**

Up to now, although changes have been brought about in such areas as property relations, organizational structure, control mechanism, and incentive methods, enterprises are still subsidiaries of the administrative system. It may be stated that the product economy has disintegrated and has been replaced by a market economy dependent on market coordination, rather than by a commodity economy dependent upon administrative coordination. The penetration of enterprise reform should make a breakthrough with regard to this point. This article makes four suggestions: breaking down the functions of the government, clarifying property relations and implementing equal competition in capital markets, checking and balancing of financial intermediaries, and establishment of share companies.

For 10 years, the guiding idea of government economic reform has been "crossing the river by groping for the stones" [groping in the dark]. The basic train of thought of economic reform is to spark the zeal of localities and enterprises ad transform the product economy into a planned commodity economy. The adopted methods of reform are "simplifying government and delegating authority" and "delegating authority and yielding profits." The basic strategy of this reform has sources in the history of Chinese reform (such as the reforms of 1958 and 1970) and has also been influenced by international economic reform (such as the reform of Hungary and Yugoslavia), as well as having been inspired by the success of China's rural reform (the rural household contract system after 1978, which linked benefits to output).

A series of reform measures have emerged since 1978 which have made the present enterprise environment very different from what it was 10 years ago. Reform measures affecting the urban enterprise environment include: simplifying the government administrative structure; transferring jurisdiction over enterprises from the central authorities down to the provinces and key

cities; implementation of planning units by certain large cities and large enterprises; having the central and local financial authorities "eat in separate kitchens" and implement a financial guarantee system; reduction of command-style planning and delegating a portion of investment authority to local governments; switching from allocation of funds to loans; and implementing a double-track price system.

During these 10 years, enterprises themselves have also implemented reforms. The principal reforms include: the expansion of enterprise sovereignty during the period 1978-1980, and particularly the ten articles of authority expansion of 1984; the two-step conversion from delivery of profits to payment of taxes during the period 1983-1985; the factory director and manager responsibility system; the widespread implementation of contract responsibility systems; the shareholding system which is now being tried out; and the development of individual, private, and township enterprises. Judging from a survey we have made of several cities, the following areas reflect the current state of enterprise reform:

#### **Ownership System and Property Relations**

Up to now, the character of enterprises has been differentiated according to whether they are owned by the whole people, collective, individual, private, Sino-foreign joint ventures, and so forth. They have also been differentiated according to legislation, taxation, and management.

At present, the principal form of public ownership is "whole people ownership." The main problems of this "whole people ownership" are: (1) no one actually bears individual responsibility for assets; (2) every department of the government can issue orders regarding the use of assets; (3) interest groups within enterprises (workers or managers) have many interests which may infringe on property owners; (4) assets owned by the whole people are difficult to properly transfer.

Although people realize that a prerequisite of shareholding system enterprises is clarification of property relations, almost none of the shareholding system enterprises have resolved these problems: (1) low appraisal of state-owned assets; (2) state-owned assets may either have no agent, or responsible bureaus act as agents, or enterprises act as agents; (3) buying shares in state-owned assets yields no extra dividends; (4) all shareholding system enterprises have a considerable portion of "enterprise shares" with unclear property relations formed from "enterprise private funds"; shareholding system enterprises restrict individual share issuance and transfer.

#### **Organizational Structure**

The departments responsible for administration of enterprises were and still are the central pivot of relations between enterprise and government. Due to



administrative division of authority, specialized agencies at the provincial and especially at the municipal level are now responsible for more enterprises.

**Enterprise Internal Organization.** Large and medium-sized enterprises set up branch factories and shops under head factories. Since the highest level of enterprises is not currently the center of investment, the enterprise department system is not being implemented. One reform measure is to reduce the size of accounting units, and as a result too many profit centers emerge within an enterprise. Another problem in the internal organization of enterprises is that, under many types of pressure, enterprises have no choice but to establish departments or sections corresponding to government function departments, in order to respond to the many high-level documents and conferences. Moreover, today's enterprises not only engage in various non-productive activities, as if they were small societies, they also have various kinds of social function departments, just like a small government.

After implementation of the factory director and manager responsibility system, the scale of enterprises' party organizations was reduced and their status lowered. At the same time that the leadership by enterprise party organizations at the grassroots level weakened, in the leading departments, i.e., at the municipal, provincial, and central levels, party committees are still above the government and exercise leadership in everything.

### **Control Mechanism**

What we mean by "the separation of ownership from operations" is that in the existing system of administrative coordination, the government's responsible departments, through certain kinds of methods (such as contracting), delegate some of their operational authority to factory directors and managers. This authority does not include investment right and authority to appoint factory directors (factory directors naturally cannot appoint themselves).

In other respects, even with respect to day-to-day operational authority, enterprises are unable to fundamentally shake off interference by various government departments. For example, in such areas as raw materials procurement, production, marketing, wages, and funds, enterprises, besides having dealings with the market, must still haggle with the government.

Even the enterprises trying out shareholding systems, the board of directors has an undeserved reputation, since it by no means has the overall controlling authority over assets which it would have in a market economy. For example, the board of directors cannot determine the allocation of the enterprise's after-tax profits, and must

still utilize the profits according to a stipulated proportion which is the result of bargaining with government departments. In many circumstances, appointment of the general director must be submitted to higher-level departments for approval.

At the same time that the government still has much of the controlling authority over enterprises, there is also a tendency for certain ownership rights to be unduly turned over to the control of workers and factory directors, as when an enterprise's retained profits, which had originally been classified as the property of the whole people, are put under enterprise ownership, and are consolidated into the shareholding system in the form of "enterprise shares." Actually, not only in cases like this, but also under ordinary contract systems, similar problems exist. This has allowed factory directors and workers to infringe on the whole people's property, and it is very hard to restrain them.

### **Incentive Methods and Enterprise Behavior**

Sparking the zeal of enterprises and of workers and staff for production appears to be the primary motive in current thinking about reform. The original intention of the contract system was to establish an effective incentive method in order to bring into play the latent abilities of factory directors, staff, and workers. But in fact, the zeal of workers has by no means increased with the great rise in wages and bonuses; instead, production costs have risen. Judging from enterprises, the concluded contracts are a type of unequal treaty, by which base figures are in many cases artificially formulated, or depend on back-door connections, a multitude of uncertain factors, and an indeterminate amount of government interference, making it very hard for enterprises to bear full responsibility for their operational results; actually, enterprises clearly understand that they are ultimately responsible for profits but not for losses. Moreover, the tendency among workers to seek connections in high places puts enormous pressure on factory directors, forcing them to provide more and more bonuses and material goods in order to maintain production.

Many people still regard the shareholding system as a method of encouraging the enthusiasm of workers for production; for example, it is often said that workers and enterprises must be bound together. Enterprises have consequently disguised the issuing of bonuses through the method of issuing extra dividends, in order to evade bonus taxes. Encouraging workers by having them buy shares is actually a fantasy, since extra dividends currently account for only a very small part of bonuses.

In general, up to now, enterprise reform has by no means broken down the old system of administrative hierarchy. Even though many reforms have been carried out with respect to property relations, organizational structure, control mechanism, and incentive methods, enterprises are still subsidiaries of the administration in this system. Thus, it can be seen that the product economy has

already disintegrated and has been replaced by a commodity economy depending on administrative coordination, rather than by a market economy primarily dependent upon market coordination.

Even through administrative separation of rights, the double-track system, monetization, and the like have a stimulating effect on revitalization of the economy, they bring dangers. For example: regional separatism; blockades; corruption; infringement on state-owned property and unequal income due to unequal opportunities; monetization of authority; loss of government control over the overall economic situation; loss of many long-term benefits by whole people's business operations, relative lack of public enterprises, and eagerness for quick success and short-term profits.

The basis of reform is the replacement of administrative coordination with market coordination and the transformation of the status of enterprises from that of subsidiaries of the administration to that of real enterprises.

Basically, enterprise reform cannot be divorced from changing the basic economic system; that is to say, it inevitably requires implementing reform of the existing political system.

Even if it is confined to the scope of economic reform, enterprise reform is still a link in reform as a whole, and it cannot be divorced from other reforms.

The four essential links of enterprise reform are: (1) breaking down the government's economic functions; (2) clarification of property relations and equal competition in the capital market; (3) checking and balancing of financial intermediaries; (4) establishment of a shareholding company system.

### **I. Breaking Down the Government's Economic Functions**

One central government economic organizational method which can be presented as an alternative is separating public property management and banks from the government, forming a three-way division of economic authority under the legislative bodies and the NPC: government, state-owned property management, and the central bank. At the same time, establish a two-way division of authority under the people's congresses at the provincial, municipal, and county levels: government and provincially-owned, municipally-owned, and country-owned property management.

Under this new organization, the central government's function becomes to: (1) provide public products; (2) establish market order and take charge of public adjudications; (3) microcontrol and industrial policy; (4) macroregulation and fiscal policy.

The central bank would be responsible only for monetary policy and be directly responsible to the NPC. It would no longer be a subsidiary of the government financial authorities. The central bank's branches in each province would be its agencies and would be unconnected to the local governments and local people's congresses. The NPC's appointments of central bank personnel would not be synchronized with its appointments of government personnel, in order to reduce political influence on the central bank, making it relatively independent and allowing it to implement a stable monetary policy.

The publicly-owned property management system would only be responsible for the appreciation of its property. The NPC would appoint a number of property management committees which would be directly responsible to the NPC. These committees would be entrusted by the public with management of publicly-owned property and investment of capital in financial intermediaries (although they could not invest directly in non-financial enterprises), as well as exercising shareholders' rights according to how many shares they hold (such as electing boards of directors).

The separation of government, financial management, and central bank would not be formal. It would essentially be a mutually interacting framework for breaking down the original hierarchical system. It would be a fundamental transformation of the mechanism.

### **II. Clarifying Property Relations and Establishing Equal Competition in Capital Markets**

Publicly-owned property can be divided into state, provincial, municipal, and county ownership; its earnings and management also correspond to those regional limits.

We should do away with the present method of legislation and taxation according to system of ownership, and implement unified legislation and taxation in accordance to the enterprise's organizational form. These circumstances would really allow equal competition and mutual intermixing in the market among publicly-owned property (state, provincial, municipal, and county) and between publicly-owned and privately-owned property, in order to achieve optimum disposition of capital resources.

An important element of equal competition in the capital market is allowing free entry, withdrawal, annexation, takeover, partial sellout and the like by every kind of enterprise. In particular, privately-owned capital cannot be discriminated against (except in a very small number of special industries). The free introduction of privately-owned capital can play the role of "inspecting discipline" with respect to the returns on publicly-owned capital. This kind of "externality" has been neglected in the past.

### III. The Role of Financial Intermediaries in Providing Checks and Balances

The so-called financial intermediary organizations between public property management and enterprises include various kinds of funds (old-age pension funds, mutual aid funds, and credit funds), investment firms, insurance companies, contribution foundations and the like. These financial intermediaries seek to increase the value of their financial assets by investing in enterprises. Standards of securities transaction regulations are the key to enabling financial intermediaries to play an active role. Experience of the development of a market economy based on the private ownership system has clearly shown that it is only when economic development has reached a certain level that a money market and financial intermediaries form and develop. In public ownership system nations with very low levels of production development, it may be very hard to establish money markets, but it is very hard to imagine achieving effective management of public property without them.

### IV. Shareholding System Company Structure

At present, the overwhelming majority of shareholding system enterprises are non-standard. The very few relatively standard shareholding system enterprises primarily practice private shareholding. This is by no means to imply that the shareholding system can be standard only under a private ownership system. However, it shows that a true shareholding system cannot form under the current old framework. It also shows that shareholding system reform cannot be implemented from bottom to top, as past reform had been.

The Western shareholding system is roughly divided into two forms: limited responsibility companies and limited share companies. (Here we use the concepts of the continental legal system, which roughly correspond in the U.S. to closed companies and open companies.) The "separation of ownership from operations" spoken of in the West refers to the latter, rather than the former. Under the terms of the public ownership system, the organizational form of the latter may be more valuable as a reference. Therefore, "shareholding system" in the narrow sense should refer to the latter.

Shareholding system companies have above all a company control structure; that is, a relationship of checks and balances between shareholders, the board of directors, and managerial personnel. This relationship is suited to large-scale socialized production's need to raise funds; it can also bear risks, as well as achieve centralized control. However, very few of the current shareholding system experiments start from this aspect. For example, the regulations of most shareholding system enterprises reflect the organizational theory of China's current

administration, stipulating that the shareholders' representative assembly be an "agency of supreme authority" similar to the NPC, that the board of directors be a permanent decision-making body, and that directors be managers.

In a real shareholding system, the rights and interests of shareholders are manifested only as their right to profits from their investments, as well as their right to vote, which is linked to their shares. Moreover, shareholders can only be natural persons or legal entities; enterprises themselves cannot become their own shareholders. Government agencies cannot hold shares, either (except for legally designated publicly-owned asset management departments).

The board of directors is above all a trustee of the shareholders; it is entrusted by the shareholders with managing the shareholders' property. The relationship between the directors and shareholders is not one of employer to employee. In another aspect, the board of directors, i.e., the corporate legal entity, has full controlling authority over assets. The legal entity's representative can either be the chairman of the board or the post can be assumed by the manager, under the authorization of the board of directors; this is not at all important. What is important is that the board of directors be legally entrusted with full controlling authority, and that there be a principal body bearing full responsibility for capital. Only in this way can competition between these principal bodies become possible.

The managerial personnel (including the top managers) are employed by the company (i.e., the board of directors). The board of directors may delegate a great deal of authority to the manager. However, final responsibility is borne by the board of directors, not the manager. Day-to-day work is taken charge of by the manager, while the board of directors only meets a few times each year. Therefore, selecting an outstanding manager becomes one of the most important tasks of the board of directors. The manager's behavior depends primarily on supervision of the market and the board of directors' final assessment based on this supervision.

### Improving Economic Environment, Rectifying Economic Order

40060292 Beijing JINGJIXUE ZHOUBAO in Chinese  
29 Jan 89 p 2

[Article by Guo Shuqing 6753 2885 3237: "Some Observations and Suggestions Concerning Improvement and Rectification"]

[Text] The improvement and rectification policy has been formulated in order to lay the foundation for the next fundamental change in the economic system. In order to achieve this goal, we must use all practical methods available, including some traditional methods. If we are to achieve the goals of improvement and rectification, we must implement some important

reforms, and if the traditional methods we use are to be truly effective, they must complement these reforms with suitable adjustments, or else they will become an obstacle not only to the next stage of reform, but will prevent even the present improvement and rectification from having any real effect. The principle is very simple; China has, after all, been through 10 years of reform and opening to the outside world, and many important changes have occurred.

For the aforementioned reasons, I believe that some aspects of the current improvement and rectification policy are in need of strengthening and improvement.

### Markets and Prices

1. In order to stabilize consumer good markets, it is necessary to adopt a program that coordinates different types of measures, combining both restraint and guidance. Three types of commodities can be differentiated: one type is the basic necessities of life; a second is the non-basic necessities; and a third type includes high-grade consumer goods and luxury consumer goods. The present average price level for the first category of goods must be maintained. If that requires subsidies, then so be it; if supply fails to meet demand, then return to the issue of rationing tickets. It is necessary that the level of these prices be uniform across the nation. With the second category of goods, we should act according to actual circumstances, and establish a regulatory fund for state-run enterprises. We should rely primarily on the guidance of the market, and secondarily on price controls and subsidies. With the third category of goods, we should rely on the current market function of supply and demand (their prices already reflect their true market value, and have been calculated into the price index upon this basis). To roll back the prices of these products to the state price would not only be impossible, it would be harmful. The measure that really ought to be applied to this category of products is to levy a special consumer tax on them as they leave the factory. This tax would become central government revenues.

2. Adjustment of the price and tax policies for high-grade and luxury consumer goods is the key to stabilization of the consumer market. The reasons why it is necessary, and possible, to adopt bold measures are: 1) It is necessary to reduce excess demand and reduce the money supply in order to bring inflation under control. Administrative and legal measures alone cannot control market prices. Even during the "3 years of hardship" (1961-63) that occurred under the traditional system, the final stabilization of prices was owed in large part to the establishment of a high price market. 2) The actual trading prices for this category of goods are already the market price. Their effect on the overall price level has already been factored into the price index, for which reason the "state price" exists in name only. It will not lead to a rise in the price index if we levy a special tax and get rid of controls that long ago ceased to be effective. In fact, because speculation and profiteering

will be greatly reduced, a rational reflection of differences in quality would be possible, and the prices of some products would fall. From the standpoint of theory, the price elasticity of demand for this category of products is very great, and has almost no effect on production costs. Because most buyers are private individuals who face strong budgetary restraints, the overall price level for these goods would not rise. 3) In connection with this category of products, the aspect which most displeases the people is the middle link (various companies and stores) which reserve huge profits for themselves. The people don't understand why the state doesn't take back the profits, and why state-run stores don't sell these highly sought-after products. 4) The reason prices for this category of goods have reached market price is due primarily to uneven price rises in different localities and the resultant arbitraging. After the relationship between the prices and taxes of these goods has been adjusted and smoothed out, the wasted transportation costs connected with arbitraging between different localities will fall markedly. At the same time, supply on the open market will be increased, and the interest of consumers will be protected. 5) Even after a portion of the special taxes levied on this category of goods has reverted to production and retail units as their reasonable profit, the government can expect to retain 30 billion yuan. A part of this money could be set aside for regulatory funds and subsidy funds; part could be used to offset the budget deficit; and a part could simply be earmarked as money taken out of circulation without being put to any use, in order to lower demand. 6) It would help alleviate the problem of uneven income distribution.

3. Contracts involving means of production which are included in the state plan must be strictly honored. There must be no disguised price hikes, and no adjunct charges should be levied. The management of means of production which do not fall under the state plan should be based primarily on the "open sale method." The determination of price restrictions should be based on the price quoted by the largest manufacturer in a given industry. The term "open sale" means that: manufacturing and supply enterprises must periodically report their product's sales market and price; the government sets sales policies for them. In accordance with the principles of adjustment of the industrial structure, the government establishes the priority sequence for allocation of supplies to the various industries, determines the proportions of supplies to be allocated to various industries, and constantly advises and adjusts their sales structures. Barter trade and unplanned exchanges of materials must be gradually restricted and banned.

4. The damage wrought by the "dual track" price policy practiced with natural monopolies is very serious. Their prices can never be the market price. If the "dual track" price policy were abolished now, there would be no harmful effect. First, agencies connected with the railroads must achieve a real unification of transport costs, and stop adding extra cars, outside the state plan, to

trains. Second, the distinction between power supplied under the state plan, and power supply not subject to the state plan, must be abolished. It should all be included in the state plan so that a new planning quota for power customers can be established whose unified price would be lower than or equal to the current overall average. Third, the production of crude oil is highly concentrated, and the petrochemical industry is in outstanding condition both in terms of size and economic returns. The "dual track" price policy must be abolished as soon as possible. A new supply quota must be established, and a unified price equivalent to the current overall price level must be fixed.

### Control Funds for Consumption

5. The situation during the past 2 years has shown that the increase in funds for consumption played an increasingly important role in spurring the increase of overall demand. Investment in social fixed assets during all of 1987 grew by 17 percent, but price increases for the means of production during the same period were no lower than 15 percent. From January to October, 1988, investment in fixed social assets grew by 18.8 percent, and during the same period, price increases for the means of production were higher than 25 percent. Although the scale of investment has far exceeded the ability of the national economy to absorb it, it must be understood that investment growth is running out of momentum, as an arrow near the end of its trajectory. However, although the size of total wage increases is not large in comparison with retail price increases, other macroeconomic indicators which reflect the size of individual income growth point to a quickening rate of increase. For example, the total retail sales of social goods grew by 17 percent in 1987, household savings increased by 40 percent, and cash-in-hand increased by roughly 20 percent. In 1988, although the rate of increase for household savings fell steeply, total retail sales nevertheless recorded an extraordinary increase, and the increase of cash-in-hand exceeded that of the previous year. This shows that non-wage increases in funds for consumption have become more and more pronounced, although this does not exclude the possibility that income in some households may have dropped in relative terms, or even in absolute terms. For some of the leading reform countries in Eastern Europe, inflated demand as a rule resulted from a situation in which there was originally "double" inflation [wage and investment inflation], which in the end evolved into "single" inflation driven by funds for consumption which accompanies an economy in time of stagnation. Therefore, if, as we go about improving the economic environment, we do not make any progress in controlling consumption-driven inflation, we will not have achieved any great success no matter what kind of improvements have taken place in other areas. In fact, we will have laid barriers to future progress that will be even more difficult to remove. This point must be clearly explained to the people by the party and the government.

6. The most important step in controlling funds for consumption is to make all individual income open and accountable. Presently, the rise in individual incomes is occurring in four ways: 1) With respect to monetary wages that are openly declared as such, their total increase has exceeded that called for in the state plan. 2) Semi-declared benefits such as welfare programs for workers and staff have increased. 3) There are completely hidden benefits such as material gifts and bonuses. 4) There are illegal profits, kickbacks, and bribes. With regard to this fourth aspect, through rectification of market order and strict and impartial enforcement of the law and party discipline, we can attack criminal activities and solve the problem. The second and third items belong in fact under the category of wages, so they should be calculated as part of total wages. The existence of these two items is not only inevitable under the present conditions, but to a certain extent is also rational. Therefore, we must reform the current structure of the wage system (the conditions do not now exist to change its actual content). We must abolish the system of bonuses, and pass laws to prohibit any non-wage compensation or encouragement, such as making gifts of money and material goods. Expenses connected with group welfare programs for staff and employees, and social security programs, should be counted as part of total wages, but cash should not be issued to employees or staff. Instead, a single sum should be withheld by the work unit, or should be paid by the unit to insurance agencies on behalf of its employees and staff.

7. The policy of linking wages to productivity is now being implemented. Practice has proven that wages have risen faster than profit taxes or realized profits, thus violating the policy's original intention. The new wage system should take the following form: 1) The state should group average wages in enterprises (including welfare programs, bonuses, and material gifts) into several grades according to industry. An enterprise would first choose the pay grade it would like to adopt, then a government department would examine the company's economic returns and the productivity of its labor force before granting approval. Then, this department would report the number of staff and employees and the corresponding total wages to the enterprise's bank. 2) The state should select a certain pay grade as the grade at which wage taxes shall begin to be levied. The tax rate should be progressive. At the same time that an enterprise distributes wages, it would remit wage taxes to the government. Wages in a work unit that performs administrative services should, in principle, be adjusted and reformed in the same way. The wage grades could be allowed to float, but adjustments would have to be examined and approved by the department in charge. In addition to wage taxes, an individual income tax should be levied upon anyone who earns more than 3,000 yuan per year. The tax rate should be progressive, from low to high, and should rise more slowly at first, and more quickly later on. This would require that every citizen report all annual income to the government. Oversight

would be necessary, and failure to report, or false reporting of income would have to be severely punished. Workers from party and government organs would have to set an example.

8. Individual after-tax income must also be guided. The primary object is to control consumption and stimulate increased savings and investment. The primary measures are: 1) The excessive impetus toward consumption must be suppressed. The import of high-grade consumer goods must be resolutely reduced. The domestic manufacture and sale of high-grade consumer durables (such as air conditioners) must be controlled if too many items are flooding into private households. 2) We must pursue a policy which will seek to have high-grade consumer goods sold at the highest possible price and levied for the heaviest possible tax. 3) We must further adjust interest rates on savings and improve financial service in order to bring about an increase in household savings. 4) We must spread the issue of stocks and bonds, as well as their secondary exchange, in order to encourage individuals to buy them. 5) We must develop the insurance industry, deepen the policy of social security, and bring about an increase in the number of individuals who buy insurance. 6) We must set up, on an experimental basis, mechanisms and businesses for reciprocal investment and trust investment in which individuals would be able to participate. 7) Housing must be commercialized and privatized. 8) Privately run enterprises and individual entrepreneurs must be encouraged to make service-oriented and production-oriented investments. The invested portion of the business could be tax-exempt, or taxes paid could be returned.

#### **Adjust Investment Structure, Reduce Investment Size**

9. A reduction of investment size must be achieved within the context of the policy toward manufacturing industries which calls for an adjustment of investment structure. The reason why no fundamental success has been attained in reducing investment thus far is that under the present economic conditions, anyone whose investment is reduced will suffer greatly. This is especially true of projects in processing industries. People everywhere are searching for ways to adjust and cope, and are bargaining with the central government. For example, projects for which construction has not begun, and whose funding has not been secured, are being placed on a list of projects whose plans have been halted or suspended. Projects which are clearly redundant can be changed to those that "put both ends abroad" or "joint ventures." However, comrades in the great majority of locales understand the necessity of reducing investment size and adjusting investment structure. They say that the key question is whether the central government is capable of taking coordinated action, and truly keep the interests of the nation's economy as a whole in sight as they carry out the reductions and adjustments. If not, even if they used administrative fiat to force those at the local level to hold down the size of investment for a time, it would eventually come roaring back. For this reason,

we must adopt the following two measures: 1) We must issue documents possessing the force of law. We must freeze investments in industries in which there is serious overproduction and serious shortage of raw materials. For industries whose products are in high demand, we must set regulations concerning minimum size and technology requirements. We must arrange and limit the types of mining industries adopted by the public. A single rule must apply strictly to the whole country; violators will be breaking the law. 2) The central government must provide unified leadership in sorting out and holding down investment projects, and branch agencies must be established at the local level. Local government should only assist in this work.

10. Any effective manufacturing sector policy depends on unified central responsibility for the adjustment and control of the structure and total volume of the economy. Therefore, to establish branch agencies for the purpose of vertical management of the size and structure of investment is consistent with the direction of China's economic reforms. Most of the nations which have seen the greatest success in economic development since World War II have adopted similar measures. The most important lesson that China has learned from the industrial policy and sectoral plans which it has formulated and implemented in recent years is that there is a shortage of strong administrative organs and methods. We should take advantage of the current economic readjustments to erect the framework for the new type of macroeconomic investment management which will be indispensable for a long time to come. Vertical management by central government of investment size and structure does not mean a return to the pattern in which the state was the only investing entity. On the contrary, for the next several years we must continue to resolutely promote the diversification of investing entities, and increase the proportion of investment by enterprises. The goal that we are trying to accomplish is to bring all of society's investments within the scope of the development strategy for the national economy, and within the scope of the plan of the industrial sector policy. Once the central government has established branch agencies at the local level, the implementation of planned investment and credit will be assured. The most ideal form of branch agency would break the current pattern of reliance on administrative districts, and would instead draw districts according to economic function (with central cities). Their activities would be directly coordinated by the State Planning Commission and administered by agencies of various specialized departments. But perhaps the most practical thing would be to make the planning committees in each province report directly to the central government, and let the central government coordinate the activities of the many specialized departments and bureaus, which would then carry out, step by step, the reforms of the government and economy called for by the policy of adjustment and improvement.

11. We must begin right now to guide and limit investment by local governments to infrastructure projects which affect a limited area. We must reduce the interest

they have in investing in processing industries. However, a fundamental solution of the problem depends on the current reform of the financial system, in which the tax system will replace the overall rationing system, and in which the price system will be straightened out.

#### **Adjust Patterns of Production, Push Reorganization of Key Materials**

12. The reason why inflation is more difficult to overcome in socialist countries than in capitalist countries is that simple adjustment of economic development policies falls far short of providing a fundamental solution to the problem. This is because the economic structure of socialist countries (especially the pattern of production and capital structure) does not easily self-adjust in response to changes in macroeconomic policies. In the traditional system before the reforms, the results of political mobilization and administrative directives could be seen immediately (as in the big adjustments of the 1960's). After we have established, through reform, a complete and effective market mechanism, the economy will self-adjust in response to the guidance of macroeconomic policies. Unfortunately, neither of these situations describe our present circumstances. The methods that we are able to adopt must necessarily be a mixture or synthesis. They depend, on the one hand, on direct intervention by the government for structural adjustment; they also depend, on the other hand, on deepening of reforms and continuous expansion of the market mechanism to effect structural adjustment.

13. To be specific, the following measures must be adopted to achieve structural adjustment: 1) The state must use administrative and legal measures to shut down small, dead-end enterprises in industries which have serious excess production capacity (for example, small cigarette factories, small yarn mills, small oil refineries, small steel rolling plants, etc.). The supply of energy and raw materials for large enterprises must be protected. 2) To break down the barriers of administrative jurisdiction, financial relationships, and different types of ownership will present some problems (such as the property rights system) which we will not be able to solve all at once. If we take note of these problems, it will not be too late if we solve them once standards have been unified. 3) In the production and allocation of credit, foreign currency, raw materials and energy, the state must favor those industries whose products are in short supply, and suppress those which are overly abundant. 4) We must cautiously but resolutely push the establishment of a new system and a new order in which high-loss enterprises will go bankrupt and some workers will go unemployed (beginning with a 1:10,000 ratio, or 1:1,000). 5) Small state-run enterprises must be sold off, and the shareholding system must be implemented in successive groups of large and medium-size state-run enterprises.

14. We must prepare for the inevitable consequences of structural adjustment, and formulate a response in a timely manner. The people whose vested interests will be

most severely affected are peasants who have found work in the cities (especially peasants engaged in construction). After that are township enterprises, and then collective and state-run enterprises in the cities which have very poor economic returns, as well as a small minority of irresponsible workers in good enterprises. To prepare avenues of retreat for them will require some work at all levels of government; even more necessary will be understanding and compassion from the entire society. Therefore, we must again emphasize the need for frank and honest propaganda and explanation from the party and the government.

15. Structural adjustment, like adjustment of investment structure, must be carried out under the unified leadership and coordination of the central government. The organ responsible for adjustment of the pattern of production can be established separately from the organ responsible for adjustment of investment structure, or they could be established together as a single organ. In either case, all departments charged with responsibility to preserve the economy's operation must be included, and this organ will have to carry a sufficient amount of clout with respect to these departments.

#### **Arguments for Enterprise Collective Shares** *40060328 Beijing JINGJI RIBAO in Chinese* *3 Feb 89 p 1*

[Article in by Jiang Yiwei 5592 0001 5517: "On the 'Enterprise Collective Shares' Controversy"]

[Text] **Editor's Note: China's experimental shareholding system which is primarily based on the public-ownership system must address many complicated problems, one of which is, should there be "enterprise collective shares"?** Theoretic circles are debating heatedly over this issue. Starting today, this paper will continue to publish several exemplary articles on the subject to let different sides exchange views and to expedite the formulation of a program which is theoretically sound and which is practical.

In his article, Jiang Yiwei suggests that whether there should be enterprise collective shares or not should be decided by enterprises themselves, and the government should not set a uniform rule. He suggests permitting the enterprise collective shares where necessary. He feels that when enterprises implement the shareholding system, it implies the diversification of property rights, and the public-ownership system too should be pluralistic. In addition to the shares owned by the whole people, there can be workers' collective shares, workers' cooperative shares, mass organization-owned shares, and other kinds of publicly-owned stock. As enterprises develop lateral ties, mixed ownership systems such as ownership by the whole people, large groups, and small cliques will appear. In implementing the shareholding system, the mix of stocks must also include workers' collectively-owned stocks. Stock rights not only address the issue of profit allocation but also address the power allocation issue. To

**have workers' collectively-owned shares and workers' cooperative-type personal shares will give the workers a voice at the shareholder meetings which will help to dilute the state's concentrated power over enterprises. This is an important step in realizing socialist economic democracy.**

*Should stock enterprises whose stocks are primarily public-owned be allowed to have "enterprise collective shares"? This has been the focus of controversy over today's shareholding system. Personally, I think the stock enterprises should experiment with different formats. Whether the stock enterprises whose shares are primarily publicly-owned should have enterprise collective shares should be the free choice of enterprises themselves. They should experiment and review the results before making a decision.*

#### **Reasons for Permitting "Enterprise Collective Shares"**

We maintain that there should be enterprise collective shares (otherwise known as workers' collective share or workers' jointly-owned shares) for the following reasons:

One, the main difference between enterprises whose stocks are primarily publicly-owned and enterprises whose stocks are primarily privately-owned is in the mix of stocks. When enterprises implement the shareholding system, it implies the diversification of property rights. Predominantly publicly-owned is not the same as a ownership by the whole people. The public-ownership system itself should be pluralistic. Besides the shares owned by the whole people, there can be workers' collectively-owned shares, workers' cooperative shares, and mass organization-owned shares and other publicly-owned shares. If we equate public-owned with state-owned, then 80-90 percent of the stocks are state-owned. This kind of stock enterprise is no different from the present state-owned enterprise, and the shareholding system becomes meaningless. Since it is a pilot program, and as long as we do not violate the principle which upholds public-ownership, there is no reason to prohibit several different public-ownership systems.

Two, the traditional public-ownership system encompasses the ownership by the whole people system and the collectively-owned system. In Chinese socialist practices, however, two forms of collective ownership have emerged: one is workers' collective ownership (the so called "large collective") and it is a kind of "solid" collective ownership; the other is workers' cooperative ownership (the so-called "small cliques,") and is a "composite" cooperative-style collective ownership. The "large collective" ownership system has been in existence, though not deliberately installed, for decades, and experience proved that this system can survive, and it is often a more effective system than the pure ownership by the whole people system. We should formulate theories to explain the existence of this kind of ownership and its merits rather than get rid of it gratuitously. As enterprises develop lateral ties, it is inevitable that there will be mixed ownership systems like the ownership by the

whole people system, the large collectives, and small cliques. In implementing the shareholding system, it will be impossible to structure the shares so as to exclude the workers' collectively-owned stocks.

Three, experiences collected over several decades prove that one of the weakest point of the ownership by the whole people system is the absence of a spontaneous accumulation mechanism. The best thing about the large collective enterprises is their ability to use their after-tax profits to finance their own technological transformation and development and build up their strength by "rolling over." If stock enterprises whose stocks are primarily publicly-owned have a fixed percentage of workers' collectively-owned shares, and if they reinvest the dividends, they will have a steady source of funds which they can accumulate, and this is extremely useful for developing their productive capacity. For this very reason, most enterprises support having enterprise collective shares, even to the extent of suggesting that without enterprise collective shares, there is not much point in implementing the shareholding system. Enterprises are not without their reasons for being vehement about this. We should make our judgement based on the productive capabilities.

Four, setting up stock rights not only involves profit distribution but also power distribution. Installing workers' collectively-owned shares together with the workers' cooperative-type personal shares will give the workers as a group a voice in the shareholder meetings. This dilutes the state's concentrated power over enterprises and is an important step in attaining socialist economic democracy. It is an important characteristic of socialist stock enterprise and is also an important manifestation of the self-perfecting process of the socialist system.

Five, if we uphold the above principles, the handling of the technical aspects of enterprise workers' collective shares will not be too difficult. We must not put the incidental before the fundamental and ignore the matter of principle because of a technical problem.

#### **Responses to the Negative Views**

Tentatively, opposition to enterprise collective stocks can be summed into 24 points, and the following are my responses to the dissenting views:

(1) *Some people say that "enterprise shares" means enterprises holding their own stocks, which is illogical and also violates the general rule of the shareholding system. We feel that in the experimental shareholding system, it is not entirely accurate to simply refer to enterprise workers' collective shares as "enterprise shares." Workers' owning enterprise collective shares collectively is not the same as enterprises owning their own stocks. Rather, the stocks are owned by the workers as a whole, similar to the way the whole people's state-owned stocks are*



owned by the people as a whole. The former is ownership by some of the workers collectively, and the latter is ownership by all the workers collectively. The two are logically the same.

(2) *Some people say that to allocate the profits generated by state-owned funds to enterprise collectives violates the state's rights and privileges and lacks legal basis.* We suggest that Marxism denies that capital creates value; it maintains that only labor creates value. All added values are created by labor, and after distribution according to work and paying state taxes, how to allocate the accumulation (after-tax profits) between the state (which represents all workers) and enterprises' worker collectives (which represent some workers) should be decided among the working people, and the decision becomes the state policy. To practice percentage profit retention or to distribute dividends according to the number of shares owned by the state and by enterprise collectives as the way to allocate some of the accumulations to all workers as a whole and the rest to some (enterprise) workers is in compliance with socialist principle and does not violate the state's rights and privileges. As for legal basis, since the shareholding system has not been legislated, there is no legal basis to speak of anyway. Laws are man-made, not god-given. We have to promulgate laws on the shareholding system that conforms to socialist principle.

(3) *Some people say that to give what was originally the whole people's assets to the collectives is to turn "the big public" into "the small public."* We disagree with this based on reasons already given above. Here we need to say a few more words about "the big public" versus "the small public." The opponents use the term in a derogatory sense to criticize enterprise collective shares. They assume that "the big public" (the whole people) is irrefutably superior to "the small public" (the collectives). This kind of inference only validates the Stalinist mode. Several decades' practice and experience, however, have not proved that "the big public" is necessarily superior to "the small public." We do not deny the positive role of "the big public," but we do not agree with the objective that everything should be "big and publicly owned." If by "turning the big public into the small public," we can promote the development of the productive capacity, there certainly is nothing wrong with it, as long as it is within the scope of the public-ownership system.

(4) *Some people say that if enterprise collectives use their dividends to increase the collective shares, at the end, they will own more shares than the state, and it will become an enterprise-ownership system.* We feel that the opponents worry about enterprises turning into enterprise-ownership system basically because they feel that, ideologically, the "big public" is superior to the "small public." Our response is still the above stated response. As for the possibility of the enterprise collectives' increasing their holdings and eventually owning more shares than the state, it may not be all bad. If the state wants to retain

control via the state-owned shares, it too can reinvest its dividends, and if the state does not reinvest its dividends and chooses to focus on other key construction projects and abandon its control over some enterprises, it only shows that the state is more versatile and shrewd with its investments, and that too is a good thing.

(5) *Some people say that since the whole people includes the peasants, the workers would be taking advantage of the peasants if the profit generated by the whole people's assets become enterprise workers' collective shares.* Our view is that profit is created by the worker collectives, and profit distribution does not diminish the amount of the whole people's assets, nor does it take away the profits of the peasants and other workers. Moreover, a large percentage of the profit goes to the whole people in percentage retention, and this proves that it not only does not put the other workers at a disadvantage, in fact, the enterprise workers are benefitting the other workers.

(6) *Some people say that even if enterprise collective shares are allowed, their ultimate property rights should go to the state.* We maintain that, as explained earlier, there is no reason why the ultimate property rights should go to the state. As a compromise, they can be given to the state temporarily (for example, the Finance Ministry has proposed that the experimental unit, the Jialing Group, be renamed "publicly-owned enterprise stock," and the state has the ultimate property rights to these collective shares which are created with enterprise's retained profits). But this only takes care of the workers' collective shares created with enterprise retained profit. If a large collective enterprise joins an integrated structure, we cannot simply announce that the state henceforth has the ultimate property rights to the large collective's assets. (It is for this very reason that the Jialing Group, in addition to having "publicly-owned enterprise shares," also has "workers' collective shares," and the state does not have ultimate property rights to these shares.)

(7) *Some people ask, from which year should the conversion of enterprise retained profits into enterprise collective shares begin?* In our opinion, as explained earlier, enterprise percentage profit retention in essence is a redistribution of accumulation. The allocation of accumulation between the state and the enterprise collectives is a matter of government policy. We suggest that the conversion begin at the close of the 3d plenum of the 11th CPC Central Committee, with the inception of the percentage profit retention system. As for the issue of inequities, see our next response.

(8) *Some people say that there is inequality in profit retention among enterprises, and installing enterprise collective shares will be unfair, and enterprises will become envious of one another.* We feel that unequal enterprise profit retention is an existing phenomenon; it is a product of the present policy. Installing enterprise collective shares on this basis is a continuation of the existing policy, and the unfair phenomenon is not the

result of the enterprise collective shares. To resolve this conflict, we can stipulate a fixed proportion of state-owned shares versus enterprise collective shares uniformly across the nation, or set different proportions for different trades. Extra retained profits will be diverted to the state, and enterprises with insufficient profit will be issued "nominal shares" (dividend stocks,) and future dividends will be used to pay off these shares, and thereafter, they can use the dividends generated by the enterprise collective shares to increase their holding.

(9) *Some people ask that since new enterprises do not have past retained profits, how do they get enterprise collective shares?* We suggest that new enterprises set up a number of "nominal shares" based on the stipulated enterprise collective share percentage (30 percent, for example). Future dividends will be used to pay for these shares in the same way as stated above.

(10) *Some people say that state-owned enterprise should have use-right of the retained profit but not property rights.* For our response, please see No 6.

(11) *Some people say that since no one actually holds the "enterprise stocks," it defeats the goal of delineating the property rights.* We have stated our response earlier. "Enterprise stock" is not the correct term. The proper term should be "enterprise workers collective shares" or "enterprise workers' jointly-owned shares." There are specific shareholders—all the workers formally working in that enterprise. They can elect a representative to exercise the shareholder's rights on their behalf or let the workers' representative assembly or the enterprise's union be the shareholder. The exact method can be negotiated.

(12) *Some people say that "enterprise collective shares" means every staff and worker has a share. What about workers who have been transferred or have died?*

We feel that workers' collective shares or workers' jointly-owned shares are a "solid" joint-ownership system. The whole people's state-owned shares are also a "solid" joint-ownership system. State-owned shares belong to all the people living today—500 million in the past and 1.1 billion today. A person loses his share when he dies; a person gets a share the day he is born. Similarly, enterprise worker joint-ownership is restricted to the current workers; a person who leaves or dies loses his share and a person who just joined the enterprise gets a share of the jointly-owned privileges immediately.

(13) *Some people say that fixed assets created by retained profits should not be turned into enterprise collective shares; instead, collective welfare funds and surplus bonuses may be turned into collective shares and may be divided among individual workers.* We maintain that enterprise workers' joint-owned shares should not be divided among individual workers. Those shares represent the redistribution of accumulation, and after stock rights have been established, the dividends generated

will be used primarily on re-accumulation. Collective welfare and surplus bonuses can be awarded to the workers in the form of shares as incentive or as reward for the years of service, and they become the workers' personal rather than collective property and are not enterprise collective shares.

(14) *Some people say if the plant manager represents the owners of enterprise collective shares and exercises the stock rights, it would violate the principle of separation of ownership from operations, but if the workers represent themselves, the plant manager will be less enthusiastic.* We suggest that enterprise workers elect their own representative to represent them in exercising the stock rights of the enterprise workers' jointly-owned shares, or the workers' representative assembly or the union may exercise those rights. Some plant managers may not understand, but those who understand modern enterprise management will not object. To have the workers' representative attend the shareholder meetings along with the representatives of the owners of state-owned shares and society's shares can provide strong backing for the plant manager. The experimental units will prove this point in the future.

(15) *Some people say that enterprise collective shares will be reinvested to increase the enterprise's holdings, but the shareholding system usually forbids a shareholder to increase the number of shares unilaterally. If enterprise collective shares are allowed, the dividends must be withdrawn or invested elsewhere.* We feel that the main purpose of creating enterprise workers' collective shares is to create an enterprise accumulation mechanism. To increase enterprise accumulation means increasing the legal entity's assets. It will generate greater economies of scale, and all shareholders will be benefitted. All other shareholders are welcome to increase their holdings and add to the accumulation together. Whether a shareholder is allowed to increase its shareholding unilaterally should be stipulated in the company charter. Enterprises experimenting with the enterprise workers' collective shares should specify the rules in the charter.

(16) *Some people say that giving the enterprise collective stock dividends to individual workers as bonuses is converting public property into private property, and it will inflate the consumption fund.* Some enterprise experimental units have appropriated 10 percent of the collective stock dividends and awarded them to the workers for their years of service. The purpose is to reward and encourage workers' contribution and enhance enterprises' internal cohesive force. Some enterprises have even used them as incentive shares. They serve a good purpose and because the quantity is limited, it cannot contribute to a bloated consumption fund. Whether this method should be adopted or whether we should use collective welfare funds and surplus bonuses to create incentive shares is something we can look into further.

(17) *Some people say that enterprises' accumulation should come from their collective reserve funds, and if they increase their shares, all the shareholders should increase*

*their shares.* We feel that a shareholding enterprise should not use all of its collective reserve funds on expanded reproduction. The disposition of collective reserve funds and the question of issuing more shares to all the shareholders should be discussed and decided in the shareholder meetings. In a shareholding enterprise with mostly state-owned stocks, years of experience show that the state has often insisted on centralized use of funds or turned the money into state revenue; it will never agree to increasing the number of shares or increasing the collective reserve funds, and that is why enterprises generally want to have enterprise workers' collective shares so that they themselves will have a steady source of accumulation.

(18) *Some people say that since all of an enterprise's funds are the property of the legal entity and controlled by the enterprise, what do we need enterprise shares for?* We feel that even without the shareholding system, an enterprise's assets are the property of the legal entity and are at its disposal, and this has nothing to do with enterprise collective shares. Installing enterprise workers' collective shares is not an issue of control over the use of existing assets but a question of the distribution of newly increased assets, and it is also a question of the right to speak and the right to vote at the shareholder meetings.

(19) *Some people say that when an enterprise goes bankrupt, whatever is left of its properties will be distributed, but there is no way to deal with the leftover assets of the enterprise collective shares.* We feel that this is but a technical problem. The following methods are worth considering:

1. The state may enact laws to stipulate that when an enterprise (not limited to shareholding enterprises) shuts down or goes bankrupt, all unclaimed properties will go to the state. This is confiscation and is not a matter of ultimate property rights.

2. The company by-laws or charter can stipulate two special kinds of stocks. One kind is preferred stock—it has preference in the payment of stock dividends and liquidation of assets. The other kind is just the reverse. When the enterprise shuts down or goes bankrupt, the enterprise collective shares will be sacrificed first and will be used to pay off the debts. In this way, there will not be any leftover enterprise collective shares, and it will also give enterprises more incentive to take care of their profits and losses.

3. All of the enterprise collective shares' remaining assets will be used to help the workers to find other jobs.

(20) *Some people say that since they are "enterprise workers' collective shares," in the event of bankruptcy, the workers will ask that all remaining properties be allocated to the individuals, and therefore it could happen that the*

*workers may actually want the enterprise to go bankrupt.* Our reply is that enterprise workers' collective shares are collectively-owned and clearly cannot be divided among individuals.

(21) *Some people say that installing enterprise collective shares does not comply with international practices and may keep some foreigners from purchasing stock here.* We suggest that enterprise workers' collective share is a socialist form of stock right which does not adversely affect other shareholders and need not inhibit foreign investors. The shareholding system can be in different forms, and most shareholding enterprises will have primarily publicly-owned stocks, but a few shareholding enterprises can conform completely with international practices and issue primarily privately-owned stocks. Foreign investors are free to choose the type of enterprise they want to invest in. Only a small number of the shareholding enterprises need to attract foreign funds; most enterprises do not have to deal with foreign investors, and it would be Procrustean to make everybody conform to the requirements for attracting foreign or private funds.

(22) *Some people say that installing enterprise collective shares and permitting enterprises to accumulate funds on their own will hamper the adjustment of the industrial structure.* We feel that in a socialist commodity economy, the state's adjustment of the industrial structure is dependent largely on its economic levers, and what really matters is the state's deliberate policy to favor certain industries when investing and reinvesting state-owned funds. The state must not follow tradition and kill the goose that lays the golden egg. Not allowing enterprises to have their own source of accumulation will necessarily dampen their enthusiasm in making improvements and promoting their own development.

(23) *Some people say that installing enterprise collective shares will create inequality among enterprises and obstruct the flow of workers. Workers in enterprises with a relatively large proportion of enterprise collective shares will exclude new workers and existing workers will be reluctant to change jobs.* In our view, worker mobility is an important trait of the commodity economy, but we do not crave mobility for the sake of mobility. An enterprise wants to increase its internal cohesive forces and wants to attract better workers, and it is a good phenomenon if its workers are reluctant to leave, and it is also good if it does not hire more workers at will. The fact is, enterprise collective shares cannot be divided among individuals and cannot obstruct labor mobility as described above.

(24) *Some people say that installing enterprise collective shares creates an enterprise-ownership system and the consequence will be similar to Yugoslavia's present economic crisis.* We doubt that the people who brought up this point really understand Yugoslavia's situation. It is not right to speculate about Yugoslavia's situation based on subjective conjectures. Yugoslavia's enterprises are

autonomous, but Yugoslavia practices a social ownership system, not a state-ownership system, nor a collective ownership system. The ownership issue is still up in the air. Lack of definitive property rights is one of the main problems in Yugoslavia's reform. But this was not what precipitated Yugoslavia's current economic crisis. The crucial problem which has led to Yugoslavia's economic crisis after Tito passed away is the question of local autonomy which has caused the federation to disintegrate. Each republic and each autonomous province has its own government. They demand separate power from above but govern as a centralized government in disguise. The question of enterprise autonomy has not really been resolved. Yugoslavia's reform has experienced success as well as failure, and we should not generalize. But it is certain that what precipitated the present crisis was definitely not the enterprise-ownership system. Our shareholding system where the shares are primarily state-owned is completely different from Yugoslavia's system. Yugoslavia rejects the state-ownership system; we do not, but we advocate centralizing the state-owned funds and spending them on key construction projects, and the state may control some key enterprises by holding the majority stock, and in theory and in practice, this is completely different from Yugoslavia's system.

## PROVINCIAL

### Beijing Official on Profiteering in Local Companies

40060306b Beijing BEIJING RIBAO in Chinese  
24 Jan 89 p 1

[By Zeng Jing 2582 7234]

[Text] How is Beijing doing in its correcting and rectifying of companies? How much money is involved in its major investigation of taxation and pricing violations? Yesterday, Beijing officials discussed these topics of major public interest with members of the democratic parties and non-party personages.

Deputy Secretary Wang Jialiu [3076 1367 6981] chaired the meeting.

Meng Xuenong [1322 1331 6593], Director of the Industry and Commerce Bureau, representing the Municipal Rectification of Companies Leading Small Groups Office, reported on the status of company rectification. At present, they are trying to assess the basic situation for all companies in Beijing. Up to the end of July, 1988, Beijing had 5,677 companies in all. From an industrial standpoint, 2,235 are commercial companies. Up to the end of last year, out of all the companies in Beijing, 5,443 have completed their self-examinations. 706 companies have infractions discovered through self-examination, chiefly having actual funds not tallying with registered funds, by means of loans or registered payment for goods. Another infraction is making unauthorized alterations in their enterprises' legal representatives and

addresses, or they exceed their management scope, etc. These incidents widened as the self-examinations did, as the examinations followed rigorous principles, and the enterprises dealt with them separately from concerned departments. Based on self-examination, various counties and regions decided to conduct spot checks on 2,454 enterprises. This method uncovered 551 enterprises which had various kinds of infractions. So far, 104 companies have been cancelled or put out of business for failing to accord with the regulations on companies, 41 others have had their management changed, and 8 have had their business licenses revoked.

Taking this process of rectification, self-examination, and self-reporting a step further, are all of the municipal party governmental organs and mass organizations which are in control of enterprises engaged in commerce. There are 229 of these in all. To date, 116 of these have formally presented documentation concerning their situation as to manpower, money, and materials; 6 have ceased operations; 5 have turned management over to units they operated, while 42 are in the midst of the rectification process.

Meng Xuenong also reported on the situation concerning those cases where the rectification work has resulted in legal action. In 1988, there was a total of 641 cases in which municipal industrial and commercial administrative units uncovered instances of illegal profits in excess of 1,000 yuan. These cases resulted in the levying of more than 9.25 million yuan in fines. The investigations centered on 87 profiteering companies of various kinds. Of these, 32 have been recommended to their supervisory departments for further investigation and assignment of responsibility; in another 26 cases, there is a need for judicial organs to take over jurisdiction and bring criminal charges.

The director of the municipal finance bureau reported on the major investigation of tax revenue, property, and prices that began last October. Incomplete statistics indicate that as of 15 January, that in the overall Beijing self-investigation, intense investigation rectified cases where the violations total 224.96 billion yuan. As for foreign exchange, self investigation and intense investigation uncovered violations of foreign exchange laws and regulations which totalled \$79.4 million.

Conference attendees then offered opinions and suggestions on the next steps in company rectification and plans for major investigations of tax revenues and prices.

Speakers Li Ximing [2621 6932 6900] and Chen Xitong [7115 1585 0681] affirmed the part played by the municipal party committee and the democratic parties in promoting the work of correction and investigation. They also indicated that throughout the "controlling and rectifying," government departments would continue to need the cooperation of the democratic parties.

Attending the meeting from the municipal party committee, the municipal people's government, the municipal people's consultative conference and the municipal party committee's unified front department were such leading comrades as Zhang Jianmin [1728 0256 3046], Feng Mingwei [1409 2494 3634], Li Bokang [2621 0130 1660], Xia Xiang [1115 5046], Kan Guanqing [7074 0385 0615], and Gan Ying [3927 5391].

Others who participated in the discussions were from Beijing's democratic parties, relevant people's organizations and responsible non-party personages. Among these were Tan Yizhi [6009 8381 0037], Zhu Chenyu [4376 6186 0056], Zheng Zhengren [6774 2973 0088], Cai Qikan [5591 0366 0170], Luo Haocai [5012 6275 2088], Shen Yifan [3088 0001 1581], Pan Kangzhi [3382 1660 1807], Jin Tiekuan [6855 6993 1401], and Wang Bingxu [3769 0014 2049]. Chen Musen [7115 2606 2773], Zhang Bo [1728 9601], Zhang Kaiji [1728 7030 3444], An Shiwei [1344 1102 0251], Fu Tieshan [0265 6993 1472], Tang Shaoyuan [3282 4801 6678], and Jiang Yi [3068 0181].

### Enterprises Assume Responsibility for Losses

#### Dignity of Contracts Protected

40060305 Beijing BEIJING RIBAO in Chinese  
25 Jan 89 p 1

[Article by Reporter Yu Fei 0060 7378: "All of the 22 Enterprises in Beijing, Which Failed To Fulfill Their Contracts, Will Assume Responsibility for Their Losses To Protect the Dignity of Contracts and Accelerate the Improvement of a New Mechanism; 13 Enterprises Will Pay Taxes and Deliver Profits to the State With Their Own Funds or Loans; Five Failed To Fulfill Contracts in 2 Consecutive Years and Will Be Bid Out to New Contractors or Merged; and Four, Which Indeed Suffered From Strong Profit-Reducing Factors, Will Have Their Losses Debited to Their Accounts Without Being Exempted or Reduced"]

[Text] The Beijing Municipal Government revealed on 24 January that Beijing has made new progress in promoting the contracted management responsibility system and that all 22 enterprises, which failed to fulfill their 1988 contracts, will assume responsibility for their losses. Among them, 13 will either use their own funds or take loans to pay their outstanding tax and profit payments to the state; 5 failed to fulfill their contracts in 2 consecutive years and will be bid out to new contractors or merged.

Last year was the second year that Beijing Municipality implemented various forms of contracted management responsibility system, which is based on "two guarantees and one link." Of 433 state-run industrial enterprises, 411 overcame 1.5 billion yuan of profit-reducing factors, such as shortages of raw materials and price increases, and overfulfilled their annual contract tasks, showing the great vitality of the contract system. However, 22 failed

to fulfill contract indexes for tax payment and profit delivery and owed a total of 29.026 million yuan to the state. The municipal government strongly demanded that contracts be honored. To implement the policy of enterprises assuming responsibility for their profits, the municipal government returned over 80 million yuan of funds to those enterprises, which had fulfilled their contracts, to be used mainly in their technological transformation to increase their staying power. And as for the 22 enterprises which had failed to fulfill contracts, the municipal government was determined to implement the policy of enterprises assuming responsibility for their losses.

Mayor Chen Xitong pointed out that we must protect the dignity of contracts and ensure that enterprises assume responsibility for their profits as well as losses of their contracts. Allowing those enterprises, which have failed to fulfill contracts, to assume no responsibility for their losses is like allowing them to continue to eat from the "same big pot" and live on advanced enterprises. Resolute efforts must be made to ensure that enterprises assume responsibility for profits as well as losses. Having enterprises assume responsibility for their losses is to stimulate them, turn their pressure into motive power, deepen their reform, and form a new mechanism. The Beijing Municipal Commission for Guiding the Contracts of Industrial Enterprises held its 12th meeting a few days ago with Vice Mayor Wu Yi as chairman. After studying the issue, the commission decided that money-losing enterprises must use their own means to pay the balance of their tax and profit payments to the state and that their staff and workers' wages must be lowered according to relevant stipulations.

Twenty-two money-losing enterprises will use five different means to pay the balance of their payments. One of them will use only their own funds to make up the outstanding amount. Ten will use their own funds and interest-bearing loans from "the Contract Risk Funds of the Beijing Municipality for Industrial Enterprises." Two will borrow funds from other enterprises. Five enterprises, including the Beijing Machine-Tool and Gear Plant and the No 4 Beijing Switch Plant, will be bid out to new contractors, merged or incorporated into other enterprises due to the dim future of their products and the difficulty of management. Taxes and profits owed by these enterprises will be paid by new contractors or mergers. They must not be repudiated. Four enterprises failed to make their payments because the prices of raw materials soared and profit-reducing factors were too great. However since their products should be developed as key products and some of them have advantages in exports, they are allowed to defer their payments until their business gets better. They are by no means exempted from or allowed to reduce their payments.

In addition, 14 enterprises paid less taxes and delivered less profits in 1988 than they did in the previous years. These enterprises will have to reduce their total wage bill

according to a given ratio. The method of reduction will be chosen by the municipal labor bureau on a case-by-case basis.

Enterprises assuming responsibility for their losses is a big breakthrough in the course of implementing the contracted management responsibility system in Beijing.

### Commentary on Assuming Losses

40060305 Beijing BEIJING RIBAO in Chinese  
25 Jan 89 p 1

[Commentary by Staff Commentator: "Enterprises Should Assume Responsibility for Profits As Well As Losses"]

[Text] Instead of getting "paternalist" relief and protection, those enterprises, which had failed to fulfill their contracts, had "ruthless" treatment of "assuming responsibility for losses." This made us feel that the reform is deepening and see that there is hope in the development of our undertakings!

It is right and proper for enterprises to assume responsibility for profits as well as losses. In other countries, if an enterprise does not do well and loses money, it will be naturally declared bankrupt, auctioned, merged, or "expelled." This is called competition—the good survives and the bad dies out! It is this ruthless law of elimination that forces enterprises in other countries to do their best to improve administration and management, to bring about scientific and technological progress, and to improve product quality and labor productivity. Just like the natural law of struggle for survival has caused biological evolution, the law of elimination has contributed a great deal to the "evolution" of enterprises in China.

Socialist enterprises must also assume responsibility for profits as well as losses. "Without pressure, people will feel light-headed and oilwells will not produce oil." This also applies to enterprises. Enterprises will have no pressure and sense of crisis if they assume responsibility only for profits and not losses, get certificates of merit and bonuses when they do well, and are allowed to "get away" by pouring grievances and making self-criticism or still get "love and support" and bonuses when they mess up. They will be "spoiled" if this continues for a long time. Like Mr Xiao Lin [1420 2651], a Japanese friend, put it: "Cultivating enterprises is like raising children. Too good an environment can only make children degenerate." What is worse is that this "kind" practice can "kindly" protect backward enterprises but ruthlessly attack advanced enterprises. As a result, it is bound to generate dependence, encourage laziness, and lower the efficiency of enterprises. We have already tasted this bitter result.

Only by ensuring that enterprises assume responsibility for profits as well as losses can we protect the dignity of contracts, ensure that the contracted management responsibility system is carried out genuinely and thoroughly, and

guarantee that enterprise reform is deepening continuously. Why do we want to implement the contract responsibility system? The purpose is precisely to smash the practice of eating from two "big pots"—one between enterprises and the other between workers—thus giving enterprises and workers pressures, motive power, and vitality and accelerating the development of productive forces. To ensure that the contract system really yield such results, we must resolutely protect the dignity of contracts and firmly honor contracts. We must not be jealous of those who have successfully fulfilled their contracts; nor must we become soft-hearted toward those who have failed to fulfill their contracts. If we allow backward enterprises to eat from the "same big pot" of advanced enterprises, contracts will become a mere scrap of paper and the contract system will be "aborted." This undoubtedly runs counter to the reform.

We can imagine that it must be painful for those enterprises which have been forced to assume responsibility for their losses. But we should realize that it is an inevitable situation of elimination in the course of reform and a victory of dialectics. The pain and even bankruptcy, auction, and merger of low-efficiency enterprises are "agents" used to hasten the delivery of new mechanisms of enterprises and rejuvenate the business circle of China. According to an old Chinese saying, "Being strict is to love and being lenient is to harm." As long as we have a correct attitude, forcing enterprises to the "road to ruin" is not necessarily all bad. It may force them to shape up and mobilize their soldiers to fight or die, thus helping them to "survive by putting them through hell."

In sum, survival of the good and elimination of the bad is no longer a mere slogan for enterprises. It has gradually become a reality. Facing this reality, all enterprises should be mentally prepared to assume responsibility for their losses.

### Beijing's Tax Revenues Exceed 1988 Target

40060306a Beijing BEIJING RIBAO in Chinese  
14 Jan 89 p 1

[By Yang Tao 2799 3447]

[Text] Beijing has exceeded its planned tax revenues for last year. In all, 15.04 billion yuan were collected in tax receipts, an increase of 910 million yuan, or 6.4 percent, over the previous year. This news was learned at a just-concluded conference at the Beijing taxation bureau.

As explained to reporters, taxes collected from local industry and commerce amounted to 6.708 billion yuan, which was 858 million yuan over target, and a 22.4 percent increase from the last year. Taxes received from local state-run enterprises totalled 1.47 billion yuan, which was 113 million yuan in excess of target, a 21.5 percent over the previous year. And 940 million yuan was collected from local energy, communications, and transportation building funds; this was 342 million yuan over target, or 6.8 percent over the year before.

At the conference, Mayor Chen Xitong [7115 1585 0681] once again stressed the importance of tax work. He said that it is essential for governments to have control of their own finances. Their fund-raising relies on taxes, and taxes rely on the development of manufacturing, and the receipts from this. This is how governments can do more things for the people.

When discussing this year's taxation work, Chen Xitong noted that this year the taxation bureau must implement, administer, reorganize, and totally reform their policies and measures. They will rely on legal taxation, and will strengthen management of tax revenues. They will make the fullest possible use of taxation's leverage for regulating the economy, to further the development of enterprise production and raise economic benefits, resolving such problems as unequal allocations. At the same time, they will use the leverage of tax revenues to adjust the economic structure, and make the composition of industries, products and enterprises still more rational. There will be support for those beneficial enterprises which have prospects for the future; but those enterprises which are otherwise absolutely cannot rely on reduced taxes to get along.

Also addressing the conference were Vice Mayor Zhang Jianmin [1728 0256 3046] and Zhang Niuli [7022 3662 4539], Deputy Director of the State Administration of Taxation Bureau.

**Communique on 1988 Hebei Economic Development**

SK1503070089 Shijiazhuang HEBEI RIBAO  
in Chinese 2 Feb 89 p 2

[Statistical communique on the 1988 economic and social development issued by the Hebei Provincial Statistical Bureau on 31 January 1989]

[Text] In 1988, the province's share of the national economy witnessed a sustained development in the course of deepening reform; social and economic strength was further strengthened; the rural economy flourished; industrial efficiency improved; economic interchange with foreign countries was expanded; scientific and technological undertakings experienced remarkable results; new progress was made in the cultural, educational, public health, and sports undertakings; and living standards of most residents somewhat improved. Since the 3d plenum of the 13th Party Central Committee, the whole province has firmly implemented the central authorities' principles of "improving the economic environment, rectifying the economic order, and comprehensively deepening reform;" and has witnessed initial results in improving the economic environment and rectifying the economic order. The annual GNP [gross national product refers to the increased value of both the material productive and non-productive sectors, not including the value of products and labor service consumed by intermediate units] reached 66.79 billion yuan, an increase of 11.6 percent over the previous year. The total product of society [this includes the total output value of agriculture, industry, the building

trade, transportation, postal and telecommunications trade, and commerce, including materials and goods supply trade and catering service trade] reached 134.3 billion yuan, an increase of 16.1 percent over the previous year. Of this, the total output value of industry and agriculture reached 108.92 billion yuan, showing a 16.7 percent increase. The national income [this refers to the total net output value of agriculture, industry, building trade, transportation, and postal, telecommunications, and commercial units] amounted to 57.3 billion yuan, showing a 10.9-percent increase. The major problems in the economy were: The total demand of society increased excessively, contradictions between supply and demand and structural contradictions were aggravated, commodity prices increased inordinately, a high inflation was seen, and the real income of a part of residents declined.

**1. Agriculture**

Agricultural production went up. The annual agricultural output value amounted to 25.27 billion yuan, a 5.7-percent increase over the previous year. Of this, the output value of the cropping industry increased by 4.6 percent; that of forestry, 8.0 percent; that of animal husbandry, 7.8 percent; that of sideline production, 10.8 percent; and that of fishery, 15.5 percent.

Of the output of major agricultural products, that of grain increased by 10.25 billion tons over the previous year, embarking on the new stage of 20 billion tons, or setting a record high. Meanwhile, output of sugar-bearing crops, jute and ambary hemp, flue-cured tobacco, vegetable, and melons went up, while that of cotton, oil-bearing crops, and fruits went down.

The output of major agricultural products was as follows:

[The figures of the gross grain output and the output of summer and autumn grains are based on the sample survey]

	1988 (tons)	Increase over 1987 (r)
Grain	20.225million	55.3
Summer grain	7.962million	9.4
Autumn grain	12.263million	2.8
Cotton	577,000	-7.8
Oil-bearing crops	653,000	-5.2
Peanuts	460,000	-13.9
Beetroot	129,000	120
Jute, ambary hemp	24,000	26.3
Cured tobacco	7,489	150
Silkworm cocoons	375.3	17.3
Dried and fresh fruits	2.049million	-0.5
Fresh fruits	1.995million	-0.4
Dried fruits	54,000	-6.2

In 1988, the province afforested 3.682 million mu of land, the quality of afforestation improved, and forest production and tree-planting further developed.

Animal husbandry production increased comprehensively. The number of pigs slaughtered and the number of pigs in stock were better than previous years. The number of herbivorous animals increased. The number of sheep in stock topped 10 million. The output of meat, poultry, eggs, and milk increased substantially.

The output of major animal by-products and livestock headage were as follows:

	1988	Increase over 1987 (r)
Pork, beef, and mutton	1.085million	13.9
Milk	109,000	6.9
Sheep wool	12,000	20.0
Pigs slaughtered	12.681million	9.0
Large animals at year's end	5.115million	3.9
Pigs at year's end	14.646million	7.3
Sheep at year's end	11.234million	18.8

Fishery production developed rapidly. The annual output of aquatic products reached 207,000 tons, a 15.5-percent increase over the previous year. Of this, output of marine products reached 161,000 tons, a 15 percent increase over the previous year; and that of freshwater products reached 46,000 tons, a 16.9-percent increase. Agricultural input and the construction of farmland water conservancy projects were strengthened and conditions for agricultural production were improved. In 1988, banks and credit cooperatives granted 7 billion yuan of agricultural loans, an increase of 1.28 billion yuan over last year; expenses to support rural production reached 240 million yuan, an increase of 49.63 million yuan; and the peasants' total purchasing volume of agricultural capital goods reached 6.54 billion yuan, an increase of 1,754 million yuan. Last year, 56,000 motor-pumped wells were constructed or repaired, more than 14.5 million meters of seepage prevention facilities were built, and irrigation areas increased by 5.19 million mu. Conditions for agricultural production were improved continuously thanks to a comprehensive and gradual development and improvement of the Hai He valley plain. By the end of 1988, the aggregate power of the province's farm machinery reached 25.627 million kilowatts, an increase of 6.5 percent over 1987. There were 33,000 large tractors, a drop of 5.7 percent from 1987; and there were 485,000 small capacity and walking tractors, an increase of 13.0 percent. The number of trucks was 39,000, an increase of 6.6 percent; and irrigation and drainage equipment, 13.255 million kilowatts, an increase of 5.2 percent. A total of 1.256 million tons of chemical fertilizer were applied during the year, an increase of 7.8 percent; and the total consumption of electricity in rural areas was 5.33 billion kwh, an increase of 6.3 percent.

The rural economy was comprehensively developed. The total product of society in the countryside in 1988 was 63.37 billion yuan, an increase of 16.1 percent over

1987. [the total product of society in the countryside comprises the agricultural output value, and the output value scored by the collective-run and individual-run industrial enterprises in the rural areas and the rural units of building undertakings, transportation, and commerce.] Of this, the total output value realized by the rural industrial, building industrial, transportation, and commercial units increased by 24.1 percent; and the proportion of the output value realized by these units in the total product of society in the countryside rose from 58.7 percent to 60.1 percent.

## 2. Industry

Industrial production increased at a fast speed. The total industrial output value in 1988 reached 83.65 billion yuan, an increase of 19.5 percent over 1987. Of the total industrial output value, the industrial output value realized by state units reached 42.02 billion yuan, an increase of 12.9 percent; and that by collective-run units reached 17.53 billion yuan, an increase of 23.3 percent. Of this, the output value realized by the township-run industrial enterprises reached 6.35 billion yuan, an increase of 42.1 percent; and that by the industries at or below the village level reached 23.03 billion yuan, an increase of 30.4 percent.

The development of light industry was faster than that of heavy industry. Of the total industrial output value, the output value realized by light industry reached 40.49 billion yuan, an increase of 20.4 percent; and that by heavy industry reached 43.16 billion yuan, an increase of 18.6 percent. The effective supply for industrial production increased. The production of readily marketable light and textile products and famous-brand quality consumer goods increased at a rapid speed. Agriculture-aiding industries were further developed. However, energy and raw material industries were developed at a slow pace. The contradictions in the industrial production structures still existed.

The output of major industrial products was as follows:

	1988	Increase Over 1987 (percent)
Yarn	296,000	7.4
Cloth	1.2 billion meters	1.6
Silk fabrics	37.86 million meters	13.1
Woollen goods	5.312 million meters	9.6
Knitting wool	67.377 million tons	-7.6
Machine-made paper and paper board	550,000 tons	-20.6
Sugar	5,824 tons	5.4
Cigarettes	990,000 cartons	11.1
Salt	2.44 million tons	98.8
Bicycles	812,000	-22.4
Watches	495,000	-34.9
TV sets	473,000	28.8



	1988	Increase Over 1987 (percent)
Yarn	296,000	7.4
Of which:		
Color TV sets	225,000	45.9
Beer	380,000 tons	33.3
Chemicals (raw pharmaceuti- cals)	15,000 tons	0.3
Motion-picture films (35 mm)	120 million meters	10.0
Raw coal	63.656 million tons	-0.2
Crude oil	6.307 million tons	-20.7
Electricity	34.46 billion kwh	10.2
Iron ore (raw ore)	22.45 million tons	7.8
Pig iron	3.892 million tons	5.5
Steel	3.077 million tons	7.3
Rolled steel	2.55 million tons	6.5
Sulphuric acid	601,000 tons	22.5
Soda ash	88,000 tons	4.9
Chemical fertilizer for agricultural use	1,356,000 tons	7.3
Cement	12.659 million tons	3.0
Plate glass		
9.68 million heavy boxes	12.7	
Metal-cutting machine tools	3,393	23.8
Vehicle	5,293	1.0times
Small tractors	99,600	31.4

The economic results of industrial enterprises improved. The profits and taxes created by the local budgetary state industrial enterprises in 1988 reached 4.54 billion yuan, an increase of 34 percent over the previous year. The number of enterprises which created more than 10 million yuan of profits and taxes rose from 56 to 71. The turnover period for working funds was shortened from 107 days in the previous year to 96. The number of money-losing enterprises declined and their deficits dropped by 31.6 percent. The profit and tax rate of output value and the profit and tax rate of funds increased 2.9 percent and 4 percent respectively. The per-capita labor productivity of the state industrial enterprises exercising independent accounting increased 8.8 percent. During the year, 12 variety of products won state gold and silver awards, the greatest number of awards ever achieved during the last few years. A total of 543 products won the province's quality product awards. The energy consumption of units declined. The energy consumption of industrial enterprises at and above the county level for producing 10,000 yuan worth of products dropped 0.22 tons from the previous year and the energy conservation rate reached 2.8 percent. The cost of comparable products rose 11.1 percent.

New progress was made in industrial enterprise reform. A total of 3,819 industrial enterprises at and above the

county level throughout the province implemented the contract system, accounting for 77 percent of the total number of enterprises. About 97.2 percent of the local budgetary state industrial enterprises implemented the contract responsibility system. Some enterprises also conducted various forms of exploration in trying out the leasing, stocksharing, auction, and merger systems. The province as a whole had 110 enterprises implementing the leasing system, 159 enterprises implementing the stocksharing system, and 167 enterprises implementing the merger system. Some 180 enterprises were merged into other enterprises and 1 was auctioned off.

### 3. Investment in Fixed Assets and the Building Industry

In 1988, the investment in fixed assets in society reached 21.07 billion yuan, an increase of 34.9 percent over the previous year. After adjustment for price rises, the actual increase was 15.5 percent. Of this, some 11.11 billion yuan went to state-owned units, an increase of 28.6 percent; 960 million yuan went to collective units in cities and towns, an increase of 80.5 percent; 3.76 billion yuan went to rural collective units, an increase of 60.4 percent; 3.7 billion yuan was used for peasants households to build houses, an increase of 27 percent; and 1/3 billion yuan was used for peasant households to buy productive fixed assets, an increase of 20.8 percent. Since the fourth quarter of the year, through sorting out and cutting back projects, the province as a whole have stopped or delayed the construction of 441 state-owned or urban and rural collective construction projects, and some 1.008 billion yuan of investment was cut back. Of this projects, 74 were office buildings, auditoriums, and hotels. Investment thus cut back reached 232 million yuan.

The capital construction investment of state enterprises reached .33 billion yuan, an increase of 22.6 percent over the previous year. Of this investment, 2.39 billion yuan was used for local capital construction, an increase of 40.2 percent. Of the state-owned capital construction investment, 1.52 billion yuan was used in energy departments, an increase of 32.8 percent; 700 million yuan was used in transport and post and telecommunications departments, an increase of 15.1 percent; 300 million yuan was used in light and textile industrial departments, an increase of 50 percent; and 190 million yuan was used in agricultural, forestry, water resources, and meteorological departments, an increase of 27 percent. Of the capital construction investment in state-owned units, 1.72 billion yuan was used for nonproductive construction and the proportion of investment for this purpose dropped from 30.2 percent in the previous year to 27.2 percent. A total of 1,629 capital construction projects were completed and commissioned during the year. These capital construction projects added 3.97 billion yuan worth of fixed assets.

Rapid progress was achieved in building large, medium-sized and key projects. An investment of 3.28 billion yuan was used in 37 large and medium-sized projects, meeting the annual plan. The nine projects enjoying top state priority required 2.18 billion yuan in investment, which was 102.1 percent of the annual plan. During the

year, six large and medium-sized and key projects and six single-item projects were completed and commissioned. The country's first Qianjiaying coal mine in Kailuan with a designed capacity of 4 million tons; the Dingxi wharf in Qinhuangdao, with a handling capacity of 600,000 tons; the No. 6 power generating unit with a capacity of 200,000 kilowatts, which was the fourth stage of the expansion project of Xingtai Power Plant; the power generating unit with a capacity of 200,000 kilowatts, which was the fifth stage of the expansion project of the Xiahuyuan Power Plant; the project to resume the production of 360,000 tons of coke under the Tangshan coking and gas manufacturing plant; the Chengde iron and steel plant's expansion project with a capacity of 224,000 tons; and the Dingzhou Shengli passenger car plant's expansion project with a capacity of making 5,000 cars, were all completed and put into production. All these projects helped accumulate momentum for Hebei's economic development. The technological transformation of the existing enterprises was strengthened. In 1988, the investment in state enterprises' equipment replacement and technical updating reached 4.24 billion yuan, an increase of 39.3 percent over the previous year. Of this, 2.03 billion yuan was invested in increasing the production capacity of products, an increase of 62.1 percent; 680 million yuan was invested in increasing product varieties, an increase of 25 percent; 190 million yuan was invested in improving product quality, an increase of 2.8 percent; and 290 million yuan was invested in saving energy, an increase of 68.9 percent. A total of 1,349 equipment replacement and technical updating projects were completed and put into production during the year. These projects added 2.96 billion yuan worth of fixed assets.

The additional major production capacity and economic results from the province's capital construction, equipment replacement, and technical updating during 1988 included: 499,000 kilowatt of power generating capacity, 4.01 million tons of coal, 900,000 tons of iron mining capacity, 400,000 tons of coke, 513,000 tons of iron, 624,000 tons of steel, 200,000 heavy boxes of plate glass, 703 k of power transmission line, 970,000 kilovolt-ampere of power transforming equipment, 5,000 vehicles, 172,000 cotton spindles, 1,374 cotton spinning machines, 48.3 million meters of printing and dyeing cloth, 50,000 cartons of cigarettes, 50,000 refrigerators, 80,000 television sets, 600,000 tons of port handling capacity, 55,000 city automatic telephone switch boards, 332.2 km of highways, 5,892 seats for college and university students, 27,000 seats for students of secondary specialized schools, 32,000 seats for primary school students, and 3,595 seats for students of other types of schools.

Reform of the building industry continued to deepen. Among the projects under construction of the local state-owned building and installation enterprises, 4,732 unit projects implemented the contract responsibility system, accounting for 83 percent of the total number of unit projects under construction, an increase of 5.9

percent over the previous year. The construction area reached 6.95 million square meters, accounting for 83.2 percent of the total area of construction. The unit projects and construction areas contracted out through public biddings accounted for 26.6 percent and 34.6 percent of the contracted unit projects and the construction areas. The annual total output value of the local state-owned building and installation enterprises reached 2.07 billion yuan, an increase of 17.9 percent over the previous year. After adjustment for price rises, the increase was 0.9 percent. The per-capita labor productivity reached 11,130 yuan, an increase of 1.4 percent over the previous year.

New achievements were made in geological general survey and prospecting. In 1988 the provincial geological and mining enterprises overfulfilled their state assigned iron and gold mines geological and prospecting tasks by 74.3 percent and 11.8 percent respectively. At the same time, they also verified new reserves of 10 major minerals for the state, including lead, zinc, and silver. During the year, 21 major mineral mining areas were discovered and developed. We did a fairly good job in fulfilling the state-assigned key geological and hydrologic prospecting tasks.

#### 4. Transport and Post and Telecommunications

The transport departments further tapped potential and raised their transport capacity under a situation of strained operation and comprehensively increased the passenger and freight transport volume.

	1988	percentage increase over the previous year
Shijiazhuang railway subbureau handled		
The freight volume	52.62 billion ton-km	4.1
The passenger volume	15.43 billion person-km	16.3
Local transport departments handled		
The freight volume	7.76 billion ton-km	15.3
Of which:		
Highway	3.19 billion ton-km	14.6
Waterway	4.36 billion ton-km	16
Passenger volume	7.2 billion person-km	15.8
Of which:		
Highway	7.17 billion person-km	15.9

The annual cargo handling capacity of Qinhuangdao Port reached 58.12 million tons, an increase of 8 percent over the previous year, the best record in history. The volume of oil carried through pipelines of Huabei Petroleum Pipeline bureau was 21.49 million tons, an increase of 3.3 percent over the previous year.

Civil aviation industry continued to develop. Hebei Civil Aviation opened 9 air routes to Beijing, Shanghai, Guangzhou, Nanjing, Hohhot, and others. the total air route mileage reached 7,750 km. Post and telecommunications made even greater progress. Business transactions by postal and telecommunications departments totaled 202 million yuan, a 22.4-percent increase over the previous year. the number of telephone users in urban areas amounted to 147,000, an increase of 18.4 percent over the previous year. Domestic express post was available in all areas, except for Linxi, Yong Qing, Nanpi, and Fucheng counties. Eleven cities and two counties have been incorporated with the national long-distance automatic telephone exchange network, and have realized automatic dialing with those large and medium-sized cities which have carried out the long-distance direct dialing service. However, postal and telecommunications facilities still fall far short of economic development.

##### 5. Commerce, Supply and Marketing, and Commodity Prices

Commodity sales on markets increased substantially. the annual value of retail sales totaled 35.5 billion yuan, a 30.8-percent increase over the previous year. If price rises are taken into consideration, the real increase was 10.8 percent. Of the total retail sales, the retail sales of consumer goods amounted to 28.96 billion yuan, a 29.6-percent increase; the value of retail consumables bought by social groups reached 2.46 billion yuan, an 18.20percent increase; and the value of agricultural means of production amounted to 6.54 billion yuan, a 36.6-percent increase.

The retail sales of all commodities increased. Retail sales in the state-owned sector amounted to 14.59 billion yuan, a 34.5-percent increase over the previous year; those in supply and marketing cooperatives amounted to 6.79 billion yuan, a 29.5-percent increase; those in other collective sectors amounted to 5.28 billion yuan, a 25.1-percent increase; and those in the private-owned sector amounted to 6.766 billion yuan, a 29.0-percent increase. Meanwhile, the transactions between peasants and non-agricultural people amounted to 2.06 billion yuan, a 32.8-percent increase.

Sales of consumables of various kinds were brisk. Sales of foodstuffs amounted to 13.85 billion yuan, a 26.5-percent increase over the previous year; sales of clothes, 4.46 billion yuan, a 30.5-percent increase; and sales of articles for daily use, 10.65 billion yuan, a 33.5-percent increase. If the factor of price rises was deducted, the real increase rates were 3.2 percent, 15.4 percent, and 15.0

percent respectively. However, supplies of some commodities were insufficient; and the measure of restricted supply was carried out for pork, eggs, edible sugar, salt, match, washing powder, and soaps, because their supplies exceeded their demands in urban areas.

In 1988, the total value of commodities procured amounted to 23.9 billion yuan, a 25.2-percent increase over the previous year. Of this, the value of industrial goods procured was 14.59 billion yuan, a 28 percent increase; and that of agricultural and sideline products, 8.78 billion yuan, a 17.4-percent increase. By the end of 1988, the grain procurement plan was fulfilled basically. However, the procurement of cotton and oil-bearing crops was not quick enough, fulfilling the annual targets by merely 68.6 percent and 61.3 percent. In 1988, the value of commodities transferred from the province to other places reached 4.39 billion yuan, an increase of 28 percent over the previous year; and the value of commodities transferred from other areas to the province reached 8.14 billion yuan, a 13.1-percent increase. At the end of 1988, the value of commodities stocked by social commercial departments amounted to 11.73 billion yuan, a 12.9-percent increase.

The structural reforms in commerce were deepened continuously. by the end of 1988, 48.9 percent of state-owned commercial enterprises subject to the provincial commercial department had implemented the contract management responsibility system; 14.2 percent had carried out the collective management while being owned by the state; 3.2 percent had been handed over to collectives and collective ownership; and 33.7 percent had been leased or auctioned to individuals. All of the grassroot supply and marketing cooperatives and the county integrated cooperatives had become economic entities. the number of urban and rural fairs increased from 3,003 in 1987 to 3,010, and their business volume in 1988 reached 7.58 billion yuan, an increase of 27.7 percent over the previous year. Commercial, catering, and service trade associations spread continuously, numbering 686 by the end of 1988, 16 more than in 1987. Their annual transaction volume amounted to 494 million yuan, and their profits, 31.91 million yuan, thus showing an increase of 40.7 percent and 48.2 percent respectively over the previous year.

The market of means of production was brisk. In 1988, goods and materials supply enterprises in the province sold 13.82 billion yuan worth of means of production, an increase of 85.8 percent over the previous year. Rolled steel sold through supplies enterprises reached 3.499 million tons, a 35.4-percent increase over the previous year; cement, 2.205 million tons, a decline of 4.3 percent; and timber, 2.016 million tons, an increase of 10.8 percent. Price hikes became a prominent problem in the economic field particularly because the prices of goods rose by a big margin and on a large scale. The index for the province's retail sales prices in 1988 rose by 18.1 percent over the previous year. Of this, the index for retail sales prices in the urban areas rose by 19.0 percent

and that in the rural areas rose by 17.5 percent. The prices of foodstuffs rose by 22.5 percent. Of this, the prices of grain rose by 10.8 percent, meat, poultry, and eggs by 41.6 percent, fresh vegetables by 40.5 percent, aquatic products by 29.7 percent, fruits by 20.5 percent, clothes by 13.1 percent, daily necessities by 11.3 percent, medicine and medical instruments by 45.1 percent, building materials by 20.8 percent, and fuel by 19.8 percent. The prices of agricultural capital goods rose by 17.7 percent. Of this, the prices of chemical fertilizer rose by 20.7 percent, insecticide by 45.1 percent, oil for farm machinery use by 14.1 percent, and plastic films for farm use by 63.2 percent. The index for the purchasing prices of farm and sideline products rose by 13.9 percent during the year.

The cost of living index for staff and workers rose by 18.3 percent. Of this, the index for prices of service items rose by 10.5 percent. The cost of living index for the peasants rose by 17.8 percent.

The circulation field had major problems as follows: A confused situation was seen in the distribution structure and the phenomena of arbitrary price hikes were prominent. There were increasingly more illegal management activities. There existed serious phenomena of exploiting by intermediate links and reselling goods to reap staggering profits. The people complained that some shops and peddlers hiked prices in disguise, offered second-rate goods as first-rate, and gave customers less goods than their money's worth. Panic-buying tendencies emerged on several occasions due to the rises in the prices of goods with each passing month and the unstable market situation.

## 6. Foreign Trade and Tourism

Export through foreign trade increased. The total volume of commodities purchased for foreign trade was \$1.55 billion, an increase of 4.4 percent over 1987. Of this, the export of sundry goods was \$1.202 billion, fulfilling the state plan by 138.8 percent and showing an increase of 11.9 percent over 1987.

In 1988, the province's nontrade foreign exchange income stood at \$31.4 million, an increase of 5.4 percent over the previous year, and the province's nontrade foreign exchange expenditure was \$780,000, an increase of 30.0 percent. Foreign exchange earnings were \$30.62 million greater than the foreign exchange outlays.

In 1988, the province signed 91 contracts on using foreign capital, involving \$199.62 million, and an increase of 3.4 times over the previous year. Last year, the province used \$19.1 million of foreign funds, an increase of 86.6 percent over the previous year. Of this, the investment directly made by foreign businessmen reached \$16.73 million, an increase of 1.3 times. A total of 222 technologies were imported during the year and the transaction volume was \$194.22 million, respectively increasing by 56.3 percent and 58.2 percent.

In 1988, 18 contracts on undertaking overseas projects and conducting labor service cooperation were signed; and \$26.561 million were involved in the contracts, an increase of 2.9 times over the previous year. The business volume was \$7.006 million, an increase of 1.3 times.

In March 1988, the State Council approved to expand the scale of opening the province to the outside world from Qinhuangdao City to Qinhuangdao, Tangshan, and Cangzhou Cities and their 12 subordinate counties. As a result the open zone has made greater progress in developing its export-oriented economy. The construction of the Qinhuangdao developmental zone was in full swing. A total of 21 items to develop the developmental zone were conducted in 1988, 2.3 times over the figure of the previous 3 years. In 1988, these open areas were approved to run 46 foreign-funded enterprises with a total investment of \$96.39 million. Of this, foreign investment was \$34.848 million. There were 78 contracts on using foreign capital. According to these contracts, \$35.987 million of foreign capital were used directly and \$188.72 million were used indirectly. There were 64 contracts on bringing in a total of \$69.724 million in cash foreign exchange. There were more than 240 enterprises that earned foreign exchange through exports and 521 town and township enterprises that created foreign exchange through exports.

International tourist trade was developed continuously. The province received 610,000 tourists, visitors, and personnel engaged in various interchange activities from nearly 30 countries and regions, an increase of 16.9 percent over the previous year. Income earned from tourism during the year amounted to 13.267 million Renminbi yuan, an increase of 50.4 percent over the previous year.

## 7. Finance, Banking, and Insurance

In 1988, the provincial financial revenues amounted to 6.34 billion yuan, an increase of 10.5 percent over the previous year. Of this, tax revenues from industrial and commercial departments amounted to 5.54 billion yuan, a 16.2-percent increase. The annual financial expenditures amounted to 6.63 billion yuan, a 23.9-percent increase. The budget for revenues was overfulfilled, while financial expenditures increased at a rate faster than that of the previous year. Major projects whose expenditures increased by a relatively large margin were: The expenses in the scientific and technological projects for the three purposes increased by 26.4 percent; appropriations for supporting the production of rural areas increased by 26.1 percent; the operating expenses issued to industrial and communications enterprises increased by 49.6 percent; the allocations for maintaining urban areas increased by 27.9 percent; the expenses in employment of urban youths increased by 38.3 percent; the operating expenses in culture, education, and public health, increased by 28.3 percent; administrative expenses increased by 27.4 percent; and price subsidy increased by 24.7 percent.

Banking departments scored new achievements in raising circulating money, and gave support to economic construction. At the end of 1988, savings deposits at various banks amounted to 34.68 billion yuan, 4.26 billion yuan more than that at the end of 1987; and loans issued by banks reached 44.94 billion yuan, 6.32 billion yuan more than that at the end of 1987. Of this, loans for floating money of industrial enterprises increased by 2.01 billion yuan, loans to commercial departments increased by 2.34 billion yuan; and loans to agricultural departments increased by 380 million yuan. This supported the industrial and agricultural production and the procurement of agricultural and sideline products.

The insurance business increased in category and volume. Insurance categories expanded from 89 in 1987 to 122 in 1988; the sum of social, property joining insurance programs reached 78.1 billion yuan, a 32.9-percent increase over 1987; and the annual income from insurance premium and savings deposits reached 500 million yuan, a 47.3-percent increase over 1987. Insurance companies' role in compensating losses and preventing disasters was strengthened. In 1988, insurance companies paid 200 million yuan of compensation to domestic business departments, helped disaster units restore production and operation rapidly, and gave guarantee to the people's livelihood. At total of 5.37 million people in the province joined the personal insurance program.

#### 8. Science, Technology, Education, and Culture

The scientific and technological undertakings developed rapidly, and yielded marked results. In 1988, the province won 2 state-level invention prizes, 5 scientific and technological progress prizes, 8 sparking prizes, and 1,100 prizes for major scientific and technological research results. In addition, 297 scientific and technological advances won provincial prizes, of which, 28 reached or approached the international level; and 81 inventions won the provincial prizes. At the 37th Eureka International Invention Fair, our province's 10 inventions won 11 prizes, ranking first among the provinces and municipalities of China which participated in the fair. New progress was made in social scientific research. A total of 171 social scientific research results won excellent prizes at the second provincial awards ceremony.

Remarkable results were achieved in comprehensively popularizing various plans for scientific and technological development. The cultivation of wheat protoplasm regenerated plant [xiao mai yuan sheng zhi ti zai sheng zhi zhu 1420 7796 0626 3932 6347 7555 0375 3932 2784 2701], jointly carried out by the provincial agro-scientific academy and the genetics division under the Chinese Academy of Sciences, proved successful for the first time; and the "low-noise, high-efficient, low-pressure, LHLA series, and axial-flow ventilator" jointly researched and manufactured by the Chengde Commercial Machinery Plant and the Beijing Aeronautical and Space Engineering University, reached the advanced

international level. This indicates further improvement in the scientific and technological level of our province. the "torch plan," aiming at promoting the commercialization and industrialization of high-tech and new-tech achievements, and the plan for the trial production of major new products of the state had already undergone implementation. the "spark plan" played an important role in vitalizing the rural economy.

Patent work and scientific and technological markets became flourishing day by day. In 1988, the province received 960 applications for patent rights, an increase of 21.5 percent over the previous year; and granted 320 patents, an increase of 57.6 percent. In 1988, the province signed 6,698 technological and economic contracts, an increase of 39.4 percent over the previous year; and the transaction volume of these contracts reached 102 million yuan, a 49.8-percent increase.

The scientific and technological contingent was expanded further, and scientific and technological activities among the masses were extensive. In 1988, the state-owned departments employed a total of 321,000 personnel specialized in natural science and technology, 34,000 people more than the previous year. In 1988, the province had 158 state-owned organs engaging in independent research and development at or above the county level. the province also had 386,000 social scientific personnel, 78,000 more than the previous year. The province scored notable achievements in carrying out the work of decontrolling scientific research institutions and relaxing the restrictions on the policies on managing science professionals and technicians. Of the province's 137 independent scientific research institutions, 54.7 percent separated ownership from management rights and carried out the contracted management system. The independent scientific research institutions made 628 findings, an increase of 5 percent over the previous year. Of these findings, more than 80 percent were popularized and applied and 240 million yuan of economic results were created, an increase of 20 percent over the previous year. There were more than 420 organizations that had constantly and steadily linked scientific research with production. More than 41,000 science professionals and technicians throughout the province provided technological service on a contracted basis for town and township enterprises or developed industries in the rural areas, an increase of 80 percent over the previous year. A total of 37,000 contracts on technological services were signed, an increase of 3.2 times over the previous year. A total of 1.13 billion yuan of economic results were created from popularizing 2,590 technological findings, an increase of 1.5 times. The province had 1,765 technological contract associations with more than 20,000 science professions and technicians involved, accounting for 48.4 percent of the rural areas' total. More than 1,200 technological economic associations and organizations were set up across the province. There were 1,519 scientific and technological development and service organizations run by the collectives and the individuals in both urban and rural areas

of the province. The province had more than 5,200 county and township technological development centers and technological service organizations, more than 10,000 village technological service stations, more than 1,500 technological development and service organizations run by a household or several households, and more than 2,500 technological research institutes for the peasants and technological research societies (associations) for the peasants.

Educational undertakings were further developed. In 1988, the province recruited 316 postgraduates, and 927 postgraduates from across the province, (including 25 doctorate postgraduates in study,) an increase of 1.5 percent over the previous year. A total of 382 postgraduates completed their study. Ordinary institutions of higher learning recruited 24,000 regular- and special-course students, and the enrollment in the ordinary institutions of higher learning reached 73,000 students, an increase of 5.5 percent over the previous year; and 21,000 students graduated from these institutions during the year. Adult higher education institutions enrolled 29,000 regular- and special-course students during the year and the enrollment in these institutions reached 75,000 students. The enrollment in various categories of secondary specialized and technical schools reached 133,000 students (including 38,000 technical school students,) an increase of 10,000 students over the previous year. The enrollment in senior vocational and technical schools reached 98,000 students, accounting for 23.2 percent of the enrollment in senior high schools, totaling 422,000 students. The enrollment in adult secondary specialized schools was 72,000 students, and that in adult technical training schools was 1.124 million students. Junior middle schools across the province had an enrollment of 1.93 million students, a drop of 8.1 percent from the previous year. Primary schools had an enrollment of 6.37 million students, an increase of 4.7 percent. The attendance rate of preschool children reached 98.7 percent. Progress was made in preschool education and special education for the mentally retarded and handicapped children. However, the phenomena of primary and middle school students discontinuing their studies emerged in some localities and particularly in the rural areas.

Cultural undertakings were flourishing. In 1988, the province produced 7 feature films and scientific and educational films, produced 23 television films with a total of 61 segments, and released 166 new films of various kinds. The province had 9,549 cinemas and film projection units, 159 performing art troupes, 170 cultural clubs, 114 public libraries, 19 museums, and 204 archives. In addition, there were 66 broadcasting stations and 21 radio transmitting and relay stations. A total of 73.1 percent of the province's population could receive radio programs. There were 30 television broadcasting stations and 529 television transmitting and relay stations. A total of 80.3 percent of the province's population could receive television programs. A total of

720 million copies of 49 papers, 49.156 million copies of 113 magazines, and 94.47 million books of 1,714 categories were published during the year.

### 9. Public Health and Sports

Public health undertakings were further developed and medical and health conditions improved continuously. By the end of 1988, the province had 138,000 hospital beds, an increase of 3.7 percent over the previous year; and 169,000 professional health workers, an increase of 4.3 percent. Of this, doctors numbered 77,000, an increase of 8.6 percent; and 32,000 senior nurses and nurses, an increase of 17 percent. The medical workers upgraded their ability in preventing and curing diseases. Medical and health care work were further strengthened. But, the people in the urban areas still had difficulties in seeing doctors and the rural areas still lacked medicines. New achievements were made in sports undertakings. In 1988 our provincial athletes broke 2 Asian records on 16 occasions and 13 national records on 20 occasions. Twenty one athletes broke 26 provincial records on 34 occasions. During major domestic and foreign sports competitions, we won 67 gold medals, 75 silver medals, and 83 bronze medals. During the 24th Summer Olympic Games, our provincial athletes won 1 silver medal and 3 bronze medals, and also the only plaque for Asian track and field events for our country. Mass sports activities were further popularized. We successively held the first provincial peasant sports meeting and the second provincial youth sports games.

### 10. People's Livelihood

The living standards of most residents throughout the province somewhat improved. In 1988 the total wages of workers and staffers throughout the province reached 10.34 billion yuan, an increase of 25.3 percent over the previous year. The annual average cash wage of workers and staffers was 1,692 yuan an increase of 21.4 percent over the previous year. Based on a sample survey among urban and rural dwellers, the annual average per-capita income for living expenses of residents in cities and towns reached 1,080.5 yuan, an increase of 26.4 percent over the previous year. Adjusted for commodity price rises, the actual increase was 6.8 percent. However, due to various reasons, the actual income of 31.9 percent of residents in cities and towns declined. The income of peasants increased. During the year, the average per-capita net income of peasants was 546.6 yuan, an increase of 23 percent. Adjusted for commodity price rises, the actual increase was 11.3 percent. Of the net income of peasants, the average per-capita net income from production was 491.6 yuan, an increase of 23.9 percent. However, the average per-capita net income of 10 percent of peasant families still remained at 200 yuan or so, indicating that their livelihood was fairly difficult.

We continued to promote the reform of the labor system and to increase labor employment. during the year, we arranged jobs for a total of 450,000 job-seekers in cities

## FINANCE, BANKING

### Report on Serious Tax Evasion Problems 40060315 Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 5, 30 Jan 89 pp 11-12

[Article by Chen Juqi 7115 1446 1142 and Yang Shui-xiao 2799 3055 2699: "The Alarming Loss of Taxes"]

and towns. At year end, the province as a whole had 6.31 million workers, an increase of 223,000 workers over the end of the previous year. We promoted the labor contract system. There were 602,000 contract workers in state-owned enterprises, an increase of 126,000 persons over the end of the previous year. The proportion of contract workers to the total number of workers of the state enterprises rose from 10.2 percent in the previous year to 12.5 percent. There were 209,000 self-employed workers in cities and towns, an increase of 79,000 persons over the end of the previous year. The labor service markets were thrived. By the end of the year, 11 prefectures and cities and 76 counties, cities, and districts opened labor service markets and about 1.029 million persons registered their names for jobs at the labor service markets, of whom 615,000 persons found suitable jobs, accounting for 60 percent of the total number of persons who registered their names for jobs.

The savings deposits of urban and rural residents increased. By the end of the year, the total savings deposits of residents reached 26.2 billion yuan, an increase of 5.35 billion yuan, or 25.7 percent, over the end of the previous year. Of this sum, the total urban savings deposits reached 15.18 billion yuan, an increase of 32.4 percent; and the total rural savings deposits reached 11.02 billion yuan, an increase of 16.4 percent.

The housing conditions of urban and rural residents further improved. During the year, cities and towns built new houses covering a total floor space of 3.052 million square meters, and the rural areas built new houses covering a total floor space of 40.606 million square meters. The average per-capita living space for residents in cities and towns rose from 8.4 square meters in the previous year to 8.8 square meters. The average per-capita living space for peasants rose from 15.6 square meters in the previous year to 16.2 square meters.

During 1988, the provincial social welfare institutes provided for 343,000 persons. About 58,000 elderly, disabled, and orphans who had no other means of support were provided for by the social collectives. Attention was given to providing relief for and helping urban and rural poverty-stricken households. The employment and education conditions for the handicapped people continued to improve. New progress was made in helping the old revolutionary base areas, areas inhabited by minority nationalities, frontier areas, and poor areas to become rich.

### 11. Population

The natural population growth rate dropped slightly. based on a sample survey, the birth rate in 1988 was 20.35 per thousand, and the death rate was 5.5 per thousand. The natural growth rate dropped from 16.5 per thousand in the previous year to 14.85 per thousand. By the end of the year, the province as a whole had 57.95 million persons, an increase of 850,000 persons over the end of the previous year.

[Text] During 10 years of tax system reform, the single tax system has been gradually transformed into a multiple tax system. The mainland's tax collection departments, government revenue, and economic controls have been strengthened. But in the sphere of tax revenues, laws are not obeyed, and when broken are not easily enforced. The situation is quite serious. Some state-run, collective, and privately run enterprises, as well as some individuals, have used every sort of method to pay lower taxes. They have reserved large amounts of state funds as their own. It is shocking to see how widespread the problem, how large the numbers, and how underhanded the methods are.

### Huge Sums of Evaded Taxes

According to conservative estimates by departments concerned (not including taxes exempted and reduced by those overstepping their authority), the sum of taxes evaded in recent years has been equal to the budget deficit. For several years in succession, roughly 4 billion yuan in unpaid taxes and funds for key energy and transportation construction projects have been recovered through major investigations by tax and finance departments. The problem of tax evasion has been concentrated on product taxes, value added taxes, business taxes, and income taxes. Enterprises cheat on roughly 50 percent of their taxes, and individual industrial and commercial entrepreneurs cheat on 80 percent of their taxes, or more.

During the 1988 fourth quarter national invoice investigation, it was discovered that 23 percent of all units using invoices violated regulations governing their use. In this single investigation, more than 100 million yuan in fines and back taxes were raised in 23 provinces, regions and municipalities.

In Liaoning province, in a major tax investigation in 1988, 147 million yuan in back taxes had been recovered through the end of October, of which 65 million were recovered in Shenyang. The tax bureau in Hunan province conducted a special investigation of 67,000 tax payers in 1988 and discovered that 46,000 of them, or 68 percent, had tax evasion problems, and 48 million yuan in unpaid taxes were discovered. The Shanghai tax bureau carried out a special investigation of 105 taxpayers during November and December 1988. Of these, 80 percent had problems, and 8.5 million yuan in back taxes

were recovered. Liaoning Province's Fushun municipality investigated 105 individual industrial and commercial entrepreneurs in 1987, and 92 individuals, or 87.6 percent, were found to have evaded taxes. Out of 100 individual industrial and commercial entrepreneurs investigated in Qingdao, a surprising total of 95 were found to have evaded taxes.

The large sum of taxes evaded, and the underhandedness of the tactics of some enterprises, leave people speechless. Since opening for business in 1986, Liaoning Province Advertising and Consulting Company has falsely reported the proportion of unemployed young people on its payroll, thus obtaining reductions in their taxes. They also collected "commissions" which they never recorded in their books, and evaded paying more than 500,000 yuan in taxes. A certain woolen mill in Shanghai earned more than 2 million yuan from exports. Using the label "export-oriented enterprise profits," it switched the money into a special-purpose fund without recording it simultaneously as part of total factory profits, thus avoiding payment of 1.12 million yuan in income taxes. In 1988, the tax bureau in Sichuan province's Nanchong county carried out a special investigation of the tax payment situation at a silk spinning mill and discovered that the mill inflated its reported production costs, misused income, and made false reports of new products in order to obtain tax reductions and exemptions. The mill also set up separate sets of books for both U.S. dollars and renminbi, and sold off products acquired through compensation trade. The mill evaded payment of 1.28 million yuan in taxes. In Hunan province, Changling Oil Refinery switched from the state-determined price to negotiated prices, and then recorded the price differential as well as taxable income under running accounts, thus evading payment of 6.82 million yuan in taxes. Valve Factory No. 1, in Hunan's Changsha municipality, once at the edge of bankruptcy and dependent on tax breaks from the state for its development, nevertheless racked its brains and hid money away, conducted business that it never recorded on its books, issued bonuses indiscriminately, travelled at public expense, and evaded payment of 460,000 yuan in taxes. In Hubei province, the Laohekou municipality branch of the Machinery and Electrical Equipment Company resold automobiles in Wuhan from November 1987 through March 1988 without approval from the appropriate department in charge of industry and commerce, and without registering with the tax bureau. They sold 3.6 million yuan worth of vehicles, and evaded payment of 400,000 yuan in taxes. In order to protect the interests of their own city, government departments in Laohekou municipality protected the "profiteering officials," and actually ignored the law. The law's upholders were its violators. They ordered the fabrication of a "false civil case," and openly resisted the efforts of justice officials in Wuhan to prosecute this criminal case.

#### **Tax Payment Situation for Companies Dealing With Foreigners Equally Serious**

In November, 1988, Dalian Municipality's tax bureau carried out a special investigation into some enterprises

that have dealings with foreigners and recovered various kinds of back taxes which totalled more than 2.5 million yuan. The import department of Liaoning Province Foreign Trade Company paid 4.05 million German marks to a foreign company for technical documentation, but did not turn over any of the income tax which it had already deducted from its payment to the foreign company. The unpaid taxes that were recovered had an exchange value of 940,000 RMB.

#### **Overstepping Authority To Reduce and Exempt Taxes Is a Serious Problem**

The number of cases of unauthorized tax reductions and exemptions discovered in 1987 was quite shocking, but up to the present, no adequate solution for the problem of unauthorized tax reductions and exemptions has been found. In 1988, a certain city's government formulated a set of 30 policies and regulations governing the development of township enterprises, of which ten were addressed to the problem of unauthorized tax reductions and exemptions.

Among enterprise contracts, a "circulation" tax is becoming more and more common, and is causing people to feel very uneasy. Shandong province's Dezhou municipality, Henan province's Anyang municipality, Shangqiu, Zhumadian, and Zhoukou district have all placed tax collection within the sphere of enterprise contracting. The "circulation" tax has been implemented in the commerce system throughout all of Jilin province. Shanxi province's Taiyuan Steel Factory has also implemented tax farming. A "circulation" tax may cause large quantities of funds which are now within the budget to be transferred outside the budget, thereby directly lowering government revenues, causing the load on various enterprises to become imbalanced, distorting the competition mechanism, and seriously weakening oversight and management of tax collection.

#### **New Taxes Will "Have Trouble Staying on Their Feet"**

"The People's Daily" exposed a case in 1985 in which Beijing, Tianjin, and Sichuan had not "paid a single cent" of bonus taxes. When the regulatory tax on individual income was first levied in 1987, many writers, artists, and famous society figures who receive high, fixed salaries, refused to pay the tax on the grounds that no one had consulted with them in formulating the tax law. The "strength of nine bulls and two tigers" has been expended during the past 2 years, yet the collection and management of regulatory income for individuals leave something to be desired. In 1987, only 31.33 million yuan were collected, and only 95.24 million yuan were collected in 1988. An investigation of the tax base indicates that these figures are far from enough. Tax bureaus at the grass roots level indicate that attempts to collect regulatory income tax for individuals often meet with resistance. In Jilin province's Changchun municipality, a certain Mr Wang had sold a patent right for 600,000 yuan in royalties, 230,000 of which he had



already received in advance, when a tax bureau discovered that the purchaser, a certain unit in Fuzhou, had not deducted regulatory income tax for individuals as regulations required. The tax bureau notified Mr Wang three times that he was to report and pay the tax, but each time met with refusal. Some contractors have their enterprise take responsibility for payment of regulatory income tax for individuals. An investigation by the tax bureau in Liaoning province's Fengcheng county into eight contract enterprises revealed that six of them had this problem, which negated the regulatory function of regulatory income tax for individuals.

#### Incidents of Anti-tax Violence Occur Occasionally

More than 1,800 incidents of anti-tax violence, in which people laid siege to tax bureaus or beat tax service personnel, occurred in 1985. There were more than 2,500 incidents in 1986, and more than 2,400 in 1987. Incidents of anti-tax violence occurred even more frequently in 1988. The statistics of 11 districts alone during the first half of 1988 indicate that more than 700 incidents occurred. 708 people were beaten, of whom 74 received serious injuries.

### CONSTRUCTION

#### Project Suffers From Shortage of Funds, Raw Materials

40060320 Beijing JINGJI RIBAO in Chinese  
30 Jan 89 p 1

[Article by Xu Haifan 1776 3189 1581: "Key State Project Requires Support From Various Quarters; Lunan Cement Plant in a Difficult Situation Due to Lack of Funds and Materials"]

[Text] "The whole nation must guarantee the construction of key state projects." How is this policy, which was first put forth at the start of implementation of the Sixth 5-Year Plan, being carried out now? What this reporter saw and heard recently at the Lunan Cement Plant construction site was disturbing.

Lunan Cement Plant is located in Tengzhou City in Shandong Province. It is a key state project of the Seventh 5-Year Plan, with a budgetary estimate of 396 million yuan. Construction began in April 1987; it is scheduled to go into operation in April 1990, producing 1.3 million tons of high-grade cement annually. Reason would dictate that total investment in key state projects must be brought in line with the plan early and funds allocated every quarter. Actually, each time funds are allocated, they are either insufficient or deferred. By the end of last year, the state's allocation of loans had fallen short of the target by 3 million yuan, while project and equipment funds were 20 million yuan in arrears.

If funds are inadequate, it is necessary to master the skill of "cooking meals without rice." The countermeasure adopted by the comrades of Lunan Cement Plant's

Finance Office is to meet with flattering smiles the rudeness of units which come demanding payment of checks, and to send creditors away by promising that "we will be sure to repay next month." Afterward, they use the same smiles again in going everywhere seeking loans. Temporary loans are easy to obtain but hard to pay back. The state's loan interest is 7.2 percent, with 20 percent penalty interest imposed for late payment. In 1988, Lunan Cement Plant paid over 1 million yuan in late payment interest. Once, when there were really not enough funds to go around, the headquarters of the cement plant project had to borrow 2 million yuan from the Hebei No 4 Construction Corporation, which was responsible for the construction. These were funds with which the No 4 Construction Corporation had itself been preparing to build dormitories, but had temporarily loaned to help meet the emergency. As of late January of this year, Lunan Cement Plant was still more than 40 million yuan in arrears from outside funds for equipment, materials, and engineering. Lack of construction funds is the biggest difficulty faced by the builders.

The second difficulty is the rise in prices of raw materials and equipment. At the end of last year, 1,600 tons of the steel supplied by the annual plan had not yet been delivered. What was to be done? Either halt construction and wait for steel from within the plan, or purchase negotiated price steel. Project headquarters calculated the account: For each day the start of operations was moved up, the output value would be 600,000 yuan and profits would amount to 200,000 yuan. In order to ensure the progress of the project, headquarters was ready to pay double the price for steel.

Equipment price hikes have become even more uncertain. The Equipment Department ordered a piece of equipment from a factory. The price was 75,000 yuan, but it was later raised to 88,000 yuan. Since the degree of the price hike was calculated to be under 20 percent, it was still acceptable, so the two sides signed a supply contract. However, when the delivery date arrived, the factory had not yet delivered, and said that delivery could not be made until an agreement was signed; and the agreement which had to be signed raised the price of the equipment to 114,000 yuan, an obvious overcharge.

From 13 September last year until the end of the year, the supply of cement for construction was interrupted, and no sooner was one ton used up than the next ton had to be sought. As the difficulty increased, and construction could not be halted, the plant had to come up with a solution on its own. Fortunately, some of the cadres in the project headquarters had previously worked in the cement industry. They each gave full play to their abilities and rushed all around, borrowing a little from here and there until they finally managed to meet the needs of construction. When the trucks hauling the cement enter the factory, rather than first going to the warehouse, they go directly to the cement mixing station at the construction site.

Recently, Qin Xiuwei [4440 0208 0251], assistant director of the Lunan Cement Plant project, and the directors of other key state projects went to Beijing to report on their work, and they all sang the same tune. They needed money and the three major materials, coal, electricity, and petroleum products. However, despite their complaints, the directors knew how things stood. The nation's capital construction was being conducted on such a large scale that everywhere there were shortages of funds and the three major materials, and although the state wanted to guarantee the key projects, it was unable to do so.

The builders of key projects are in great need of support from every industry in the nation! Far from halting construction to await materials or refusing to work any longer because of the state's difficulties, they are still confidently struggling to move up the start of operations to October of this year. This will really be a tough job for the builders of the Lunan Cement Plant.

## FOREIGN TRADE, INVESTMENT

**MOFERT Assistant Minister on Export Strategy**  
*40060266b Beijing GUOJI SHANGBAO in Chinese*  
24 Jan 89 p 1

[Article by Xie Hairen 6200 3189 0088: "China Export Bases Development Corporation Sets Out Its Work for This Year; Assistant Minister Liu Yan Calls for Several Marketable Products To Be Developed Annually"]

[Text] On 9-15 January, the China Export Bases Development Corporation held a National Management Conference in Beijing, to summarize the work of 1988 and set out the plans for 1989. At the conference, President Ma Xizhao [7456 6932 3564] presented a summary of the Corporation's work, and Assistant Minister Liu Yan [0491 1484] of the Ministry of Foreign Economic Relations and Trade [MOFERT], addressed those in attendance.

In the 8 years of the Bases Corporation's existence, an excellent foundation has been established. This was especially so in 1988, a year of intensive reform for the foreign trade system. The Bases Corporation strengthened its management, assumed responsibility for exports, and completely developed its management of contracts with a focus on the four objectives of accumulating profits through export, synthesizing profits, supplying goods for export and production investment. More than 30 of the Corporation's branches have implemented the contract responsibility system, while some have put into effect the management responsibility system and management by objectives. The branches at Guangdong, Liaoning, Shanghai, and Henan are also importing competitive mechanisms, making for still greater changes within their enterprises. In 1988, the Bases Corporation successfully completed every contracted project above quota, realizing 58 million yuan in profits, amassing \$25 million via exports.

During the past year, the Bases Corporation did its utmost to be the best it could, opening up funding channels, developing joint ownership, blending ownership with leasing, etc., all obviously of benefit. For example, when domestic enterprises managed jointly owned enterprises, there were instances of profit rates in excess of 10 percent. When bringing in foreign funding to set up enterprises, the Corporation has urged some enterprises to turn gradually toward foreign models: Tianjin's shrimp production, Shenzhen's standard instruments, Shanxi's tourism and shoes, etc., these were all the result of the production forces supplied by Chinese and foreign joint funding, which strengthened the stamina of these enterprises.

After President Ma summarized the past year's work, he set out this year's tasks: to further improve the contract responsibility system; to build on last year's foundation for contracting; to remain in accord with production and management forces and beneficial conditions; to adjust and determine this year's contract base; to import competitive mechanisms; and to improve the composition of labor. The various branch companies, those which report directly to the Corporation, will put into effect the system of management by objectives and the middle-level cadre appointment system. There will also be a push for linking enterprise workers' rate of pay to economic benefits. In order to further develop production and expand the supply of goods for export, there will be the utmost effort to develop high S&T, short route and new model products, thereby developing their own mainstay products. Jointly-owned enterprises now in existence will be strengthened further, as will the management of enterprises that are jointly funded. Overseas enterprises will be run with maximum reliability.

Assistant Minister Liu Yan, when giving his views on companies' other work, stressed that companies should be more realistic in their attempts to maximize their own potential for superiority and in their long-range planning. He expressed the hope that companies will work to develop numerous high tech export products, annually producing several products of stable marketability.

**Record Foreign Currency Earnings From Export Labor in 1988**  
*40060266a Beijing GUOJI SHANGBAO in Chinese*  
24 Jan 89 p 1

[Article by Zai Xiaoxia 6528 2556 7209: "China Sets a New Record for Project Contracts and Labor Cooperation With Foreign Nations; Contracts Worth \$1.8 Billion Signed Last Year, \$1.2 Billion Worth of Business Completed; China International Water and Electric Corporation Heads the List"]

[Text] Reporters have learned from the Foreign Economic Cooperation Department of the Ministry of Foreign Economic Relations and Trade [MOFERT] that 1988 was the best year ever for China's foreign contracts and labor cooperation with foreign nations. In that one

year, the contracts signed totalled \$1.832 billion in value, and \$1.2 billion worth of business was completed, while the number of personnel overseas reached 68,000. These are all new records. According to the Foreign Economic Cooperation Department's statistics, the foreign contracts signed last were divided among the following 10 companies: the China International Water and Electric Corporation, the China National Construction Engineering Corporation, the China Harbors Engineering Corporation, the China Great Wall Industry Corporation, the China Fujian Techno-Economic Cooperation Corporation, the China Shanghai Foreign Economic and Technological Cooperation Corporation, the China Metallurgical Construction Corporation, the China National Complete Plant Export Corporation, the China State Construction Engineering Corporation and the China Wan Bao Engineering Corporation. Of these, all of the contracts signed during the year by the first six companies listed averaged more than \$100 million in value. The China International Water and Electric Corporation's contracts totalled more than \$300 million, placing it in the honored spot on top of the list.

China began contracting for projects and undertaking labor cooperation with foreign nations in 1979. Accompanying the pace of reforms and opening to the outside world, these undertakings gradually began to mature, and have now gone through 10 years of difficult, pioneering work. As of today, there are 84 companies nationwide which have management power in international economic and technological cooperation ventures. By the end of last year, Chinese companies altogether were engaged in more than 6,750 projects involving foreign contracts and labor cooperation, totalling more than \$10.1 billion in value, of which \$5.7 billion worth have been completed. The scope of these ventures extends worldwide, to 118 nations and regions on six continents: Asia, Africa, Latin America, North America, Europe, and Oceania. China has sanctioned the commencement of 553 independently and cooperatively funded overseas enterprises, spread over 79 nations and regions of the world. The majority of these enterprises have earned considerable prestige, and attained improved economic and societal benefits.

The chief characteristics of China's foreign development contract projects and labor cooperation are the following: First, rapid development. The initial stage of establishing Chinese companies was right at the end of the 1970s, a decade favorable for the international contract market. Still, because China started from a low base, the 38 companies involved signed foreign contracts worth only \$689 million. In 1982, the international contract market began a steady decline, and when the volume of business dropped for foreign companies, Chinese companies started to emerge and have developed ever since. Statistics show that for the last seven years the volume of contracts concluded was nearly \$9.4 billion, an average annual increase of more than 15.5 percent. Second, development progressively became more technical and specialized. The route by which Chinese companies were

awarded contracts was by submitting bids, discussing bids or cooperating on contracts with third nations, sharing the contracts, etc. These only needed to be of mutual benefit, without a strict adherence to form. At the outset of starting their businesses Chinese companies concentrated on contracting for housing construction; from there they moved steadily to contracts for developing specialized projects in such areas as metallurgy, mining, geology, machinery, textiles, chemicals, petroleum, harbors, highways, bridges, electrical power, hydroelectric power, marine salvage, marine engineering, aerospace, farming, forestry, animal husbandry, and military construction. As for labor cooperation, this has ranged from employers contracting directly with Chinese companies to assign personnel, to workers who are included as a part of the contracted project. Chinese workers are said to be team players, ready to go to work, of better quality and low cost; therefore they are very competitive in the international labor market. In recent years, in addition to general workers and such tertiary industry personnel as cooks, etc., China has also assigned every sort of technical personnel, dealing with such highly technical areas as computer software, enterprise management and training in the use of equipment. Third, all Chinese companies are economic entities which have sole responsibility for their own profits and losses, their own management and independent accounting systems. For funding, they rely on banks and other funding they raise themselves.

China's contract labor business has from the outset been managed and coordinated by MOFERT.

**Hainan's 1988 Foreign Currency Earnings Double**  
*40060288c Beijing GUOJI SHANGBAO in Chinese*  
31 Jan 89 p 2

[Article by Xing Yiyue 6717 6095 6390: "Last Year's Foreign Currency Earnings in Hainan Increase Two-Fold"]

[Text] Foreign currency earnings in Hainan last reached \$279 million, exceeding the quota and registering a two-fold increase over 1987.

Hainan's foreign currency earnings increased by two-fold last year, primarily because of the active way in which the province implemented concessionary policies and reorganized export enterprises that earn foreign exchange. An especially important factor was that, after becoming a province, Hainan followed a clear-cut policy toward all enterprises within the province (including enterprises from other provinces operating in Hainan), granting all of them power to engage in foreign trade. Export quotas and foreign currency rules were liberalized across the board. The province ceased to require that foreign currency earned through export, and all other legal income, be exchanged; all of these funds were allowed to be kept instead as spot exchange. Secondly, foreign currency regulation was developed and the foreign exchange market was stimulated. Following up on

the establishment in October, 1987 of the Hainan Foreign Exchange Regulatory Center, the Sanya Municipal Foreign Exchange Regulatory Center was established last year. Branch agencies were also set up in various cities and counties, including Wenchang, Zan county, Tongshi, and Qionghai, thus creating a new network of foreign exchange regulatory agencies. Rules were liberalized in these foreign exchange regulatory centers. Enterprises and individuals can all buy and sell foreign currency in these regulatory centers and their branch agencies.

The foreign exchange regulatory centers of Hainan province have actively gone forth to other provinces to organize foreign currency and alleviate shortages and surpluses of foreign currency between different enterprises. They have also strengthened management of foreign currency sources and the investments for which these funds are used. A total of 1006 foreign exchange transactions, with a total value of \$200 million, were completed. This activity played an important role in promoting the circulation of foreign investment, and helped enterprises to engage in export and earn foreign currency.

Last year, Hainan vigorously developed lateral economic ties. The province used abundant natural resources to engage in high added value processing, and to fight its way into the international market. Export products in the past were primarily limited to agricultural sideline products, but have now been expanded to include 10 different categories, and there are 10 or 20 products that have typically Hainan characteristics. The Hong Kong-Macao zone used to be Hainan's only export market, but the province now sells to more than 50 countries and regions, including England, the United States, Germany, France, the USSR, Japan, and Singapore.

**Xiamen Seminar Assesses Progress of Export Processing Zones**  
40060288d Beijing GUOJI SHANGBAO in Chinese  
31 Jan 89 p 2

[Article by Wang Yan 3769 8827 and Chen Guangcong 7115 0342 1783: "International Seminar in Xiamen on Export Processing Yields Substantial Benefits; Export Processing Zones Grow in Number, Competition Grows Intense; Results of Seminar Will Impact Favorably on Development of Many Export Processing Zones Throughout World"]

[Text] In Xiamen, the United Nations Industrial Development Organization [UNIDO] and the Fujian provincial government jointly sponsored the six-day (January 18 to 23) Seminar on the Promotion and Development of Export Processing Zones. Specialists and scholars from 16 different countries and regions, and from China's five special economic zones and 14 open coastal cities, were in attendance. The United States, Austria, Ireland, Bangladesh, India, the Philippines, Sri Lanka, and Yugoslavia were all represented at the seminar. Nearly 100 participants gathered in a single auditorium,

with all freely expounding their own views, exchanging experiences, discussing different development patterns for export processing zones, and planning methods of international, multilateral cooperation. In the closing ceremonies, the seminar's chair group presented a paper in which the initial conclusions and proposals were outlined. After earnest discussion among the seminar participants, it was decided to print the conclusions and suggestions and issue copies to each of the participants, and also distribute copies to export processing zones in each of their countries.

The seminar's concluding report noted that countries throughout the world are presently establishing more and more export processing zones, and the competition is becoming increasingly intense. The keys to development of export processing zones include effective management, the investment climate in the host country, and the level of commercial and financial services available. The size, form, and deciding factors of international investment are undergoing great changes. Because of the increasing use of high-tech electronics, production costs have decreased, and abundant labor supply no longer presents the advantage that it did before. Export processing zones must adopt flexible measures, and allow investors from the host country to invest and set up factories in the processing zones. The development pattern for export processing zones can be oriented toward a single type of product, or it can be oriented toward diversification. There should be no hard and fast rule in this regard. A great degree of diversification cannot be expected too soon after a zone's establishment. This could dilute its strength, and is not necessarily achievable. Development should occur step by step, from low to high. Labor-intensive industries can give way gradually to knowledge and technology-intensive industries. The concluding report also held that the export processing zone is a tool for development of the host country's economy, and should thus be seen as a "window," and not as an "isolated island." Plans for acceleration of the development of export processing zones must be formulated, and must be integrated into the development plans of the host country. With respect to export processing zones' legal and regulatory systems, they must be concise, clear, and readily comprehensible to investors. There should not be too many written regulations, and people should not be made to feel pressured by bureaucratism. In order to establish well-run export processing zones, and to strengthen communication and coordination between processing zones, it is imperative that experience be exchanged. Various export processing zones could exchange data and information, and organize mutual observation and study activities, in order to avoid unnecessary, harmful competition. The report also proposed that UNIDO play an important role in the organization of mutual observation and study activities, as well as in the exchange of information and training of processing zone management personnel. The hope was also expressed that more localities might receive guidance and assistance in this area.

The director general of UNIDO, Yaliqi [7161 0448 1142], said to reporters: "This is my first visit to Xiamen. I have toured two factories, and I had no idea that Xiamen had such large-scale, modern electronics factories. The development prospects for the Xiamen Special Economic Zone will far surpass the expectations of the people of Xiamen. I have a reason for saying this. Xiamen is in a very favorable geographic position, has a very rational industrial structure, has relatively highly educated management and labor, and it has relatively complete infrastructure and abundant sources of raw materials. When you've satisfied these conditions, what else do you need to establish a special economic zone, or an export processing zone?" He also said, "It is completely possible that Xiamen may develop into a diversified, relatively high-tech special economic zone."

**Bank Places Priority on Supporting Foreign Trade**  
*40060288a Beijing GUOJI SHANGBAO in Chinese*  
*2 Feb 89 p 1*

[Guoji Shangbao Dispatch from Zhu Weihua 2612 4850 5478: "Bank of China Continues To Place Top Priority on Supporting Exports; Further Improves and Adjusts Credit Supply System"]

[Text] This reporter has learned from the Bank of China that, in the midst of the tight money policies of 1989, it will continue to give especially strong support to foreign currency-earning exports.

During last year's serious shortage of renminbi funds, the Bank of China clearly targeted enterprises engaged in import and export to receive most of its loans and support. It especially singled out foreign trade enterprises with high economic returns and high foreign currency earnings for support. Of the Bank of China's loans to the foreign trade sector, 83.7 percent were used to support the renminbi operating funds of enterprises engaged in foreign trade. In order to improve China's export product mix, and to encourage and develop the export of machinery and electronics, the Bank of China last year devised a priority scheme for loans to medium and long-term exporting firms. Out of 780 million yuan in new renminbi loans, 77 percent went for machinery and electronics, and 23 percent went for ships. This provided support for exports of China's textile machinery, power plant facilities, and ships. Repayment of these loans was better than it had been in previous years.

In the area of settlement of export accounts, the Bank of China carried out an earnest investigation to find out the principal causes of slow conversion of foreign currency in export transactions. The bank formulated concrete measures to accelerate collection of foreign currency, and achieve a real improvement in service. The current waiting period for settlement of foreign currency accounts involving overseas exports is 8 to 10 days shorter than before. The speed at which foreign currency

accounts are settled by the bank's branches in the port cities of Shanghai, Tianjin, Shenzhen, and Xiamen is now on a par with that of foreign banks.

In order to assure the continued stable growth rate of export trade, the Bank of China will further improve, adjust, and strengthen the supply of credit to exporting firms. The first issue regards who will receive funds. They must be used in such a way as to adjust the export product mix and increase foreign currency earnings. The second issue is, how to manage credit so as to spur exporting enterprises to make the most efficient use their foreign currency, improve management techniques, and truly get the maximum possible benefit out of a limited quantity of funds. With regard to demand for funds in the export sector, the bank will implement a program in which good recipients will be distinguished from less desirable ones. Priority will be given to exports of products included in the state plan, and export products which have shown good economic returns will be actively supported. Loans will not be offered for export of products which have not shown good economic returns. Loans will not be available for export activities which do not meet government regulations or include price manipulation and speculative buying, and these phenomena will be subject to oversight. In short, we must adhere strictly to the state's guidelines for export product mix in allocating credit, and make the nation's merchandise inventory more rational by adjusting the credit structure.

At the same that we give special support to foreign currency-earning exports, we must actively support economically efficient manufacturing enterprises which engage in export of industrial, technological, agricultural, and military products. With regard to the allocation of funds, we must maintain a proper balance between loans to trading enterprises, to enterprises which provide services to foreigners, and to other enterprises. In principle, loans to trading enterprises should not account for less than 80 percent.

With regard to settlement of international accounts, we must accelerate collection on export proceeds and conversion of foreign currency. We must encourage such business practices as conversion of foreign exchange within a specified time frame, and the use of export documentary bills, long term acceptance, and other types of services. We must strictly honor international precedent in order to preserve the good name of the Bank of China abroad.

## ECONOMIC ZONES

**Shenzhen's Social Insurance Problems**  
*40060263b Shenzhen SHENZHEN TEQU BAO*  
*in Chinese 10 Jan 89 p 7*

[Article by Yan Youguo 3009 0645 0248 and Zhang Xian 1728 1720 of the Shenzhen City Committee Policy Research Office: "A Look at Shenzhen Special Economic Zone's Social Insurance Problems"]

[Text] Social insurance is an important societal guarantee system whereby workers are guaranteed they can maintain their material livelihood if they lose their

ability to work, and it is also an important measure that must be matched with deepening economic reforms and the development of a commodity economy. Shenzhen's social insurance began in 1982 and following are described the several programs which have been established to date:

#### *Contracted Laborers Social Labor Insurance*

By the end of last July 1877 units and 31577 people had joined, practically all the contract system workers participated in this program and accumulated planned capital totaled 50 million yuan.

#### *People's Ownership System Retirement Fund Plan*

By the end of July of last year 1466 units and 58176 people were participating and payments for retirement expenses totaled more than 10 million yuan, and accumulated planned capital totaled 50 million yuan.

#### *Temporary Worker Social Insurance*

By the end of July of last year 1085 units and 30841 people had joined, there were over 1 million yuan of expense insurance capital, and accumulated temporary workers social insurance funds of over 10 million yuan.

#### *Retirement Fund Plan for Collectively Owned Work Units Above the District and County Level*

By the end of July of last year there were 128 units and 2467 people participating in the whole city, payments for retirement expenses were over 900,000 yuan, accumulated retirement planned capital totalled more than 300,000 yuan.

#### **Workers Unemployment Insurance**

By the end of last year there were 2018 units and more than 120,000 people participating in this insurance program, over 3 million yuan of unemployment insurance capital had been collected, 904 people registered at the unemployment registration office, and 333 of those unemployed received over 130,000 yuan of relief funds and accumulated unemployment funds approached 3 million yuan.

Presently almost all of the permanent workers, contract laborers, temporary workers, and workers in collectively owned units in the special economic zone [SEZ] are covered by social insurance, workers' social insurance has been realized, and a good foundation has been set for establishing a social insurance system for the SEZ, which has had a definite stimulating effect on the open policies, economic construction, and societal stability.

The reform of the social insurance system in the Shenzhen SEZ must match the labor system reforms and must fit the economic structural reforms and the conditions of the development of the societal economy, and look out for the welfare of the country, the collective and individuals. The support and coordination of government departments and enterprises must be actively sought; the overall plan must be set and then implemented methodically.

#### **Problems That Currently Exist**

##### *The Base Rate Problem for Retirement Expenses*

Retirement expense base rates in Shenzhen are calculated according to the work grade of the worker upon retirement (actually, it is from the wages from files prior to 1983), and added to that is the grade wage standards for the city and state government departments. As enterprise wages and government wages gradually grew apart, the government eventually stopped arranging for wage increases. Therefore this method was no longer appropriate for the situation, there were many complaints from all sides, requesting that the government departments quickly come up with a more rational calculation method.

##### *Collection Problems for Insurance Funds*

The method that is used now to collect social insurance funds is a partial capital accumulation method which, according to the principle of "payment according to collection," requires that a certain amount of reserves be set aside in order to assure that a certain segment of payment needs will be satisfied. For old age insurance, the enterprise pays 17 percent of the total of the worker's income, and the worker himself pays 2 percent of his total income. The procedure for this collection method is complicated, it involves a lot of work, and it cannot keep up with the ever-growing needs of Shenzhen's workforce, so it must be reformed.

##### *The Problem of the Rising Value of Insurance Funds*

According to existing regulations, social insurance funds must be saved in the bank, and earmarked for that purpose. The workers' insurance fund for Shenzhen City already amounts to over 70 million yuan. However, since the fluctuation in Shenzhen's commodity prices has greatly exceeded that of the bank's interest rates, over the years the social insurance fund has actually been continuously losing value. If we calculated according to the 20 percent increase last year in the city's retail commodity price index, then this 70 million yuan of social insurance funds is actually worth only 7.7 million yuan, so the rate of value loss is greater than 11 percent. If this situation is not corrected, and as the accumulation of social insurance funds grows, the losses will be even greater, and eventually this will have a negative effect on the livelihood of retired workers.

### *The Problem of Legal Stature of Social Insurance*

Social insurance is different from other kinds of insurance. It is compulsory. If you enter any work unit that subscribes to social insurance you must participate, and moreover you must pay in accordance with the regulations and enjoy the compensation from the social insurance program. So, social insurance should have a clearly defined legal status, and should strictly adhere to legal procedures. But at this time Shenzhen still does not have a complete set of legal regulations, but has only set a few temporary rules or experimental methods. In the implementation, a minority of enterprises find excuses not to participate in social insurance, and some enterprises and individuals do not make timely social insurance payments. Therefore, the legal problems of social insurance should be quickly resolved.

### **Several Recommendations**

Reforming and perfecting the social insurance system is a systematic process that impacts on many government departments and on many aspects of system reform, so leadership must be strengthened and comprehensively coordinated.

*Recommendation: Form a Shenzhen City Social Insurance Committee.* For now we could form a social insurance system reform leadership small group that would be composed of a deputy mayor and representatives from labor, personnel, civil administration, sanitation, finance, banks, union and the structural reform office, and the committee would work on smoothing out the relationship between departments and promote smooth implementation of social insurance reforms. When the conditions are ripe, it should gradually assume committee status, the position of the insurance committee should be firmly set and the members professionalized.

*Set regulations for a Unified Old Age Insurance System for the whole city, making it so different workers enjoy the same old age insurance benefits.* At this time there are four types of employees in Shenzhen: Workers under ownership by the whole people, permanent workers under collective ownership, workers under the contract system and temporary workers. The old age insurance methods used for these four types of workers are all different and the benefits are different, which is not conducive to orderly labor force movement, nor to the management of society. We should quickly set regulations for a unified old age insurance method for the whole city to bring together and unify these different methods, thereby facilitating the deepening and perfecting of Shenzhen's social labor insurance system reforms.

*Establish Insurance Fund Management Committee to manage and use the social insurance funds wisely.* The Insurance Fund Management Committee could be composed of representatives from the Labor Bureau, the Finance Bureau, the unions and workers' insurance companies, and finance and investment experts could be hired as well. The city

government would have authority to supervise and determine investment management uses of the social insurance funds. Prior to this, we could consider establishing an investment development office in the labor insurance companies and hire financial investment experts to direct investment management. Investments must be made according to two principles of safety and effectiveness, seeking increased value and avoiding risky investments.

*Improve Collection Methods and Measures for Insurance Funds.* We believe that we can make use of the experience of developed countries, gradually implementing a taxation method of insurance fund collection, setting up a new type of tax that would be allocated for this purpose, and would be mandatory. This would be beneficial for management of collection and would also avoid the phenomenon where some work units are not making timely payments to the insurance fund.

*Establish industrial responsibility accident insurance and reform the medical insurance system.* Industrial accident responsibility insurance is a system whereby workers who, in the course of their work, are hurt and partially or completely disabled, receive a certain amount of compensation after they die, and this is good for assuring the welfare of employees, encourages enterprises to manufacture safely, and it should be rapidly implemented. Reforming the health insurance system and implementing a unified plan for the health care of the whole society should be an important goal for our city's process of reforming and perfecting the social insurance system during the Seventh 5-Year period.

*Strengthen the legal status and turn social insurance into a legal institution.* We should quickly set forth a set of regional social insurance laws that are appropriate for the situation in the SEZ, should clearly stipulate the scope of participation in social insurance, the rights and duties, the subordinate relationship of the social insurance structure and the line of authority for management duties, which will gradually make social insurance into a legal institution. Right now we need to set forth legal regulations such as "Shenzhen Workers Old Age Insurance Rules" and "Workers Accident Insurance Interim Regulations."

## **INDUSTRY**

### **Upgraded Technology Improves Textile Production**

40060265b Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 21 Jan 89 p 3

[Article: "S&T Reform Is Closely Integrated With Production; China Has Outstanding Success in Using S&T Results in Textile Production; 80 Percent of S&T Achievements in 1988 Were Transformed Into Production Capacity"]

[Text] ZHONGGUO FANGZHIBAO has reported that China's textile S&T work in 1988 was closely focused on the general aim of developing the textile industry, S&T reform continued to be thoroughly carried out and oriented toward production, vast numbers of scientists

and technicians were organized to tackle key S&T problems and develop new products, and encouraging results were achieved. An appraisal of projects that achieved S&T results shows that the most outstanding characteristic of most of them was that S&T achievements were closely integrated with and used in production and outstanding economic results were achieved. Of the 75 projects that were appraised by the Ministry of Textile Industry in 1988, 56, or 80 percent, transformed their S&T achievements into production capacity.

A number of successfully developed new machines have been put into mass production and their technical performance is satisfactory. For instance, 50 percent of the LHMSV plain weave printing machines that are manufactured by the Zhengzhou Textile Mill and the Swiss Busai Corp are being made in China and used in various color processes for items, such as pure cotton, silk, chemical fiber, and blended machine-made fabrics, knitted fabrics, sheets, and decorative cloth. The FA506, FA508, and FA509 spinning frames that are manufactured by the Jingwei and Shanghai No 2 textile machine plants have advantages, such as being very narrow in width, using microcontrol to set doffer length and technical parameters, being highly computerized, having sublevel erection, saving labor, and being low-noise. These ideal spinning frames are used to spin pure cotton and 60-65 mm pure chemical fiber or blended fabrics.

Industrial pilot projects, such as the one for cation-modified polyester fibers that was completed by the Tianjin Chemical Fiber Institute, have achieved good economic and social results. These highly water-absorbent polyester fiber products are up to international standards, and the polyester fiber thin silk products that are produced by the Zhenya Co in Suzhou have become outer summer clothing materials that cannot meet demands. All of the cotton-spinning technical processes that were used in pilot projects by the Shanghai No 12 and Wuxi No 1 cotton mills have been verified and some of China's new cotton-spinning equipment is up to world standards of the late 1970s and early 1980s. These pilot projects have provided the basis for popularizing and using China's latest cotton-spinning equipment. The multifunctional electronic yarn pickers that were used in pilot projects by the Jiangning Machine Plant and the Changzhou No 2 Electronic Instrument Plant are fully functional, perform stably and reliably, can be used with imported, fully automated winders, are up to 1980s standards for similar products, and have made it possible for China to widely popularize and use yarn pickers that are made in China.

In 1988, textile experts and evaluation committees gave ministry-level S&T progress awards to 38 projects, of which 4 received second prizes, 21 received third prizes, and 13 received commendations.

The "PBT fiber" project that won a second prize for S&T progress in 1988 was carried out by the Shanghai Synthetic Fiber Research Institute, which set up a micro-tome unit with a production capacity of 200 tons a year.

PBT is a new fiber that was developed first by countries, such as the U.S. and Japan, in the late 1970s. It is very resilient (more than nylon and second to anlon), can partially replace anlon in the manufacture of spun resilient fabrics, and is cheaper than anlon. Fabrics made of PBT fiber have been well-received by the masses and some of them have entered the international market and achieved outstanding economic and social results.

The 38 award-winning projects achieved the following economic results. They earned an output value of 265 million yuan a year, paid profit taxes of 27,620,000 yuan a year, saved \$43.8 million in foreign exchange, raised labor productivity, improved working conditions, saved raw and processed materials, and lowered production costs.

#### **Light, Textile Industries Examined**

*40060265a Beijing RENMIN RIBAO OVERSEAS  
EDITION in Chinese 21 Jan 89 p 3*

[Article by Peng Jialing 1756 0857 7117: "A Look at China's Light and Textile Industry Markets"]

[Text] Since the last half of 1988, China has been regulating its economy by trying to slow down its overheated industrial growth rate and reduce its investment in fixed assets. Moreover, it has proposed to supply goods more effectively, mainly by ensuring the production and supply of light and textile industry products, such as agricultural sideline products and daily necessities.

A meeting of the State Planning Commission that was held at the end of 1988 set China's 1989 industrial growth rate at 8 percent and its light and textile industry growth rates at 10 percent, and chose light industry, which produces 80 percent of its consumer goods, as the sector to be given key support in China's 1989 industrial development. Prior to this meeting, Zhao Ziyang issued the following written instructions on light industry: "In regulating the economy, increasing the effective supply of goods on the light industry market will be a major way to control the economic climate."

The attention that China's government is paying to increasing the effective supply of goods on the light industry market is based on much consideration. Since 1988, some cities have experienced a wave of panic buying focused on daily necessities, such as paper, sugar, salt, soap, matches, and cotton shirts and pants, and even on durable consumer goods, such as refrigerators and color TVs. Some residents have begun to complain about this.

At this crucial point in China's reforms, ensuring an effective supply of goods on the light industry market and guaranteeing people's daily necessities must be made the major order of the day.



In the past decade of reform and opening up to the outside world, China's economy has been invigorated, its markets have been brisk, and its supply of daily consumer goods has become increasingly plentiful. People have generally found that it has become much easier to buy things. But certain irrational economic relations, and the irrational prices of some commodities in particular, have made the production of daily consumer goods, and certain daily small commodities in particular, difficult, impossible, or even a losing proposition. Statistics from the Ministry of Light Industry show that from January to October 1988, over 7,300 of its over 40,000 budgeted enterprises, or 15.7 percent and almost 20 percent more than in 1987, incurred losses amounting to more than 900 million yuan. The textile industry also had a high percentage of losses. This has severely dampened the production initiative of enterprises, which have also run out of raw and processed materials and found it hard to continue production.

What will happen in 1989? Let us take a look at the market supply. In 1988, the light and textile industries continued to grow steadily. Light industry's estimated 1988 gross value of industrial output [GVIO] was 215 billion yuan, or about 16 percent more than in 1987. In 1988, crude salt output topped 21.5 million tons for a new record, refrigerator output rose 80-90 percent, and the output of electric fans, beer, and canned food also rose considerably. The textile industry's estimated 1988 GVIO was 130 billion yuan, or 7 percent more than in 1987.

But relevant statistics show that 1988's total volume of retail sales of social commodities was more than 740 billion yuan, or 27.8 percent more than in 1987, which was a drain on production and reserves. Moreover, 1988's estimated social surplus buying power was 520 billion yuan, or 23.8 percent more than in 1987. These two figures were far higher than 1988's light and textile industry GVIO growth rates and made it hard for supply to satisfy demand.

Thus, the Ministry of Light Industry has pointed out the need to increase the quantity and improve the quality of marketable products and to develop new and new varieties of marketable products. Light industry production will maintain a fixed growth rate in 1989. Moreover, it was further clarified at a national meeting of the heads of light industry departments and bureaus that was held at the end of 1988 that there will be some differences in 1989's light industry production rates within the Ministry of Light Industry. Some production rates will be maintained, some cut down, some speeded up, and some slowed down, with surpluses being cut down and shortages being supplemented. A "green light" will be given to enable production of people's daily necessities and products that are in short supply to develop freely. A "red light" will be given to limit production of products that consume a lot of energy, grain, and foreign exchange and ones for which there is not a large market demand. A "yellow light" will be given to maintain production of

certain other ordinary products. This is what the Ministry of Light Industry calls its new "graded policy" to increase 1989's effective market supply.

The products that will be given the "green light" are people's daily necessities and ones that are in short supply. Some of these, such as paper, salt, sugar, soap, iron pots, agricultural plastic film, aluminum products, and glass bottles, will have increased output and somewhat increased production capacity. Others, such as matches and monosodium glutamate, will have somewhat increased output but not increased production capacity. Still others that withdraw a lot of currency from circulation are mainly high-quality refrigerators, famous brand bicycles, high-quality pianos, famous brand and high-quality liquors, high-grade cigarettes, and other products with a high added value.

Products that will be given the "red light" include mainly air conditioners, products with disposable packaging (easy-open cans), low-grade distilled spirits with a high alcohol content, and aluminum doors and windows.

Products that will be given the "yellow light" include bicycles, watches, and sewing machines. Based on controlling their output, their management will be deregulated, enabling the distance between their grades to be widened, their variety of designs, sizes, and colors to be increased, the best to succeed, and the worst to be eliminated.

Moreover, the "graded policy" also includes emphasizing development of raw and processed materials production. Development of salt, plastics, and daily necessities processing industries will be speeded up, the six major structures of investment, production, import-export, consumption, enterprise organization, and regional distribution will be reorganized, and a comprehensive graded policy focused on increasing effective supply will be carried out.

Relevant State Council departments have decided to take a series of steps to support light industry in various areas, such as investment, raw and processed materials supply, power, and transportation.

The textile industry's major task in 1989 will be to strive to ensure the prosperity and stability of the domestic market. Ms. Wu Wenying [0702 2429 5391], minister of the Ministry of Textile Industry, said that limited raw materials must be used mainly by enterprises that have good economic results and for production of products that are in short supply and great demand on the market. She said that stocks of people's daily necessities, and products, such as cotton shirts and pants, T-shirts, vests, plain white cloth, and bed sheets in particular, must not be allowed to run out and that export of products that are in short supply must be subordinate to sale on the domestic market.

Cotton textile development in 1989 must be focused on marketable thin fabrics, yarn sizes must be increased, and textiles made of diversified blended and interwoven fibers must be developed. Moreover, development of noncotton fibers, such as limonene hemp and rabbit fur, and limonene hemp in particular, must be speeded up and efforts must be made to bring out a number of new products that appeal to consumers by the summer of 1989.

Yes, China's economy has certainly run into some outstanding difficulties and the government has advised the populace that 2 years of shortages are coming. But although China is regulating and reducing its economic growth rate, it is still paying attention to fulfilling the people's daily needs. It is predicted that China's economy will improve somewhat and the national livelihood will not suffer much in the next 2 years.

## TRANSPORTATION

**Fuzhou's Mawei Commercial Port**  
40060286a Beijing *RENMIN RIBAO OVERSEAS*  
*EDITION in Chinese* 2 Feb 89 p 3

[By Luo Shengfu 5012 5116 1381]

[Text] Fuzhou was opened to foreign contact in 1979, and in 1984 was included among the 14 coastal port cities in China to be further opened up to foreign contact. In order to meet the needs of opening up to foreign contact, the city has utilized various methods to raise capital, including receiving investments from the national government, taking out bank loans, tapping local funds, and issuing bonds. This money has been used to carry out infrastructural development focused on the needs of transportation, energy, communications, and various uses by the municipal government.

The port of Mawei has a long history of international commercial activity. It has been dredged and beautified. Three 10,000-ton berths for containers, grains, and coal ash have been constructed. A pier with one 7,500 ton berth for passenger service has also been built, and already runs to Shanghai, Xiamen, Shantou, Guangzhou, and Hong Kong. Freighters from this port can sail to all port cities in China, and carry freight to or from 70 different countries and regions.

After expansion of the civilian airport, the principal runway is now 2,400 meters long, and can accommodate takeoffs and landings by such large-size passenger aircraft as the Trident and the Boeing 737. It has already opened up service to Beijing, Tianjin, Shanghai, Guangzhou, Hong Kong, Xian, and Shenyang.

As for transportation to the city, the 22 kilometer road from Mawei Port into the city has been improved to a class one highway. A total of nine primary roads have been improved or newly built, including Road No. 61,

Hualin Road, Jiangbin Road, Guohuo Road, Gongye Road, and Cangqian Road. Two flyovers and a circular pedestrian bridge have also been built.

Some 1.3 billion yuan have been invested in a coal and/or oil-fired power plant. The installed capacity will reach 1.4 million kilowatts. The first stage of construction has already been completed and now produces 700 kilowatts. A newly built oil gasification plant already supplies gas to 23,000 residences. A project to supply 300,000 cubic meters of gas, with a total investment of 143 million yuan, has already entered the construction and installation stage. 34.12 million yuan worth, or 23.8 percent of the total investment, has already been completed. It is forecast that it will begin to supply gas in 1990.

Daily water supply in 1983 was 250,000 tons. By expanding the existing water plants and building the new Southeast District Water Plant, which has a daily capacity of 150,000 tons, the daily water supply capacity has been raised to 475,000 tons, which is an increase of nearly 100 percent over five years. New water mains laid and old ones repaired totalled 120 kilometers in length.

In the area of telecommunications, since the import of a computer-controlled switchboard system in 1982, efficiency has risen dramatically every year. The automatization and semi-automatization of international, inter-provincial, and intraprovincial telephone connections has been achieved. Direct dial connections to 18 countries and regions are now in place, including Japan, the U.S., Western Europe, Singapore, Australia and Canada. The Municipal Telecommunications Bureau now processes telegraphs more than 20 times faster since their successful development of an automated telegraph relay system.

Since 1984, various kinds of buildings, with a total of one million to 1.2 million square meters of floor space, have been constructed every year. Ten or twenty well-appointed buildings have been built which can provide high and medium-class hotel accommodations to guests from Hong Kong, Macao, Taiwan, and abroad. These include the Minjiang Hotel, the Foreign Trade Center Hotel, the Haishan Guesthouse, the Yushan Guesthouse, the Hot Springs House, and the West Lake Hotel. Some of the older sections of the town have been renovated, and the living conditions of all residents have been improved.

## AGRICULTURE

**Shaanxi Fertilizer Plants Halt Production**  
40060383d Beijing *NONGMIN RIBAO in Chinese*  
1 Feb 89 p 1

[Summary] In 1988 Shaanxi Province produced over 1.8 million tons of chemical fertilizer for the first time. However, as of 5 January, nearly two-thirds of the small chemical fertilizer plants in Shaanxi stopped production,

and the average daily output of fertilizer has dropped from over 1,400 tons in 1988 to about 550 tons. Plants have stopped production because of insufficient power and funds, and transportation difficulties.

### Cause of 'Cocoon War' Analyzed

40060313a Beijing JINGJI RIBAO in Chinese  
1 Feb 89 p 2

[Article by Fu Changyan 0265 6134 5888: "The 'Cocoon War' in Retrospect"]

[Text] A couplet describes the cartloads of cocoons, the laughter, the sneer, and the bickering over the price of cocoon during the cocoon war of 1988. People criticize the cocoon war which everybody cursed, hated, and took part in. A county chief once told me, "The 1988 cocoon war in essence was a contest between policy and countermeasure. It was a contest between administrative measures and the law of value. And the outcome is, policy and administrative measures have lost." This comment makes sense, but it is not the whole story, because the State Council's "Emergency Notice" issued on 22 September nevertheless halted the war, but this year's spring cocoon procurement season is approaching, and many comrades feel that the threat of war lingers. To make sure it does not happen again, and to nip the evil in the bud, I want to look back at last year's "cocoon war" with respect to four areas, based on my own experience in this field.

#### I. On Supply and Demand

As we all know, silk is the only product in which China has a monopoly in the international market. China produces more than 70 percent of the 50,000 tons of raw silk in the world. China exports more than 90 percent of the 10,000 tons of raw silk in the world market, and China exports 50 percent of the silk and satin in the world market today. Meanwhile, it has been predicted that in the next 2 years, international market demand for silk will rise steadily, at a rate of about 3 percent a year. Basically, the supply and demand of raw silk in the international market is balanced and the supply and demand relationship is stable, and we do not expect any "sharp rises or sharp falls" in the next few years. I personally feel that there are two ways to look at a supply-demand relationship: One is the relationship between the raw material and production, and the other is the relationship between production and consumption. The latter is more important, because the purpose of production is consumption. In 1987, China produced 7.07 million dan of silkworm cocoons; the silk reeling capacity was 1.57 million threads which would require more than 8 million dan of cocoons. Jiangsu produces 1.5 million dan of cocoons each year, but the reeling capacity demands more than 2 million dan each year. This reflects the underlying conflict between the supply of raw material and demand of production which caused the "war." But more than 85 percent of the silk products are export-oriented, and the quantity and price are

subject to international market conditions, and therefore what really reflects supply and demand is the relationship between demand in the international market and China's supply. At present, China's supply is increasing at a rate of 500,000 dan of cocoons (about 2,500 tons of raw silk) per year, and if the supply-demand balance in the international market should change, we could be "stuck" with the cocoons and the silk. For this reason, the development of cocoon production must be planned and based on the forecast of international demand to avoid rushing headlong and expanding too fast.

#### II. On Prices

In the past, like other agricultural sideline products, cocoon prices have tended to be too low. Despite some adjustments last year, the price of cocoon has gone haywire in the cocoon war. The price was as high as 1,000 yuan a dan. I think the price of cocoon is completely distorted and no longer complies with the law of value. Today, cocoons are not priced according to the amount of society's necessary labor. Why has the price of cocoon lost control this year? One of the main reasons is many people have misunderstood the effect of a change in international market prices on domestic prices. It is true that last year's export price of raw silk has been adjusted several times: from \$26,000 per ton at the beginning of the year to \$48,000 per ton today. We also read in the newspaper that in some countries, somewhere, raw silk prices have risen to \$50,000 or \$60,000. People figure, at \$40,000 a ton and at a regulated exchange rate of 1:6.5, each ton of silk will fetch 260,000 RMB, and this should convert to more than 1,000 yuan for each dan of cocoons, and many people began to have doubts about the present cocoon price. Little do they know that in foreign trade, renminbi is collected based on the current exchange rate, and clearly, using this method to forecast cocoon prices is wrong. Another important point is that the export price of raw silk can be raised only gradually; it cannot be raised too much, too soon. There can be two consequences if prices are too high: first, we might lose the market. If prices are too high, the silk factories cannot make a profit, and they will be forced to turn to other forms of production, cutting back on imports from China. At present, more than 85 percent of the silk China exports is plain, undyed silk; dyed and printed silk accounts for only about 5 percent. If, one day, the quality of China's silk should come close to or match international standards, then we can export less raw silk. Second, if the price of raw silk is too high, it will give rise to more competitors. Other countries which have the ability to raise silkworms will soon produce more cocoons too, and this may weaken or damage our present monopolistic position. In 1973, we attempted to raise the export price of raw silk from \$20,000 a ton to \$8,000 a ton all at once. It could not be sustained, and prices soon tumbled. What is the viable price of cocoon? I suggest we go by the price ratio between grain and cocoon. The price of cocoon should follow the price of grain; the adjustment of one should lead to the adjustment of the other. The grain-cocoon

price ratio should be around 1:15. This means the price of cocoon should be around 450-480 yuan per dan (median price.) I conducted an investigation on my own and found that if the grain-cocoon price ratio drops to 1:13, cocoon production will shrink; at 1:14, the supply is steady, and at 1:15, we will see steady growth. If we set the price too high, it will over-stimulate the peasants, and if everybody plants mulberry bushes, first, the state's policy cannot tolerate this, and too many cocoons will only destabilize international prices and cause them to tumble, and we will be stuck with the cocoons and the silk, and then the peasants will want to get rid of their mulberry bushes, and at the end, the silkworm industry loses. Many silkworm raisers believe that keeping cocoon price at this level is fine, but they demand stability. What worries them most is excess price fluctuations.

#### On the System

This year's foreign trade reform has initiated a regional contracting system. This in itself is a good thing, because it promotes the development of the export-oriented economy. But because each level and region gets a cut of the contract before it gets to the grass-roots level, and since the external conditions and complementary methods have not been established or perfected, new problems have been created. To fulfill a quota, the first thing we need to consider is the resources, because losing the resources is losing the foreign exchange, and if we have resources in hand, we have foreign exchange in hand. To make sure that we do not lose the resources, the best way is to watch the prices, especially along the borders—if we are not careful, war can break out. And it is for this very reason that there is regional separatism. Every locality wants to do things its way without considering the interests of the country or the situation as a whole, and this has led to the loss of macroeconomic control. Some people say that the cocoon war in fact was a war among the provincial governors, the mayors, and the county executives. Because of the misconduct of the government, the planned allocation and transfer were ignored, prices were raised in an uproar, and panic buying of cocoons was started. In the tangled warfare, each accused the other of raising prices. In this kind of total absence of law and order, war is inevitable.

#### IV. On the "Dualities"

At present, in the foreign trade system, objectively, there are two markets, two price systems, and two exchange rates (some say there are three or more exchange rates.) This is the ultimate hidden cause of the "cocoon war." In recent years, the tighter we try to control things the more grey market goods have surfaced, why? Why has the market price of raw silk continue to climb? Why are the provinces and cities so eager to go to the special economic zones [SEZs] to open factories and companies? How do the SEZs which produce no cocoons, no silk, and no satin manage to get so many export permits each year? Primarily because the policies are wrong, and this

has prevented the SEZs and the interior from competing on equal footing. When the SEZ exports a ton of raw silk, it basically keeps all the foreign exchange it earns. In the interior provinces, 75 percent of the foreign exchange must be turned over to the central government, and only 25 percent is kept by the localities. There is a four-time difference between the two. If we figure that each U.S. dollar fetches 6.5 yuan as regulated and each ton of raw silk exported by the SEZ sells for \$40,000, it earns 260,000 RMB, and even at higher cocoon prices, the SEZ can afford it, and many have profited by this, and if the interior provinces cannot afford it, it only gives people the impression that raising the price of cocoon can guarantee that the resources will not drain, and as for absorbing those prices, as long as they can go to the SEZs, the problem is solved. This is why domestic market price of raw silk rose from 90,000 yuan a ton to 210,000-220,000 yuan a ton in October of 1987. Because of surging raw silk prices, a rise in cocoon price is inevitable. Without the psychological constraint, "war" is inevitable.

My focus on the above four areas in analyzing the cause of war of course is not exhaustive, but if the above four problems are better handled, together with the right administrative measures at the macroeconomic level, and as the reform becomes more thorough, and with a complete set of policies, especially if we "improve and rectify" with diligence, I believe that war can be prevented this year, and the cocoon, silk, and satin businesses will be on their way to a healthy development.

#### Institute Outlines Policies To Promote Stable Agricultural Growth

40060281 Beijing JINGJI CANKAO in Chinese  
23 Jan 89 p 4

[Article by Chen Xiwen 7115 6932 2429, of the State Council Agricultural Research Center's Development Research Institute: "Some Fundamental Policies for Achieving Stable Agricultural Growth"]

[Text] In a major developing country like China agricultural results absolutely cannot be judged by direct economic returns alone. This is because agriculture not only plays a role in safeguarding our standard of living, it is also responsible for accumulating funds for industrialization and for expanding markets. This phase, in which funds for industrialization are accumulated by means of agriculture, is one that nearly all nations go through, but an economic relationship of this nature between agriculture and industry can only persist for a certain amount of time in any given country. If a nation long persists in squeezing agriculture to promote rapid industrial growth, agricultural vitality may gradually be sapped and agriculture will go downhill. Moreover, this may encourage industrial inertia and result in a loss of the pressure necessary to spur industry to improve its own efficiency. Consequently, after a basic industrial system is established we should quickly introduce market mechanisms into the process of exchanging industrial and agricultural

goods. This will preserve agriculture's own essential capacity for accumulation and thereby simultaneously spur improvement in industrial returns and induce industry not only to accumulate funds for its own further development, but also, eventually, to accept the historic responsibility of backing agricultural modernization. Right now growth in agriculture increasingly requires us to import foreign materials and energy. Only in this way can we achieve stable agricultural growth based on our fixed agricultural resources.

Given that the economy is overstimulated and there is a certain amount of inflation, in order to make good on the losses they sustain due to skyrocketing prices on industrial goods, farmers inevitably want to increase production of the agricultural goods whose prices have inflated most. Although this would provide a certain impetus to increase production of certain cash crops, as well as meat, poultry, eggs, vegetables, and aquatic products, it would simultaneously create a more unfavorable situation for producing staple agricultural products such as grain, cotton, and oil crops. And when the economy is retrenching and banks are tightening up, in order to maintain growth in their own incomes, farmers will generally use funding for high-profit pursuits and products as much as possible, thus putting themselves in an even more unfavorable situation. Grain, cotton, and oil crops are basic products that play a decisive role in the stability of the overall national economy. Consequently, if we cannot ensure some growth in our gross output of these crops in the next 2 years, it will be very difficult to truly accomplish our plans to restrain inflation and bring the economic environment under control. Consequently, we must quickly clarify certain fundamental agricultural policies for the next stage.

#### **Basic Policies To Uphold and Stabilize the Output-Related System of Contracted Household Responsibility**

The output-related system of contracted household responsibility is one of the most fundamental achievements we have made in 10 years of rural reform, and it is also one of the most important growing points in the development of a new rural economic system. Consequently, stabilizing the output-related system of contracted household responsibility should be—must be—one of our essential, long-term, unwavering policies. However, most recently, 4 years of constant fluctuations and lack of progress in grain output have made some comrades begin to doubt the potential for the output-related system of contracted responsibility to bring about agricultural growth. Consciously or unconsciously, they have begun to advocate various policy positions that would restore management autonomy to the peasantry and bring back the old centralized economic methods. I must point out that this is extremely detrimental, both to progress in reform and to economic development. In the face of difficulties we must search for new methods. We certainly must not reconsider old methods that experience has verified are harmful to peasants. We must

uphold, stabilize, and improve the output-related system of contracted household responsibility. For a long time to come this will be our basis for formulating various kinds of rural economic policies.

#### **Policies To Safeguard Stable Agricultural Growth**

Due to limited agricultural resources and inadequate investment in agriculture in the preceding period, we cannot expect agricultural growth to be rapid in the next 3 to 5 years. In the next phase we must focus on two areas to create a stable environment for normal agricultural growth. First, we must create a stable relationship between supply and demand for agricultural goods and avoid artificially producing abnormal growth in demand, which would destroy the stability of agricultural production capacity. Right now we must adopt stern, effective sanctions especially to punish illegitimate demands on agricultural products, such as the extravagant and wasteful practice of spending public money on food consumption, and the practice of relying on administrative means to monopolize and make high profits on scarce industrial materials needed for agricultural production. In this way we can reduce as far as possible the false sense of peasant confidence in the market that illegitimate demands create. Second, we must begin immediately to adopt reliable measures to guarantee a significant degree of growth in agriculture investment, including investment in agriculture-related industries. Otherwise, due to the delayed benefit that is derived from investment in basic facilities, we will severely affect the stability of agricultural growth in the 1990's.

#### **Policies To Improve Trade Conditions for Agricultural Goods**

To create an environment conducive to stable agricultural growth, it is important for us to make farmers feel that they still stand to gain from additional agricultural investment. This is the only way we can meet the demands for high input and output that agricultural development itself has already suggested. This means that it must be possible, through various means, for relative prices of agricultural goods to gradually increase somewhat. On the one hand, this must be accomplished by gradually expanding the proportion of agricultural goods that are bought and sold based on market regulation of supply and demand. On the other hand, guaranteeing the level of demand depends on the creation of a stable price parity relationship between agricultural goods and materials for agricultural inputs. Given that China lacks the conditions of economic strength necessary to substantially increase agricultural procurement prices, it is essential that we suitably expand the material exchange relationship between agricultural goods and materials for agricultural inputs. In this way we can restrain indiscriminate price increases on materials for agricultural inputs and ensure that sales of agricultural goods are less affected by inflation, thus safeguarding legitimate peasant interests. In the final analysis, in the process of bringing the economic environment under

control we must still focus our efforts on improving economic returns in urban industrial and commercial enterprises, thus enabling them to improve their own capacity to absorb commodity price increases. Only in this way can we keep from reversing price parity during price reform, thus preventing agricultural trade conditions from deteriorating further.

#### **We Must Implement a Clear-Cut Financial Security Policy for Agriculture, Particularly in Cultivation**

Given that cultivated land is limited, because agricultural development requires ever larger investment and is measured according to a rather long time frame, it is difficult for the overall productivity of essential agricultural elements to match the rate of increase in the productivity of essential industrial elements. Furthermore, in that it is subject to both natural and market risks, agriculture is an exceptional industry. As a result, even after a significant number of market regulating mechanisms are introduced into the agricultural trading system, it is hard to change the fact that agriculture is a low-status occupation because it produces comparatively low profits. This is why the government needs to institute a clear-cut financial security policy for agriculture that will be reflected in the following areas: First we need a lucid system to ensure a supply of money for long-term agricultural investment, and at the same time we must use effective means of redistribution to enhance the agricultural capacity to attract social funding. Second, we must strengthen the government's own capacity to restrain market fluctuations that result from agricultural supply and demand, thus sharing as much as possible the market risks that farmers face. Third, we must take unequivocal responsibility for investing manpower, capital, and scientific and technological equipment in agriculture in order to ensure that our level of agricultural productivity will continue to improve and our goal of agricultural modernization will be achieved.

#### **We Must Apply Relatively Preferential Economic Policies To Bring About an Improvement in the Degree of Rural Microeconomic Organization**

We must institute family farming and introduce the market mechanism on that basis. We must objectively insist that we invest primarily in creating more and more basic agricultural facilities (including circulation facilities) that transcend the family level. This is the only way we can enhance the farmers' ability to endure natural and market risks. Consequently we must institute relatively preferential policies, based on clear-cut property rights, to ensure that rural microeconomic organization of public property that transcends the family can be more rapidly developed. This will play a substantial role in increasing agricultural inputs and developing the market for agricultural goods.

#### **Survey Shows Unfair Treatment of Peasants** *40060287b Beijing JINGJI RIBAO in Chinese* *25 Jan 89 p 3*

[Article by Shi Ming 2514 0682 of Hubei Province's Rural Sample Survey Team: "Arbitrary Apportionment—Increased Appropriations—Higher Quotas at Each Level: Peasants' Heavy Burden Diminishes Productive Zeal"]

[Text] In recent years, local governments have enacted a series of substantive policies, rules, and regulations and have adopted more realistic and positive measures to ease the peasants' burden. But a survey reveals that the problems have not really been solved. The peasants' burdens are getting heavier each year, and the situation has deteriorated to the extent that it has diminished the peasants' enthusiasm in increasing production further and has affected cadre-mass relationship.

Based on a survey of 3,300 peasant households, the 1987 per capita burden (including state taxes and collective obligations under contract to the higher authorities) has increased 44.43 percent compared to 1983. Since 1984, the peasants' burden has increased at a faster pace than their income. Their obligations are numerous, and their real burden is much heavier than the survey figures.

In 1988, we surveyed 100 peasant households in 4 counties. The peasants are loaded with more than 30 assorted projects; additional per capita burden is as much as 3.24 yuan [as published].

The main reasons the peasants are over-burdened are as follows:

1. *Arbitrary apportionments which disregard the peasants' economic situation.* In particular, we see that some local governments have over-estimated the peasants' income. Many construction projects have gone ahead, and when they run into money problems, they just ask the peasants for the money, saying that whoever gets the benefit should pay for the cost. Other departments and units want to protect their economic interests and take the peasants' money by requiring them to get assorted certificates and licenses. They also force all kinds of product on the peasants whether they want them or not and require them to buy all sorts of insurance.

2. *The appropriation to retention ratio is often raised arbitrarily.* Based on a survey of 750 peasant households in 14 counties, in 1986, the peasants' per capita share of collective appropriation and local appropriations was 30.90 yuan; this is 7.3 percent more than the peasants' per capita net income in the previous year and exceeds the provincial government's stipulated 5 percent cap. More serious is that some local governments have arbitrarily raised state taxes, using taxation as a way to appropriate money which are kept for use in the villages. Some have even exacted money from the peasants under pretense, and often the money simply vanishes.

3. *Inadequate fund management at the village level causes serious wastefulness.* In many villages, the collectively retained "two funds and one fee" (collective reserve fund, public welfare fund, and management fee) and the locally gathered funds are not put to the special use they are intended for as stipulated in the regulations. The use of funds are highly irregular: one, there is serious "eating and drinking" problem. The collective reserve fund and public welfare fund have turned into "public eating" funds. Survey reveals that, today, in one village, eating and drinking generally cost 2,000-3,000 yuan a year, and can be as much as 10,000 yuan. In one village in Anlu City's Lidian County, we discovered that in 1987, eating and drinking alone cost the village 20,400 yuan. Two, some village cadres embezzle money and graft public funds. Three, too many people are receiving subsidies, and the subsidies are too generous. Survey uncovered that, today, many villages still retain 7 to 8 village-level cadres; some have as many as 12, and they still have around 3 group-level cadres. This more than doubles the 3 to 6 cadres the provincial government has asked for. Too many management personnel being paid too high a salary inevitably adds to the expenses at the village level.

4. *Extra work load is added at each level, causing delays, and the peasants ended up being fined.* In Huanggang County, between the winter of 1986 and the spring of 1987, after the quota had been raised at every level, each peasant ended up with as many as 23 quotas to fill. Because of the extra work, some peasants were unable to complete their tasks and were fined by the village cadres. In 1987, some localities in Anlu City once stipulated that every peasant unable to complete his tasks would be fined 5 yuan for each unfinished job.

5. *The existing methods of apportioning the work loads are neither scientific nor reasonable, and to some extent, they have increased some peasants' burden.* Since 1983, two methods are used to apportion the peasants' work load: one is apportionment according to the number of people, and the other is apportionment according to the size of the contracted farm. Over the years, population and cultivated area have changed, but the government at each level has not kept up with the adjustment of the amount of land the peasants have contracted, and as a result, this method of apportionment has become increasingly unscientific and unreasonable. On the one hand, poor households with more mouths to feed cannot afford the fees, and peasant households with more land to plough are over-burdened. On the other hand, peasant households not contracting land or contracting small plots and are working primarily in high-paying, non-agricultural jobs are much better off.

To ease the peasants' burden, the following are suggested:

1. Departments at all levels should not be allowed to take money from the peasants arbitrarily. Expenses which must be borne by the peasants must be established by decree and specified by law.

2. Village enterprises should be developed with vigor to strengthen the collective economy and to realize the goal of "using industry to subsidize agriculture" and "use industry to build up agriculture."

3. We must improve the quality of the cadres at the primary level, reduce their number, change the workstyle of the primary level cadres, and educate them on complying with government policies. Cadres must not substitute punishment for policy or load the peasants with more responsibilities. Meanwhile, a proper collective financial management system should be set up to halt the extravagant eating and drinking and other unhealthy tendencies.

4. The existing improper way of allocating responsibilities must be changed.

#### **Yunnan Focuses on Developing Fine-Quality Seeds**

40060313b Kunming YUNNAN RIBAO in Chinese  
18 Jan 89 p 2

[Article by Li Youjun 2621 0645 6874: "Seize the Technical Measures Which Require Little Investment but Attains Quick Results—Yunnan's Effort To Breed Better Strains of Crops Pays Off"]

[Text] Yunnan's workers in the seed growing system have complied diligently with the principle of reform, opening up, and enlivening the economy and have worked hard to produce better strains of seeds, and the industry has flourished. It plays a major role in making the agricultural sector more productive.

Seeds are an agricultural product but are in turn the most basic means of production of agricultural products. Promoting better quality seeds is an important production-enhancing measure which requires little investment, produces quick results, and which does not pollute the environment. The success of this industry directly affects agriculture. In the past, for many reasons, Yunnan has not paid consistent attention to the seed producing organizations, and this has hampered their development. In 1978, there were only 42 seed stations in the entire province; they were undeveloped and far from able to meet the needs of agricultural development. Since the 3d plenum of the 11th CPC Central Committee, leaders at all levels have learned more about seeds and have treated the industry as basic to the development of agriculture. Preferential policies have been promulgated and more money have been invested, and work on seed production has been revived and has developed, and the result has been outstanding, particularly in the following areas:

The province has built some seed production bases, and they have been very successful. The province has installed seed production bases at every level. To date, there are more than 600 bases with 110,000 mu of breeding ground, producing more than 30 million kg of

seeds each year, enough to satisfy around 15 percent of the province's needs. Ten million kg of the seeds are "crossbred of two species." We are 70 percent self-sufficient in hybrid maize seeds. Based on a survey of 16 "four changes and one provision" experimental county units and a group of special crossbred and conventional seed production bases, it is estimated that the investment to benefit ratio is 1:12, the highest ratio in the nation.

The production of fine-breed seeds has broken new grounds. After the establishment of seed companies (stations) at every level, operation to produce improved varieties of seeds has gradually become specialized. Operating units have grown from 27 in 1980 to 119 in 1987. The product categories are no longer limited to grain crops; there are now seeds for oil-bearing crops, vegetables, green manure crops, and tobacco crops. Because the people take their work seriously and work hard to promote these seeds, much more of these improved-breeds are being used today.

The province has established and perfected systems for evaluating the varieties and testing the seeds as a way to improve the quality. In 1980, the province, the prefectures, and the cities have all set up examination and approval organs to perform regional testing and breed appraisal. The province has installed more than 100 testing points to test 7 different kinds of crop, including rice, maize, and wheat locally. By 1987, the province and prefectures together have appraised 232 new crop varieties. Seventy percent of the province's seed companies (stations) are able to comply with the seed inspection rules and regulations issued by the Ministry and conduct tests in the fields and in the laboratories. Because of the above efforts, most crops grown in Yunnan's plains region using the main varieties of rice and wheat seeds and those using special crossbred seeds have been awarded grade 2 by the Ministry.

The industry has attained some degree of mechanization: seed selecting machines and other machinery have been introduced since 1978 to fill the void in Yunnan's mechanical seed processing. Through testing, demonstration, and promotion, today, Yunnan's seed industry has attained some degree of mechanization. Using machinery to process the seeds not only enhances quality, improves sowing quality, and cuts down on wastes, it also enhances the commercial seed's competitiveness in the market.

—Old varieties have been replaced, and new varieties have been popularized. Between 1979 and 1987, the province has promoted the planting of 150 million mu of improved varieties of conventional staple food crops, 7.34 million mu of hybrid rice crop, and 19.92 million mu of hybrid maize. Each kind of improved-variety crop the province popularized has increased annual crop yield by 180 million kg. In 1988, Yunnan promoted the planting of 2,904,500 mu of hybrid rice crop, which comprises 22 percent of the province's total rice seeding area, but

the projected yield will top 35 percent of the total yield. In addition, 3.81 million mu of hybrid maize has been planted; it comprises 27 percent of the province's maize crop area but can produce 41.4 percent of the total yield.

**Improvements in Processing of Aquatic Products**  
*40060287a Beijing JINGJI CANKAO [ECONOMIC REFERENCE] in Chinese 29 Jan 89 p 4*

[By reporter Li Wenchuan 2621 2429 1557]

[Text] Scientific calculation indicates that about one-half of the animal protein people get from their food comes from aquatic products. As the living standard rises slowly, people's demand for aquatic products will increase. In recent year, the worldwide average per capita consumption of aquatic products is around 17.6 kg per year, and last year, in China, the per capita consumption reached 9.5 kg. Because aquatic products are perishable, it is estimated that as 300,000 to 400,000 tons of the product spoil, this country loses 100 million yuan each year. Furthermore, in recent years, China's commercial fishing has been in a slump—cheap fish and small, mixed varieties make up almost 75 percent of the catch. There is a stockpile of junk fish, and many nonedible leftover portions are not put to good use. What are we going to do? For this, the reporter has paid a visit to Deputy Director Jin Jun [6855 7486] of the Aquatic Products Bureau of the Ministry of Agriculture.

"Making every effort to prolong freshness and improve processing to increase the effective supply is an effective way to change the above situation," Jin Jun, long-time leader in the Aquatic Products Bureau, told this reporter. "Refrigerating and processing the aquatic products not only preserve the freshness and the quality of the products but also facilitate storage and shipping and also make market supply more even. Processing can add economic value and food value to worthless species, and after comprehensive processing, the nonedible parts can be turned into animal feed, medicine, and other industrial products."

It is learned that, today, in other parts of the world, more than 50 percent of the aquatic products are processed, but in China, only 16 percent of the catch is processed, and of this, only 0.6 percent are cooked aquatic food products. Not only are the varieties limited but the processing is substandard. On the other hand, in 1988, China became one of the major fishery nations in the world when its total aquatic product output passed the 10 million-ton mark, only the third nation in the world to be so productive. As a result, there is a future for China if it devotes efforts to develop refrigeration and processing techniques to preserve the aquatic products. Jin Jun eagerly showed this reporter a stack of documents and said, China already has large scale aquatic products refrigeration facilities. According to incomplete data, in 1987, there were 1,272 cold storage facilities across the nation with a total storage capacity of 620,000 ton each time and freezer capacity of 30,000 tons each



day and can produce 3.1 tons of ice per day. They have met and exceeded the Seventh 5-Year Plan goals and have laid a solid foundation for reinforcing the first line efforts to preserve the freshness of food.

What about the economic benefits of preserving and processing the aquatic products? The deputy director of the Aquatic Products Bureau laid down the facts about the nationwide situation for the reporter: Black scraper is a newly introduced staple variety; the annual output is 200,000 tons. In 1975, because the fish has thick skin and little meat, the supply and marketing companies would lose 1-2 yuan for each dan they sold. After processing was introduced, each 100 yuan of raw fish generates 285 yuan; per unit output value is increased 1.8 times. Today, the comprehensive processing of black scraper has become the way for many enterprises to make money. Each year, Fujian has almost 100,000 dan of processed residual and discarded materials. The effort to refine oyster broth into oyster sauce has paid off, and this project alone has added the year's income by more than 1 million yuan. In recent years, Guangdong has used the "three removal" (removing the scales, gills, and internal organs) method to preserve and process the

products to solve the highly seasonal supply of fresh water fish and has made fish available during the off season and even more available during the peak season.

Since 85 percent of China's aquatic products are produced by the commune brigades, mobilizing the collectives and individuals to process the products locally can take good advantage of the freshness of the products, the availability of workers, the reduction in shipping, and the convenient fund sources. For example, it took the state more than 30 years to build cold storage facilities which contain 200,000 ton-capacity. After policy was eased, the commune brigades have furnished more than 30,000 tons in only 2 years.

China's processed aquatic products are known for "first class material, second class processing, third class packaging, and fourth class price." To change this backward situation, Jin Jun pointed out that China's main goal is to improve product quality, increase product categories, and increase the value of the products. The idea is to use freezing and refrigeration to facilitate food processing and use food processing to promote comprehensive use of food products and combine the three to make the most of the aquatic resources, increase the output value of the fishery industry, and increase market supply.

**Article Examines Education Crisis**  
40050260 Hong Kong CHING PAO [THE MIRROR] in  
Chinese No 138, 10 Jan 89 pp 49-51

[Article by Liu Yanying 0491 3601 5391: "Why Has Education in China Been so Long-Neglected"]

[Excerpts] [Passage omitted] It is reported that the participants at a special forum on education that was held from 21-23 December 1988 by the Standing Committee of the 7th CPPCC gave their views one after another on China's present education situation. They feel that the situation is very grim, the new concept that "education is a productive force" must be established faster, and the incorrect idea that economic reform should precede educational reform must be changed. Deng Xiaoping's recent views on the education crisis were communicated to the participants at the forum. He thinks that China must by all means be patient, even to the point of slowing the pace of reform somewhat in other areas, to resolve the education crisis. [passage omitted]

Not only is China's education situation no better than that of many other countries, but it is still in greater potential danger. Even though it has been clearly pointed out in theory that "education is a basic project of vital and lasting importance" and "development of education must be consistently placed in a prominent strategic position," the fact that education funds are severely inadequate, learning is belittled, and "9 out of 10 teachers are poor" has caused those who would enter the teaching profession to flinch. [passage omitted] The resulting potential danger to the national character will certainly further endanger the foundation of the nation. [passage omitted]

One of the outstanding manifestations of China's education crisis is that the shortage of education funds has severely affected the quality of teaching. Education funds generally account for 6-7 percent of the national income in all developed countries throughout the world, but still account for less than 3 percent of the national income, or only a little more than 20 billion yuan a year, in China. Moreover, a survey of the education crisis in ten colleges and universities in Beijing that was conducted in October 1988 by the CPPCC and the Beijing Municipal People's Political Consultative Conference shows that the amount of education funds that the State Education Commission allocates per student per year has been decreasing year after year. For instance, Beijing Normal University students received an average of 2,062 yuan each in 1983, only 1,546 yuan in 1987, and specific per student per year teaching funds decreased from 417 yuan in 1981 to 365 yuan in 1988. Moreover, there has been no money for teaching facilities for 8 consecutive years. This has made it impossible to offer the necessary laboratory courses. People have often heard in the last few years that education funds are increasing year after

year, but the hard facts of the survey findings show that the amount of education funds in the last few years is decreasing year after year and not gradually increasing.

Another outstanding manifestation of China's education crisis is that teacher's salaries are low and getting worse year after year. Compared to other countries throughout the world, China's teacher income index is only one-fourth that of other developing countries, is even less than one-half that of India, and has been decreasing since 1983. The findings of the above-mentioned CPPCC survey show that Beijing college and university graduate students are paid only 82 yuan a month, which does not cover even their own living expenses let alone the cost of supporting their families. A lecturer's top pay of 97 yuan a month (known as "national food stamps") plus various subsidies (called "local food stamps") is only 120-150 yuan a month. An associate professor's lowest grade "national food stamps" of 122 yuan a month (30 yuan a month less than in 1956) plus "local food stamps" is only 180-200 yuan a month. A professor's top pay that was 360 yuan a month in 1956 is now only 250 yuan a month. But prices are now many times higher than in 1956 and the poverty of teacher's living conditions is obvious.

Not only are teacher's salaries low, but their housing conditions are also very poor. It is by no means rare to have 3 people living in 9 square meter of space at Beijing University and China People's University, Beijing. Since the class of 1977, not one graduate student under 40 years of age at Beijing University has moved into an apartment, but they all live in "rooming houses." In the past, they lived "apart" but now they generally live "together" or "with their departments." A teacher in the history department at Beijing University said that "Even experienced teachers have become beggars and '9 out of 10 teachers are poor.' [passage omitted]" A teacher in the philosophy department said that "We are not even treated with respect! We often compare the party to parents, but parents do not mistreat their children like this! We are treated even worse than those who are raised by stepmothers! Young teachers think that the way to resolve the housing crisis is to 'go on strike!' You no longer need to worry about student strikes because there is nothing to go on strike against. If there is another disturbance, it will be young teachers going on strike for better housing. Moreover, if it begins at Beijing University, it may spread throughout China. Young teachers' resentment over poor housing is like dry kindling waiting for a flame to set it afire. If the housing crisis is not resolved, we will have to strike!" It is obvious that young teachers' resentment over bad housing has become unbearable.

Since learning is belittled and teachers are treated poorly, a new view that "learning is useless" is spreading unchecked throughout society. The gravity of the question lies in the fact that not only students, but also teachers, feel that learning is useless and going to school is a waste of time that keeps them from making money.

For example, in the past, teachers were criticized aggressively and the view that "more learning made people more reactionary" was forced on them. But now they have a food basket mentality and teach that "more learning makes people poorer." The new view that "learning is useless" is a man-made disaster. If it is allowed to spread unchecked, China's destiny will be dreadful to contemplate. [passage omitted]

Many insightful people have long clearly seen the grave crisis of education in China and have been constantly appealing to the authorities for many years to emphasize and invest more money in education.

Professor Qian Jiaju [0578 1367 7467], the famous economist, [passage omitted] appealed again at the forum on education that was held in 1988 by the 7th CPPCC, for education to be given a prominent place in China's development strategy, for education funds to be doubled, and for China's investment in capital construction to be cut down by one-third or one-fourth. Professor Qian's appeal touched off a wave of excitement and, although some have wanted to label him, restrict the appearance of his statements in the press, and even criticize him, they have been unable to.

Xia Yan [1115 5888], the famous intellectual who was born in 1900, appealed twice in June and September of 1988 for education to be emphasized. He said "I think that three major mistakes have been made since the founding of the PRC: 1. Education has not been emphasized, with almost one-fourth of the population still being illiterate or semilliterate and new illiteracy still constantly emerging; 2. We do not have rule by law...; 3. The population problem has not been solved." He also said that "If learning and scientific education is not improved for China's population of over a billion people, the worst danger is that the character of the whole nation will decline."

Professor Qian Xuesen [6929 1331 2773], the famous scientist, pointed out in a report to the Central Committee Party School in December 1988 that "Not emphasizing science and education was a major mistake. We have neglected science and education, not valued learning, and not respected intellectuals, which has left China behind advanced world standards. This historic lesson must absolutely not be forgotten."

Ding Shisun [0002 4258 1327], president of Beijing University, pointed out at the forum on education that was held in 1988 by the 7th CPPCC that those who do not emphasize the treatment of intellectuals will stand condemned through the ages. [passage omitted]

Since the education crisis has been worsening day by day, why have the authorities been so slow in deciding to resolve it? The basic reason is that most party and government leaders at all levels are strategically shortsighted and do not fully understand the importance of developing education. [passage omitted]

Most party and government leaders at all levels still think that investment in education is investment in consumption. They think that only investment in capital construction, industry, and agriculture is investment in production. Thus, they invariably attach primary importance to industrial and agricultural production and put education last. If this traditional way of thinking is not changed, it will be impossible for them to emphasize education.

Of course, it is rather ridiculous to expect local party and government leaders to be strategically farsighted about education. But it is certainly not out of line to expect high-level CPC leaders to show great foresight and regard education reform as a task of strategic importance. It is a pity that even since order has been brought out of chaos, the education crisis has still not been given due attention. The basic root of the problem seems to be that the educational level of this generation of CPC leaders is poor. It is feared that the dominant idea in the minds of this generation of CPC leaders is still that political power grows out of the barrel of a gun and that power, not learning, intelligence, and technology, must be used to run the country. Most of them are revolutionaries and politicians and cannot easily understand the importance of education to the nation's destiny. Deng Xiaoping argued a decade ago that "intellectuals are part of the working class" and their status should be improved. Moreover, he pointed out that "science and technology is also a productive force" and recently clarified his thesis that "science and technology is the primary productive force." However, very few people agree with him. Thus, it can be said that the recent proposal by insightful people to speed up the establishment of the new concept that "education is a productive force" and change the incorrect idea that economic reform should precede education reform which is certainly another major ideological attack on high-level CPC leaders. Since their traditional concept is that basic decisions are made at the upper levels and the economy must be developed before the investment in education can be increased, it is very hard for them to accept the new idea that "education reform should precede economic reform" and "the economy can only be developed faster if education is improved." [passage omitted]

#### **Foreign Affairs Bureau Director on Studying Abroad**

*OW1003134989 Beijing BAN YUE TAN in Chinese  
No 2, 25 Jan 89 p 11*

[Interview by Cong Yaping 0654 0068 1627, entitled "A Broad Discussion on Policy Toward Students Studying Abroad—Answering Staff Reporter's Question by Yu Fuzeng, Director of the Foreign Affairs Bureau Under the State Education Commission"]

[Text] To dispatch students to study abroad is a major policy of the developing countries to seek advance. However, the "brain drain" has become a difficult problem in their policy of sending students abroad.

[BAN YUE TAN] Director Yu, what is the overall situation in sending Chinese students to study abroad over the past decade, and what is your basic assessment of this situation?

[Yu Fuzeng] First of all, we may as well say that a great leap has been made in the past 10 years. Between 1950 and 1966, China sent a total of 12,000 students abroad, whereas in the past decade, 64,000 students went to 76 countries for advanced studies, and 22,000 of them have returned home upon completion of study. Second, the students were dispatched by a broader range of circles, including 24,000 sent by the state, 22,000 financed by enterprises and institutions, and 18,000 with paying their own expenses.

Overall, after returning to China upon completion of study, these student returnees have played a leading role in the economic, scientific, technological, cultural, and educational fields. For example, of the 36 institutes of higher learning directly under the State Education Commission, 17 are headed by the student returnees. Moreover, many of them have become the pioneers of new subjects in China. If we say that the several years ago was a "sowing season," we have now entered a "harvesting season."

[BAN YUE TAN] You have just mentioned about the "harvesting season" for the work to dispatch Chinese students abroad; but as I know, there has been a phenomenon of "brain drain" in the country because some students have stayed in foreign countries after completion of advanced studies. What is your view on this phenomenon?

[Yu Fuzeng] Previously there were indeed students who, without the approval of their units, refused to come home after expiration of their term of study. However, the "brain drain" is a common problem of the developing countries. In order to control the "brain drain," the government adopted a series of measures, such as reducing the allotment of students going to the United States, limiting the years of study, signing the "expiration penalty contract," and refusing to renew their passports. Today, however, these measures, which were taken out of the consideration of national interests but were targeted at the minority of students who did not return, have not produced desired results and have only hurt the feelings of the majority. After drawing lessons from the previous experience, the central authorities have decided to proceed from a higher plane in dealing with the work regarding to students pursuing advanced studies abroad.

[BAN YUE TAN] Cool reflection can bring about a wise policy. Then, what kind of new policy the state is going to adopt to attract talented students to come home?

[Yu Fuzeng] The new policy aims to remove the restrictions and red tape and solve problems in a reasonable way and through flexible measures. We trust that the overwhelming majority of students going abroad for

advanced studies are patriotic and have a strong sense of responsibility, and they will understand our country's difficulty. As long as we strive to create the necessary conditions for them to bring into full play and contribute their talent, we are optimistic that the majority of students are willing to return to serve the country. As for some students who have gone abroad on public funds and have reasonably requested extension of the period for advanced studies, they should be given consideration and be dealt with flexibly under the circumstances prescribed by the law of the host country. Even for those who have already obtained permanent residency of a foreign country, we will continue to show concern and maintain close touch with them. Recently the central authorities have shifted the focus of the work from sending students abroad to providing proper arrangements for them after return. This is indeed a timely shift of the work.

[BAN YUE TAN] Employment and housing are two major issues to the utmost concern of student returnees. What are the concrete measures for ensuring good working and living conditions for student returnees?

[Yu Fuzeng] First of all, a "two-way selection to promote interflow of talented people" has replaced the previous state assignment of jobs, thus broadening employment opportunities for student returnees. They can find employment with government organizations, corporations, Chinese enterprises, colleges and universities, research institutes, Sino-foreign joint ventures and cooperative ventures, foreign-funded enterprises, or international organizations. There is plenty of room to make use of their talent. For example, the Shoudu Iron and Steel Company has indicated a need for 100 doctorate degree holders. Second, services have been provided for employers and employees to establish links. Previously the students felt that they were treated coolly because some organizations at home failed to promptly reply their inquiries about job opportunities. Today services for employment at home and specialties of job seekers are provided a year before the students' return so that the two sides can establish contacts and make their choice. Of the 100 or so student returnees from Japan this year, all had received arrangements for working in the work units of their preference before their return. The State Education Commission has recently set up a "student returnees service center" to help provide job information and establish contacts with the employers. Third, a number of key laboratories have been established in a planned manner. So far, 107 "post doctorate research mobile stations," each with a duration of 2 years, have been set up, with the state providing housing and research expenses. Fourth, due to the limitations of authorized size of organization and job titles, it was rather difficult for some units to recruit talented student returnees. The authority in charge of the work will make active efforts to resolve such problems. Fifth, to solve the housing problem, a number of commercialized housing and tentative accommodations will be built for student returnees who will also be given preferential treatment in

purchasing housing and completing urban household registration for them and their dependents. Sixth, a handful of returnees who cannot find a suitable job at home for the time being, should be allowed to go abroad for advanced studies again by the government. In my opinion, however, while we strive to create the conditions at home, students studying abroad should also foster a realistic concept of employment. It will be unrealistic to compare the working conditions at home with those top-rated ones in the United States because, after all, China is still a developing country.

[BAN YUE TAN] You have mentioned a "hot topic" of public concern today, that is, the question of studying abroad at one's own expense. Have any changes been made in this regard?

[Yu Fuzeng] When the government first allowed students to study abroad at their own expense in 1981, there were no restrictions as long as they were financially guaranteed. After 1982, some restrictions were set, such as unit cadres and college students still attending school could not go abroad. The latter could leave the country only when they had worked for 2 years after graduation. Changes were again made toward the end of 1984, and all restrictions on studying abroad were lifted as long as financial aid was provided for by foreign institutes. The change affected, most of all, universities and research institutes. Especially in some prestigious universities, 80 percent of their postgraduate students would concentrate their efforts preparing for studying abroad at their own expense, taking the Test of English as a Second Language and writing numerous letters to various institutes of higher learning abroad, thus seriously disrupting their school life. Hence, the Education Commission was compelled to issue No. 107 Document in June 1987, stipulating that postgraduate students still attending school and graduates fresh from college could not go abroad at their own expense, and that cadres could go abroad only when dispatched by the state. The document again aroused discontent among people. According to the latest readjusted policy, students who have graduated from domestic institutes of higher learning on state funds must serve the country for 3 to 5 years (as an obligation to the training given by the state) before they are allowed to go abroad. Administrative cadres wishing to study abroad may do so with the approval of their working unit. Under the existing open policy, people are allowed to leave the country, but they should consider national and collective interests at the same time. According to a regulation of the Western Language Department of Beijing University, seven percent of the faculty takes turns studying abroad annually. This is a good practice. All in all, the policy regarding students studying abroad has been readjusted according to changes in the domestic situation, although some unnecessary changes and repeats were made as a result of ill-conceived plans. Based on the previous foundation (experience and lessons), the state has recently worked out a relatively stable, positive, and long-range policy regarding students going abroad for advanced studies.

### Current Status, Future Direction of Culture Discussed

40050244 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 2, 9 Jan 89 pp 8-10

[Article by Yin Jindi 3009 6855 1229]

[Text] The politics, economics, and culture of China steeped in the early stages of socialism must adapt to the socialist nature of this early phase. If so, what is the culture during this early phase of socialism like? What are the nature, characteristics, and tasks of this culture? What strategy should be taken to develop this culture? Who will be responsible for managing cultural activities? Such questions cannot be avoided when cultural structuring is discussed.

To address these questions on a theoretical level, the Policy Studies Section under the Ministry of Culture of the State Council called a "Seminar on Cultural Theories in the Early Stages of Socialism" in Guangzhou in late 1988. Over 60 specialists and scholars engaged in cultural activities, representing provinces, cities, and autonomous regions throughout China attended this meeting which generated much enthusiastic discussion. More than 70 papers covering various views described the present status of Chinese culture, or discussed its nature, or analyzed its marketplace mechanism, or proposed its restructuring. Some even suggested a cultural unification of "two systems in one nation." People opened up to lively discussion in an atmosphere of "a hundred schools contending."

### The Nature and Goals of Chinese Culture

What is the flavor of this Chinese culture in the early stages of socialism? Views expressed by attendees at the conference were varied. Some said it should be a pluralistic culture dominated by socialism. Others regarded this as an unstable transitional culture. Still others expressed their opinion crisply, that anything beneficial to development of productivity reflects a culture in the early stages of socialism. Even though no consensus was reached at the seminar regarding the nature of this culture in the early stages of socialism, the discussion was still significant in broadening our outlook to further recognize and understand the nature of Chinese culture in its present development phase and to get a handle on the direction this culture is going.

Then, what is the important task at present, for building a socialist culture? Dissenting views regarding the question were also expressed at the meeting. Some say that eliminating the residue poison of feudalistic culture must come first, their reason being that poisonous elements of this culture have seeped down into the subconscious of the Chinese people, and nothing can be done if this feudalistic culture is not overthrown. Others reply that the important task is in opposition to a capitalistic culture, because the introduction of western culture,

developments in a trade economy and the new worship of money and materialistic have corrupted the people's souls in a way not good for socialism, and we must oppose it.

While Wang Meng [3769 5536] the Minister of Culture did not attend this conference, he seemed to have already heard the views expressed here, for he mentioned in his presentation prepared for this seminar that all these views are reasonable and have merit, that at certain times in dealing with certain problems, any one of them may surface as the dominant problem in need of solution. However, seen subjectively over a long period of time, this may not be the dominant paradox. In his paper entitled "A Personal View of Chinese Culture in the Early Stages of Socialism," he said: "The chief paradox facing us is that between civilization and ignorance. What we must overcome are ignorance and barbarianism. Remnants of feudalism and the decadent ideology of capitalism are taking advantage of our ignorance. Various signs of ignorance are seen tearing down and damaging the fruits of construction and reform. The over 20 percent of illiterates and semi-literates in our population and the ignorance generally found are all important barriers to modernization. If the cultural quality of the Chinese people is not improved, and our attention is diverted from overcoming ignorance, it will not be possible to eliminate the vestiges of feudalism and that of a decadent capitalistic ideology. Using an attitude of ignorance to oppose feudalism and capitalism frequently results in one ignorance replacing another." He feels we should start from this premise to define the enlightening and constructive nature of Chinese culture in the early stages of socialism, and to determine the long-term nature of this constructive activity.

The importance and necessity of overcoming ignorance is commonly recognized by those in cultural circles. Dr. Zhao Shilin [6392 0099 2651] thinks it is most ironic that many peasants depending on the science and technology culture have become wealthy, but they direct the gratitude for their riches toward buddhas, ghosts, immortals and other gods. A rich and abundant materialism is dependent on science and technology, but spiritual comfort is dependent on superstition. Before becoming rich, these peasants talk about science and technology, but once wealthy, they worship gods and ghosts. This is representative of the cultural outlook and conduct of a group of well-to-do peasants. Because of this spiritual ignorance, the expanding regeneration required in a commodity economy cannot be realized. Also, the very basic steps to be taken in any cultural structuring activity cannot be initiated. Because of money rolling in, people are attracted to gambling houses, religious houses, and cemeteries—to build tombs, repair temples, gamble, take concubines, etc. All very heartbreaking.

Jiang Xiyuan [1203 1585 3293], Head of the Department of Cultural Affairs for Shandong Province, expressed the view that since culture in the early stages of socialism focuses on structuring, we should start from

reality by promoting the scientific method and the scientific spirit, to meet different needs based on different conditions for cultural structuring. The goal of cultural structuring in the early stages of socialism is stepping up the pace of the state's modernization program toward realization. Any thinking that separates cultural structuring from reform openness and modernization is not acceptable. The establishment of modern Chinese culture and the renaissance of Chinese civilization can only determine their own coordinates through socialist modernization. However, to realize this goal requires a gradual approach, taking one step at a time. For example, in searching for means to thoroughly but suitably regulate the relationship between traditional culture and modern culture, and that between foreign and native cultures, we must consider the times and national characteristics. Formalistic approaches which either confirm all or deny all must never be used, for such lessons, as far as cultural structuring is concerned, leave very deep marks.

#### The Cultural Marketplace: Some Joy, Some Sorrow

To establish a socialist culture, we must build the necessary facilities—publishing houses, playhouses, libraries, museums, movie theaters, cultural palaces, etc., and train a large number of cultural workers in the literary arts, film, music, drama and dance. All of this come under the scope of a cultural activities organization. Building up such activities requires investment. In the past, funding of such cultural activities was completely the state's responsibility, and many abuses resulted. For example, because of the state's limited financial resources, cultural facilities were inadequate, old, and in need of repair. Because all such cultural units were funded by the state, vitality was missing.

Following reforms in the economic system and developments in the commodity economy, management of cultural activities is also undergoing reform. One important aspect of this reform is recognition of the fact that cultural products are also commodities whose production, sale, and transfer should also be governed by the rules of commodity production. Yet a cultural product is a specific commodity that cannot be regarded only from a profit angle without consideration of effect. For this reason, how to introduce healthy development into the cultural marketplace is an important problem facing cultural structuring in the early stages of socialism.

Some discussion of this problem was initiated at this seminar, and inspection trips were made to observe the local cultural marketplaces in Guangzhou and Shenzhen. According to statistics, with an atmosphere of openness prevailing in the cultural marketplace throughout Guangdong Province, more than 12,900 commercialized events had been held by the end of 1987—at tea gardens for musical performances, at song and dance halls for shows, at game rooms for ping pong and electronic games, at theaters for videotaping shows, at book exhibits, and at coordinated amusement parks. Sponsorship of

these events was varied. Some events were state-sponsored (leading), some were group-sponsored, and still others were privately sponsored. In large towns and villages, a wave of enthusiasm for creative works of art, calligraphy, photography, instrumental music, writing, and folk art had sprouted, its variety and scope on a scale yet to be seen since the founding of the state. The number of different cultural facilities were also growing rapidly. According to statistics, over 600 cultural facilities consisting of libraries, movie theaters, playhouses, and youth palaces funded on various government levels in the province had been built. There were also many medium- and small-sized cultural facilities supported by various social groups. Throughout the province, professional literary groups were exhibiting great vitality in the midst of reform.

However, the cultural marketplace lacks good management, and the blindness dominating many cultural organizations has caused them to compete in producing and operating rather shallow and cheap cultural products that show high profitability, but to neglect those more lofty cultural activities. This creates a proportional imbalance in the makeup of cultural activities. Some serious and unfair situations are also noted in the social distribution among cultural circles: the income of simple labor being several times to hundreds of times higher than that for complex labor. For example, payment to a composer or lyricist for a first class musical composition or lyrics is only 30 or 40 yuan, but a performer who introduces the piece to the public becomes property worth thousands. Chen Zuohuang [7115 0146 4106], the chief conductor of the Central Orchestra only receives a supplement of 8 yuan for each concert he directs, but a musical star of a popular song can receive several hundred to a thousand yuan for singing a few songs in an evening performance, sometimes receiving as much as 2,800 yuan. Furthermore, the reigning confusion in the cultural marketplace and its operating rules has prompted a worrisome situation indicating loss of control. Some artistic performance groups do not create and perform unprofitable shows anymore, but keep performing the more profitable ones. Some performers only consider doing "out of the hole" performances apart from the group to make money, and do not take their rehearsals with the troupe seriously, leading to an overall drop in performance quality.

Some alarmists are exclaiming that Chinese culture at present is on a downhill "slide" as noted by the following situations:

—Diminishing publication activities. Some publishers have had to discontinue publishing some books because of a low number of orders received. For example, in 1988 the K Publishing House in Shanghai was forced to notify booksellers such as the Xinhua Bookstores that publication of over 60 scholarly titles that it had solicited orders for from all over the country had to be temporarily suspended. Another six or seven publishers also issued similar announcements

because of the low number of orders for academic and scientific books. One publisher commented sadly: "To stop, on such a large scale, publication of a scholarly book already set in type is seldom seen in the history of Chinese publishing."

—A slump in the performance marketplace. According to partial survey data from the Ministry of Culture, only two years ago, news of many "standing room only" and "bravo" performances held at the famous Beijing Concert Hall were carried in many newspapers. Since early 1988, this kind of response has weakened. Before October, there were five months that averaged less than 20 performances per month. Of these, the numbers for the months of July through September totalled only 15 performances per month, while performances for the same period in 1987 showed 27-28 performances for each month. In October, the figure dropped to its lowest point at 11 performances for the month, and the hall was less than half full for each concert. Even concerts given by the world acclaimed Central Orchestra did not show the full-house attendance of its 1987 concerts, only about 80 percent full on the average. Similarly, performances of Peking opera, minority song and dance groups and other serious art forms also suffered. Of course we cannot talk in generalities, for the people still welcome high quality creative works when they appear. For example, in recent years performances by the Beijing People's Drama Institute of its creative works, "Tienxia Diyi Lou" [The First Tower Under the Sun] and "Hua Bian" [The Changing Sound?], were so well received, they played for a long time. Not long ago, this drama group also took five plays to Shanghai where they opened their performances to a full house and created a whirlwind of an artistic sensation there.

#### Countermeasures: A Good Cultural Policy and Systematic Reform

Countermeasures to be taken for cultural activities, as expressed by seminar attendees, are listed as follows:

—Completing and setting up a good cultural policy to provide an even more democratic and harmonious environment, and creating conditions suitable for cultural development. This is the urgent hope of those in cultural circles. As far as the nature of cultural products is concerned, it must be recognized as different from most commercial commodities. A cultural product is a spiritual product that satisfies the spiritual needs of people, providing social benefits at the same time. The state should establish a corresponding plan for cultural development, and a needed cultural economic policy that would allow creative labor to be free of simple conversion into a commercial product by receiving comparable protection. It must also have a different policy toward performance of more lofty creative works and those of lower quality. The state must respect writers, artists, intellectuals, and their patterns of creativity, so that literary and artistic

works, and the superior tradition of concern for the state and its people held by most of the educated can flourish in such a way as to arouse the national spirit and create a national form.

—Strengthening legislation for cultural activities. Legislation establishing a “Publishing Code,” a “Cinema Code,” and a “Journalism Code” should be passed as soon as possible, to provide guidelines for cultural activities.

—Establishing a complete set of laws and regulations for the cultural marketplace. On an overall scale, these laws and regulations should be able to control the performance, publishing, and videotaping marketplaces, to regulate the quality and quantity of cultural products, and to help those that are legal and stop those that are illegal, thus assuring the healthy on-track development of the cultural marketplace.

—Reforming the system in depth as the key to development of cultural activities at present. As much confusion prevails in the present situation, the old system has lost its power and a new system has not been set up. In particular, problems in the culture management system are outstanding. If the original crux of unified cultural management which oversaw social culture, literature and art, videotaping, publishing and marketing, cultural palaces, etc., is followed, and these cultural activities are arbitrarily divided up, and placed appropriately under the Ministry of Culture, the Ministry of Broadcast Communication, Cinema and Television, the Office of News Publication, the Ministry of Town and Village Construction, and the Chinese Cultural Alliance, the whole cultural and entertainment industry will be managed by a massive army. Such an approach will cause much job overlapping and duplication, too many channels of authority for any one activity, conflict and cross purposes, and efficiency will drop so low that problems will pile up. All of this indicates the time has arrived that nothing short of reform has to take place.



**Report on Investment in Fujian, Guangdong**  
40060283 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 4, 23 Jan 89 pp 21-22

[Article by Wang Peiyu 3769 0160 3768: "Mainland Authorities Woo Taiwan Investors"]

[Text] "Find a way out on the mainland." This has become a hot topic of conversation among members of the public, especially small and mid-sized businesses, in Taiwan. On the mainland, the State Council and other localities concerned have promulgated or announced preferential measures to encourage Taiwan investment. In addition, numerous private consulting companies and trading companies act as middlemen for Taiwan businessmen investing in the mainland.

During a recent visit to Fujian and Guangdong to gather materials, this reporter discovered that there are indeed many consultative channels open to Taiwan compatriots who want to invest in the mainland and that the time it takes for a project to be reviewed and approved has been cut substantially.

**Investment Channel: Approach a Private Organization or Government Department That Handles Affairs With Taiwan**

According to the leader of the Xiamen Taiwan Compatriots Fraternal Association, since the travel ban was lifted, the number of Taiwan compatriots who come to Xiamen to visit friends and relatives has dropped, while the number of compatriots who approach the association to inquire about investment has gone up. She said, "They have certainly come to the right place. We can serve as a bridge and help the compatriots avoid detours." She said that the association has a good relationship with the Foreign-Funded Enterprise Management Bureau, which is fully in charge of the examination and approval of projects funded by Taiwan investors. Consequently, it is more effective for the association to act as an intermediary on behalf of the Taiwan investor than it would be for the latter to grope around on his own. Besides, consulting services are provided by the Taiwan association free of charge. She said that there are over 600 Taiwan households consisting of more than 2,000 people in Xiamen, while over 5,000 Xiamen personnel have gone to Taiwan. Consequently, providing Taiwan compatriots with good investment consulting services would help enhance their confidence in the mainland as a place to invest.

Director Chen Jiande [7115 1696 1795] of the Taiwan Affairs Bureau of Xiamen explained that the main responsibility of his office is to help the Foreign-Funded Enterprise Management Bureau. He said, "Given the large number of Taiwan businessmen inquiring about investing in Xiamen, the Taiwan Affairs Office cannot take care of everybody. But for those who are willing to

invest large sums of money and bring advanced industries to Xiamen, we will be with them every step of the way, from receiving them when they arrive to getting their projects examined and approved."

This reporter met with Director Su Haicheng [5685 3189 2052] of the Taiwan Affairs Office of Zhangzhou, Fujian Province. He said, "Taiwan businessmen are a goddess of fortune to us, so naturally we welcome them. Our approach is to take the initiative to attract Taiwan capital and even send people over to Taiwan to explain to businessmen there the situation in Zhangzhou in the hope that they will come and invest here. That is why there are almost 50 Taiwan-funded enterprises in Zhangzhou to date, with a total investment of almost \$30 million. Among them are 9 aquatic concerns, 5 canned vegetables processors, and 5 bamboo products manufacturers, with the rest concentrated in the processing of light industrial equipment."

Another method Zhangzhou has adopted to attract Taiwan capital is to encourage the family members of Taiwan compatriots, currently numbering more than 92,300, including 3,600 born in Taiwan, to set up township enterprises. Last year alone Taiwan compatriots sent tens of millions of dollars to their relatives on the mainland, not to mention a considerable number of gifts including gold. Better to encourage family members to open township enterprises with these funds than to let them sit idle or be wasted. That way the state benefits, too, along with the individuals. Encouraged and assisted by the Taiwan Affairs Office, 745 such enterprises had been set up in Zhangzhou as of November 1988, with a combined investment of 25,570,000 yuan. The bulk of the enterprises are in aquatics, fruit, and light industrial production. Impressed by the performance of the enterprises run by their relatives on the mainland, some Taiwan compatriots began providing them with technology, consultations, and equipment and increased investment. Others simply applied to set up a plant in the name of their relatives.

**Another Investment Channel: Approach Consulting Companies, Business Associates, and Agents**

Both Fujian and Guangdong have established special investment consulting service companies. Xiamen, for instance, boasts many such companies which handle the application procedures on behalf of Taiwan investors for a fee ranging from hundreds of dollars to about a thousand dollars.

In Xiamen, profitable Taiwan-funded enterprises founded earlier have almost become a living advertisement. Each successful Taiwan enterprise has managed to attract at least one and at most over 30 other Taiwan businessmen to the mainland to investigate the possibility of investing locally and contact the relevant departments. They are highly trusted by their fellow businessmen in Taiwan.

Practice proves that Hong Kong businessmen are an effective intermediary for Taiwan investors. As the first to invest in Guangdong, Hong Kong businessmen are highly experienced and are also more familiar with the psychology and requirements of their Taiwan counterparts. Thus Taiwan investors who work through Hong Kong businessmen during the application process manage to avoid many false starts at a minimum and become more knowledgeable with the investment climate on the mainland. Last year, for instance, a Hong Kong investor surnamed Fu who operates a food manufacturing company, a contractual joint venture, in Nanhai County in Foshan, Guangdong, got Taiwan investors to set up two contractual joint ventures with him in Foshan. Yi Qibin [2496 0796 2430], a Foshan-born Hong Kong businessman also expanded his Dabu Hexing Sock Factory in Foshan with additional capital from a Taiwan investor.

Yet another channel through which Taiwan businessmen invest in the mainland is to look for an investment agent. Since the Taiwan government prohibits direct trade between the two sides of the strait, many Taiwan businessmen ask their Hong Kong agents to invest in the mainland as Hong Kong capital. Others entrust full powers to a Hong Kong businessman to act as their agent or enter into a contractual joint venture with a Hong Kong businessman but still register the plant in the latter's name. Yet others ask their relatives to be their agents.

#### **A Third Investment Channel: Approach the Foreign Economic Relations and Trade Commission**

Whether the Taiwan investor goes through the Taiwan fraternal association, the Taiwan Affairs Office, or a Hong Kong businessman, foreign economic relations and trade commissions set up by mainland governments at all levels are the most vital stop in the process of investment talks for him. In the end his project must be reviewed and approved by a foreign economic relations and trade commission at the proper level.

Fujian Province is where Taiwan investors are most active on the mainland. And Xiamen is the "apple of their eye." Since 1988, Taiwan investors have never been more active in Xiamen. From January through October alone, 65 Taiwan-funded enterprises were approved, of which 30 are already in business with a combined investment of about \$100 million. In contrast, there was a total of only 20 Taiwan-funded enterprises before 1987. Not only were they on a small scale, but a mere eight of them were actually in operation. Chen Deqiao [7115 1794 6942], director of the Xiamen Foreign Investment Bureau, explained, "Taiwan investment in Xiamen exceeded that from Hong Kong for the first time in 1988, accounting for 51.2 percent of all approved foreign-funded projects."

Xiamen has become the main recipient of Taiwan capital partly because of good timing and favorable geographical factors and partly because of the highly efficient work of the Xiamen municipal government in this

area. Chen Deqiao said, "Taiwan-funded enterprises bring to Xiamen capital, technology, equipment, management science, market information, and marketing channels, so naturally we must improve our efficiency. All qualified Taiwan-funded projects will be approved with no exception. It takes the Xiamen Foreign Investment Bureau from 2 days to 2 weeks to approve a project, usually about 1 week."

He said that right now Taiwan investors are shifting from individual investment to group investment in cooperation with Japanese, European, American, Hong Kong, and Singapore firms. This piece of information suggests that the Foreign Economic Relations and Trade Commission will play an expanding and even decisive role in foreign investment in the future.

#### **Forms of Taiwan Investment May Be Flexible and Diversified**

There are only four types of Taiwan-funded enterprises: wholly Taiwan-owned enterprises, joint ventures, contractual joint ventures, and processing concerns. Judging from the present situation, most of them are wholly Taiwan-owned enterprises. The scope of investment is also extensive, with the bulk of funds in such labor-intensive industries as plastics, mechanical processing, electronics, footwear, hardware assembly, and aquatic production. In addition, Taiwan investors have begun shifting from individual investment to group investment.

All Taiwan-funded enterprises in Xiamen depend on raw materials and markets overseas. What they need from the mainland is labor, land, and plants,

In Foshan, although joint ventures and contractual joint ventures account for a majority of Taiwan-funded enterprises, there is no lack of plants featuring a combination of different forms. Of the three production lines at Guicheng Tannery in Nanhai County, for example, one was purchased by the mainland, with the Taiwan investor providing materials and samples for processing. The second production line was financed by both parties on a 50-50 basis. The third line was solely financed by the Taiwan investor at his request.

Taiwan-funded enterprises in Shenzhen also consist primarily of joint and contractual joint ventures. Discussing this phenomenon, a Taiwan investor who has been doing business locally for years said with feeling, "I have five factories in Shenzhen, all of them joint ventures. Since there are sharp differences between the two sides of the strait legally and ideologically, a joint venture inevitably runs into many conflicts. But the good thing about joint ventures is that the Chinese partner knows the way things are done on the mainland so that it is easier to work things out with the people at the top and below. A joint venture is particularly useful when it comes to securing raw materials on the mainland. My plastic factory in Shenzhen was already making a profit

a few years ago because I managed to get hold of raw materials. Therefore, for Taiwan investors who want to set up joint ventures or contractual ventures, it pays to take the trouble to select their partners carefully."

#### **Investing in the Mainland Can Be Profitable for the Taiwan Investor**

Can the Taiwan businessman make money investing in the mainland? This is the question that most concerns Taiwan businessmen. Survey results show that they should have no trouble making money from their investment in the mainland provided their investment is steered into the right industry and their products are marketable and in demand.

Chen Deqiao, director of the Xiamen Foreign Investment Bureau, said firmly that the vast majority of Taiwan-funded enterprises turn in a profit within a couple of years after going into production. He explained that both the raw materials and markets of such enterprises are located overseas and, thanks to their reputation built up over the years, Taiwan businessmen continue to be well thought of by foreign firms. Since most of these enterprises are wholly-owned concerns, the products can be sent to branch companies in Hong Kong at producer prices. In so doing, the investors can lower their tax liabilities and hence production costs. In addition, by taking advantage of a favorable exchange rate between the American and Chinese currencies, they can convert their dollars into yuan to pay wages, bonuses, and utility bills.

Chen Deqiao analyzed, "In 1988 the Foreign Investment Bureau conducted a random survey on 95 foreign-funded, including Taiwan-funded, enterprises. Their books indicate that only 17 suffered losses, while 78, or 85 percent, were profitable." The same situation obtains in Fujian and Guangdong, where Taiwan investment is concentrated.

On the other hand, it must be pointed out that the current success rate of Taiwan investment is quite low. Last year, for instance, the Xiamen Foreign Investment Bureau held investment talks with an average of 10 Taiwan investors everyday, but only 65 projects got off the ground. Why is the success rate so low? On the mainland side, there has been no improvement in infrastructural facilities, especially overcrowding in the transportation industry, and bureaucratism has not been eradicated. As for Taiwan investors, some of the small and mid-sized firms have little understanding of the mainland political and economic conditions. Nor are they well capitalized. Guided by experience, they show a preference for projects with a quick turnover that pay off rapidly, all too often expecting instant success. As soon as they encounter the slow pace of doing things on the mainland, these investors out to test the mainland investment waters with small projects beat a hasty retreat.

#### **Successes in Practicing 'Flexible Diplomacy'**

40050304 Hong Kong CHENG MING

[CONTENDING] in Chinese No 136, 1 Feb 89 pp 65-68

[Article by He Lihua 0149 0448 5478: "Do the Chinese Communists Want To Force Taiwan Down a Small Alley?"]

[Excerpt] [Passage omitted] During the past year, Taiwan has broken away from its rigid "good-guys-don't-countenance-thieves" foreign policy, and has pursued a nimble "flexible diplomacy." Its primary content includes the following points: 1) They have strengthened relationships with friendly nations, and in particular, have established official relations with developing and independent nations. 2) They have pushed the establishment of substantive relations themselves and nations with which there are no official relations. 3) They have actively participated in international organizations and activities, adopting the attitude that they need "neither evade, nor make concessions." They have acted with the maximum possible flexibility depending on specific conditions. Taiwan's concrete goals are to: 1) break out of their diplomatic isolation; 2) increase international participation; 3) strengthen Taiwan's diplomatic status; 4) establish more official foreign relations; and 5) expand substantive relationships. It is under the policy of "flexible diplomacy" that Taiwan achieved breakthrough successes in foreign relations and enjoyed a year of bountiful harvest in diplomacy. It primarily manifested itself in the following areas:

1) Taiwan and England achieved major breakthroughs in their relations. England, which in the past was always seen as one of the nations least friendly to Taiwan, has already reached agreement with Taiwan on the following issues: I) Taiwan's representative organization in England—London's "Free China Centre," obtained approval to increase its staff. II) England decided to establish in April of this year the "Taiwan-England Cultural Center" in Taiwan, which will provide scholarships to Taiwanese students for study in England. III) England plans soon to establish a visa processing office in Taiwan which will directly process visas for persons from Taiwan who wish to visit England. England's Prime Minister, Mrs. Thatcher, received a visit from the Deputy Director of Political Affairs from the Foreign Ministry, Wang Fei [3769 7378], and the Deputy Secretary-General of the KMT, Sung Ch'u-yu [1345 2806 3842], when they led a delegation to England. Both parties discussed bilateral affairs, and afterwards finalized the aforementioned agreements. This is an indication that, whether commercial or political, relations between Taiwan and London no longer remain a matter of non-governmental relations, but have become, in substance, "official relations."

2) There have been great advances in relations between France and Taiwan. Last year, France decided to establish the "French Institute in Taiwan" based on the model of the "American Institute in Taiwan." Apart from

merging the "Franco-Asian Trade Association" and the "French Cultural and Scientific Center," both of which had been established in Taiwan for quite some time, this organization will increase the numbers of French foreign affairs personnel in Taiwan, expand the organizational structure of France's Taiwan post, and raise the status of this Taiwan post. Therefore, although the future "French Institute in Taiwan" will be non-governmental in name, it will be "official" in essence.

3) There has been a breakthrough in relations between Taiwan and Egypt. There had never been any contact between Taiwan and Egypt in the 39 years since official relations were broken off, but last year, under the "flexible diplomacy," relations between the two nations registered a breakthrough. China Airlines has already obtained rights to fly to Cairo. At the same time, both nations reached an agreement to establish representative offices in Taipei and Cairo, and Cairo has already agreed to issue entrance visas to travellers from Taiwan.

4) Relations between Taiwan and Canada have been strengthened. Not long ago, Deputy Foreign Minister Chang Hsiao-yan [4545 1321 0917] visited Canada on a service passport and held long talks with important officials. This contact has been seen as an important sign that "relations between Taiwan and Canada have entered a period of stable growth." Taiwanese and Canadian officials all expressed optimism that relations between Taiwan and Canada will grow stronger.

5) Substantive relations between Taiwan and the nations of Southeast Asia have been further strengthened. In the last year, there has been frequent contact between Taiwan and the Association of Southeast Asian Nations (ASEAN). Foreign Minister Lien Chan [6647 2069] made a "private" visit to Malaysia, and Vice-President Laurel of the Philippines, also went to Taiwan as a "private person" to spend his vacation. It is reported that Malaysia's Prime Minister Mahathir has made a firm decision to improve relations with Taiwan regardless of its relations with Beijing, and he has announced that Malaysian officials may openly go to Taiwan and "hold discussions."

6) There have been breakthroughs in relations with communist nations. Last year, Taiwan lifted restrictions on direct trade with the nations of Eastern Europe (except Albania). In September of last year, Taiwan even sent a trade delegation to the Soviet Union to study and observe, and it is planned to send a delegation to Siberia to investigate the possibility of cooperating with the Soviet Union in development of resources in that region. Taiwan's governmental departments concerned with financial and economic matters, and the Foreign Ministry, have already discussed and agreed in principle to allow Eastern European nations to establish commercial offices in Taiwan. Taiwan will also establish commercial or trade offices in Eastern Europe at an appropriate time,

and is encouraging China Airlines to obtain its first rights to fly over the airspace of nations in Eastern Europe in order to strengthen the competitiveness of its European flights.

In addition, Taiwan has decided to improve relations with Vietnam. Economic and trade activities between Taiwan and Vietnam are becoming more frequent all the time. In order to satisfy the needs of Taiwan's trade and commerce with Vietnam, direct flights will be opened up between Taiwan and Vietnam.

7) The Bahamas and the Marshall Islands have established official relations with Taiwan, which is a starting point for Taiwan to break out of its diplomatic predicament. This is the first time since the "Republic of China" withdrew from the United Nations that such an event has occurred. In order to show the importance attached to this event, Premier Yu Kuo-hua represented the Presidential Palace in visiting Nassau, the capital of the Bahamas. There, together with Prime Minister Pindling, he signed the communique announcing the establishment of official relations between the Republic of China and the Bahamas. Before this, Taiwan and the Marshall Islands had also established official relations... [Passage omitted]

**Editorial on Improving Labor-Capital Relationship**  
*40060364 Taipei LIEN-HO PAO in Chinese*  
4 Feb 89 p 2

[Editorial: "In a Joint Effort, Rebuild Harmonious Relations Between Labor and Capital"]

[Text] Tomorrow is lunar New Year's eve. The Spring Festival is a time of heart-warming and charming traditions, but on this eve, when everybody is making preparations for the great family reunion and big New Year's eve feast, on this holiday with its strong connotation of good human relations in the tradition of our culture, there are frequent outbreaks of disputes between labor and capital throughout our province, constant mutual accusations between the two sides, and a very abrupt deterioration of the investment climate. Some foreign investments are preparing to withdraw their capital, and some investments by our own nationals are affected, investors holding back for the time being and reconsidering the situation, which is a cause for general anxiety.

An excellent investment climate has been the fundamental factor in the "economic miracle" of Taiwan. As early as 1959, the government established, in its Council for U.S. Aid under the Executive Yuan, an organization with an independent task, the investment team, which energetically worked on the improvement of the investment climate, and has been doing so until today for just 30 years. In these 30 years, the relevant departments of the government carried out comprehensive reforms, from a mutual understanding of views down to the various actual measures of reform, which comprised action in the fields of foreign exchange, trade, finance,

and banking. They also energetically built various public installations and constructions, so that Taiwan would possess all modern preconditions for economic development. In addition, we had an abundant and diligently working labor force and a harmonious labor-capital relationship. Only in this way was it possible for us to create and earn the international reputation of an "excellent investment climate." As our investment climate improved, not only did investments by our own nationals grow in large measure, but foreign investments also flowed in in a steady stream. In the last 27 years (from 1962 to 1988), the economy of the Republic of China [ROC] grew at an average annual rate of as high as 9.3 percent, making the ROC one of the few countries with the highest growth rates. It was mainly accomplished as the result of the high 14.1 percent average annual increases of fixed investments during the 20 years from 1962 to 1981.

During the high-speed economic development of the past, workers' income also increased to a large measure. Data published by the Finance Department of the Executive Yuan reveal that during the 20 years, from 1967 to 1986, wages in the manufacturing industry rose 14.3 times, while prices for consumer goods rose only 4 times during the same period. Workers' real wages, therefore, increased 2.6-fold, which indicates that the increases gained by workers during the past 20 years exceeded by far the increases in commodity prices, thus markedly improving the real income and living standards of the workers. On the other hand, during the last 20 years productivity in the manufacturing industry rose 1.6-fold, while the actual income of workers increased 2.6-fold during the same period. Obviously, in adjusting workers' wages, the enterprises, while fully considering commodity price increases and increased productivity, were also distributing part of their profits to the workers to have them share the benefits. But the great increase in productivity was certainly brought about on the one hand by enterprises making large investments to improve their means of production, and on the other hand also by the qualitative improvement of the work force and their huge contribution in the form of diligent work. The great rise in productivity, at the same time, enabled the enterprises to make huge profits. We know from these facts, that the successes which we have been able to achieve in our economic development, and which have been universally admired, have been the result of the fact that labor and capital both have been dealing with each other in complete harmony, have been supplementing and complementing each other, and have cooperated with each other, thus that the successes have been the result of a joint effort by both sides.

This kind of "harmonious labor-capital relationship" has played a fully effective role all these 30 years of improving investment climate. It was effective not only as a means of attaining a high degree of economic growth and a state of prosperity, but also as enabling the continuous accumulation of capital in the enterprises and in bringing about a steep rise in the income and living standards of the workers. The present should be the right time and opportunity for us to develop high-level industries, and to

encourage industry to upgrade and remodel, but at this critical time for economic "remodelling," we meet up with political and social "remodelling," and the purely economic question of remodelling is getting entangled with political and social problems, so that no more will it be possible to resolve the problems by purely economic measures.

A labor movement is necessarily part of the process of economic development, especially in the ROC, where there is already a foundation of "labor-capital harmony." Any legitimate and sensible effort to gain further rights and benefits for labor should be encouraged, and industry will also happily cooperate. But on summary observation of the "labor movement" in the ROC during the last 2 years, we see that some of their complaints and demands are obviously out of order, as they put forward completely unreasonable demands, which in their own opinion would be unacceptable to capital, and this has resulted in strikes, especially the strange "waves of strikes," which have left industrialist no other alternative but to stop operations. According to reports from various quarters, all these many disputes and strikes are instigated by some external forces, turning them into political affairs. The "labor-capital harmony" of the past is drowned out by the divisive mentality of designating some "soft-footed crabs" and the "yes-man party," and as a result of rejecting the value of work ethics, attitudes which transform our labor-capital relationship more and more into a hostile confrontation. Not concerning ourselves for the time being with what views one may have on the question of external forces instigating the strikes, the politicization of the labor movement has actually impaired the advantage we had in the former excellent investment climate, of which the labor-capital harmony was a main ingredient, and it has obstructed further investments. It not only adversely affected and made impossible achievement of this year's intended economic growth, but will even more seriously affect the entire economic development of the future, as it could even cause an economic decline, much increased unemployment, and be the cause of social problems. Not only will both sides, labor and capital, suffer, but the greatest harm will be suffered by labor itself.

We are, therefore, suggesting that every legitimate and rational labor movement must not only not be interfered with, but must be left to develop by itself. But if a labor movement disregards law and order, government must deal with it severely according to law, must uphold state authority, put a stop to all illegal actions, and restore the confidence of the people in its government. However, all inappropriate laws must be revised without delay, and whatever new legislation has become necessary must be enacted promptly, while all activities must be based on the rule of law. On the other hand, mutual understanding must be fostered, good human relations must be re-established between labor and capital, and a new labor-capital relationship of cooperation must be moulded. Labor and capital must identify with each other, as to sentiments as well as with respect to material benefits, and both sides should exert themselves for the benefit of the future economic progress of the ROC.